

Letter of Comment No: 50
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October 22, 2003

Mr. Robert H Herz Chairman Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: Statement of Financial Standard No. 150 – Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

Dear Mr. Herz:

Acadia Realty Trust ("AKR") is writing to the Financial Accounting Standards Board (the "Board") to urge the Board to reconsider certain aspects of Statement of Financial Standard No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity ("SFAS 150"). AKR is a real estate investment trust whose business is to own, operate, develop, redevelop, and finance necessity anchored shopping centers in the northeast. We are a member of the National Association of Real Estate Investment Trusts ("NAREIT") which, I understand, has also corresponded with you on this matter.

As we and our auditors currently interpret SFAS 150, the effects of its implementation will have a significant impact on the real estate industry in general and on AKR in particular. AKR, like many real estate companies, invest in entities that are organized in a partnership or limited liability company structure that historically have finite lives as required either by the Internal Revenue Code, certain state reporting statutes or by practice. When AKR, or any other real estate company, controls the jointly owned entity, the assets, liabilities and operations of such entities were consolidated and the non-owned investor's portion of the net equity was reflected in the mezzanine section of the balance sheet as "minority interest". Prior to the issuance of SFAS 150 this minority interest reflected the minority partners' claim on the net assets of the consolidated entity at book value.

We understand that pursuant to the provisions of paragraph 9 of SFAS 150, the above-described interest would be deemed a "mandatorily redeemable financial instrument" since the entities have a finite life. These minority interests would then be required to be classified as a liability on the AKR balance sheet and measured at their fair values at each balance sheet date commencing in the third quarter of 2003. Further, the changes to the fair value of this liability would be included in the parent's operating results in the periods in which the change occurs as interest expense. This accounting treatment would not properly reflect the true economics of the parent company's interest in the consolidated jointly owned entities.



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These jointly owned entities provide the minority party with a residual interest in the final liquidation of the entity which is included in the consolidated financial statements of AKR. Applying the provisions of SFAS 150 would result in a significant mismatching of assets and liabilities since the minority interest liability would be reflected at its settlement value, based on the fair market value of the jointly owned entity's net assets, while those net assets would be reflected on the consolidated balance sheet at their historical cost basis. After the initial implementation of SFAS 150 the very changes that would require adjustment to the carrying value of the minority interest liability (i.e. changes in the fair value of the jointly owned entities net assets) would not themselves be reflected in the parent's financial statements. Therefore, if the fair value of the jointly owned entity's net assets had increased by \$5.0 million over the historical cost basis and, as such, the minority's interest in such net assets upon liquidation increased by 20% of such amount, or \$1.0 million, the consolidated financial statements would reflect an interest charge and an increase in the minority interest liability of \$1.0 million without an offsetting increase in the carrying value of the underlying asset of, at least, the minority's share of such increase.

We hereby respectfully request that the Board urgently address this inappropriate financial reporting result. AKR, as well as other real estate operating companies, are wrestling with the implementation of SFAS 150 in the third quarter of 2003. We believe that at a minimum the Board should defer the requirements of SFAS 150 for minority interest liabilities which are the result of the minority's interest in the final liquidation of the jointly owned entity.

If you have any questions with regard to the foregoing please contact the undersigned at 914-288-8138

Respectfully submitted, Acadia Realty Trust

By:

Michael Nelsen, SVP, CFO