

Developers Diversified Realty Corporation

October 7, 2003

Director, TA & I - FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Dear Director:

Developers Diversified Realty Corporation (“DDR”) is a large publicly held real estate investment trust with approximately \$3.4 billion in net real estate assets. We own, develop, acquire and operate retail and industrial real estate assets in 44 states. Like many real estate companies, we conduct a significant amount of activity through joint venture arrangements. We are submitting this letter as a request for the Financial Accounting Standards Board to approve a broad deferral of FASB Interpretation No. 46 *Consolidation of Variable Interest Entities* (FIN 46 or the “Interpretation”) through the proposed FASB Staff Position 46-e “Effective Date of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, for Certain Interests Held by a Public Entity*” (or the “FSP”). While we agree that FIN 46 is a necessary pronouncement and believe the fundamental concepts of the Interpretation have a sound basis in generally accepted accounting principles, we believe in order to properly implement the standard, given the complexities, additional time is required. We believe adoption of the Interpretation in the third quarter would be extremely difficult given the obstacles detailed below. Furthermore, given our recent discussions with other real estate companies, NAREIT and our independent auditors, PricewaterhouseCoopers, we believe our situation is not unique and that the third quarter effective date of this Interpretation for calendar year companies may produce inconsistent application across the real estate industry, as well as others. Therefore, we are strong proponents of a broader deferral of FIN 46.

After listening to the FASB Board Meeting on Sept. 17, 2003 and reviewing the draft FSP, we believe the fourth qualifier of FSP 46-e which discusses the completion of the Primary Beneficiary determination is extremely problematic and falls short for several reasons.

- First, in several entity evaluations we believe we may be able to make a determination of the Primary Beneficiary by the issuance of the third quarter financial statements, but it would be based upon guidance that we understand is likely to be modified at a later date. Specifically, several of our operating real estate joint venture agreements contain a restriction on the transfer of either partner’s interests without the prior consent of the other party, which creates a defacto agency relationship under the Interpretation. We understand that originally the Interpretation considered these defacto agency relationships in the last sentence of paragraph 5(b), which under many circumstances creates a variable interest entity. Further, we understand that a

proposed modification of FIN 46 may consider the elimination of defacto agency relationships when evaluating the last sentence in paragraph 5(b). We are pleased that the FASB is considering addressing this issue, as we believe that consolidating an entity due solely to the existence of a restriction on transfer of interests is not a faithful presentation of the company's financial statements, especially where other exit strategies that do not require consent are available to the partners. For DDR, we believe the elimination of defacto agency relationships in this clause will produce a different outcome for many of our FIN 46 evaluations. For these reasons, we would be uncomfortable adopting the Interpretation in the third quarter prior to the finalization of this important clarification.

- Second, we foresee several post-implementation accounting issues as obstacles to our company's adoption of FIN 46 in the third quarter. DDR has historically earned fees, some of which are capital in nature at the joint venture level, from partnerships accounted for using the equity method, such as development fees and leasing commissions. Furthermore, several of our joint ventures were formed by the sale of 100% owned properties into a joint venture with outside partners. In those instances, our company recognized a gain on the sale of the properties to the extent of the outside party's interests. We understand that upon adoption of FIN 46, for each newly consolidated entity under FIN 46, it will be necessary to identify the revenue related to capital fees and property sales and evaluate such amounts to determine the appropriate treatment under the full consolidation model. Given the complexity of the accounting issues involved, we believe these evaluations will take time if they are to be made properly and in the correct control environment.
- Our last significant concern related to the feasibility of a third quarter adoption of FIN 46 is the undetermined impact of FASB Statement No. 150 *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* ("SFAS 150") on minority interest.

Many real estate companies invest in entities owning real properties that are organized in a partnership structure (or "partnership-like" structure such as a limited liability company). By practice, or as required by certain state reporting statutes, these entities often have finite lives, often extending 99 years, and providing for further extension. To the extent that we control these investments (both prior to the adoption of FIN 46 and post implementation), the assets and liabilities of such investments are consolidated, with the non-owned investor's portion reflected in the mezzanine section of the balance sheet as minority interest. Prior to SFAS 150, the balance of our minority interest reflected the *book value* of our outside partners' claim on the net assets of our Company.

We understand that pursuant to the provisions of paragraph 9 of SFAS 150, effective for our third quarter of 2003, the non-wholly owned consolidated entities described above will meet the definition of a mandatorily redeemable financial instrument, in our consolidated financial statements, as such amounts represent an unconditional obligation redeemable by transferring assets at a specified or determinable date (or

dates) or upon an event certain to occur (i.e. upon termination of the finite life entity). Furthermore, SFAS 150 requires that the minority interest balance be reflected at fair value, with offsetting adjustments to earnings.

We are perplexed by several of the business issues that SFAS No. 150 creates, such as the disparity between the value of the obligation to the minority equity holders of a joint venture and the underlying assets. While we believe that real estate generally appreciates (not depreciates as existing GAAP requires), we are unclear, and ask the FASB to reconsider the usefulness of effectively limiting the fair value adjustment pursuant to the provisions of SFAS No. 150 to the portion of the real estate assets and liabilities owned by our minority partner, and not reflecting our portion of such amounts at fair value. We do not believe financial statements prepared on this basis would be representatively faithful. Additionally, we do not believe there is a uniform model for fair value and as such there will be no comparability among the methods employed by different companies to arrive at the fair value of minority interest. We believe that any benefits of SFAS No. 150, as it applies to minority interest in finite life entities in any industry, will be severely outweighed by the cost relating to the inability for lenders, investors, and other stakeholders to compare the performance of “like” companies. As a result, we are hopeful that by broadly deferring the adoption of FIN 46, the additional time allowed would be used to amend SFAS No. 150 to resolve the issues raised above.

We appreciate the opportunity to participate in FASB’s standard setting process. We actively support the development of transparent accounting and reporting standards and believe that additional time and clarification of FIN 46 is needed to provide investors of our company and other real estate companies with useful, reliable and comparable information. If you have any questions regarding this response, please contact me at (216) 755-5775.

Respectfully Submitted,

Developers Diversified Realty Corporation

/s/ William H. Schafer

William H. Schafer
Sr. Vice President and Chief Financial Officer