



Letter of Comment No: 59  
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October 24, 2003

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

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

Dear Mr. Herz:

Crescent Real Estate Equities Company (the “Company”) is a real estate investment trust that has been subject to the Securities and Exchange Commission’s (the “Commission”) periodic reporting requirements since its initial public offering in May 1994. Our securities are listed on the New York Stock Exchange (NYSE:CEI). The Company conducts its business operations through a limited partnership (the “Operating Partnership”) which also is subject to the Commission’s periodic reporting requirements.

Understanding that the mission of the Financial Accounting Standards Board (the “Board”) is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users of financial information, we are writing to the Board to urge reconsideration of certain aspects of Statement of Financial Accounting Standard No. 150 – *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (“SFAS 150” or the “Standard”). Specifically at issue is the aspect of SFAS 150 dealing with a form of mandatorily redeemable equity interests requiring those instruments redeemable upon liquidation or termination of an issuing subsidiary that has a limited-life, be classified as a liability in the parent’s consolidated financial statements, and that liability be carried at the amount that would be due if the instrument were settled on each reporting date of the parent. This aspect of SFAS 150 has a dramatic and illogical impact on the financial position and results of operations of the Company, that has only recently become clear as we begin to implement the Standard.

The Company, being engaged in the real estate industry, has investments in entities that are organized in a partnership structure (or “partnership-like” structures such as limited liability companies). By practice, or as required by certain state statutes, these entities often have finite lives, frequently extending up to 99 years. Under paragraph 9 of SFAS 150, these consolidated entities meet the definition of mandatorily redeemable financial instruments, and would therefore be required to be reported as liabilities that must be re-

measured at fair value at each reporting period, with changes in fair value being included in the Company's operating results. The great majority of these entities provide the minority party with a residual interest upon the final liquidation of the net assets of the entity that is included in the Company's consolidated financial statements. This accounting does not result in financial reporting that faithfully represents the economics of the Company's interest in the consolidated entities meeting the definition previously described. SFAS 150 produces the anomalous result of requiring the minority interest liability to be adjusted to settlement value base on the fair value of the jointly owned entity's underlying assets that continue to be carried at historical cost in the Company's consolidated financial statements. Said more simply, the very changes in asset value that created the recognized adjustments to the SFAS 150 minority interest liability would not be reflected in the Company's consolidated financial statements. This result would misrepresent the economic reality of the Company's interest in the jointly owned entities as well as the Company's consolidated financial statements.

Further, the guidance in SFAS 150 has created considerable confusion in the accounting for minority interests. A residual interest in a limited-life entity may be reported as equity in the separate financial statements of the subsidiary, but requires reclassification to a liability (subject to a different measurement basis) upon consolidation. Such a fundamental change in reporting in consolidation is quite unexpected and appears inconsistent with the Board's preliminary conclusions that non-controlling interests in subsidiaries should be classified as equity.

We request that the Board urgently address this issue, particularly due to the third quarter 2003 reporting deadline fast approaching, combined with the fact that this particular guidance was relegated to a footnote in SFAS 150. We believe that, at the very least, the Board should defer application of SFAS 150 with respect to those liabilities that represent residual interests with the right to participate in the final liquidation of the net assets of an entity that is included in consolidated financial statements.

Further, we ask that the Board reconsider whether an entity's obligation to distribute its net assets (or the proceeds of the liquidation of such assets) upon termination of the entity to its shareholders is a liability in the financial statements of its parent. This requirement is fundamentally different from the other liabilities addressed in SFAS 150, such as mandatorily redeemable shares that are required to be redeemed prior to termination of the entity. In that instance, in liquidation, the minority interest holders normally participate *pari passu* with the parent in the distribution of the subsidiary's net assets, which is not the case for other liabilities under the Statement, which will receive a preferential distribution of assets compared to the rights of the parent.

Crescent Real Estate thanks the Board for the opportunity to express its concerns regarding this aspect of the application of SFAS 150. Please contact Jerry Crenshaw,

Executive Vice President and Chief Financial Officer, at (817) 321-1492 if you have any questions regarding this letter.

We appreciate the Board's consideration of our comments, and would welcome the opportunity to discuss this letter with Board members if that would be helpful.

Respectfully submitted,

Crescent Real Estate Equities Company



Jerry A. Crenshaw, Jr.  
Executive Vice President and  
Chief Financial Officer