

FORESTCITY ENTERPRISES

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LETTER OF COMMENT NO. 14

February 28, 2007

Mr. Larry Smith
Technical Director -- File Reference No. 1510-100
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Dear Mr. Smith:

Forest City Enterprises, Inc. is a publicly traded real estate corporation headquartered in Cleveland, Ohio with over \$8.5 billion in total real estate assets. We own, develop, acquire and operate commercial and residential real estate across the United States.

We are submitting this letter as a request for the Financial Accounting Standards Board (FASB) to reconsider certain aspects of the proposed FASB Statement - Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. We are asking the FASB to consider our comments for clarification on some items and reconsideration of other requirements of the exposure draft. We have organized the letter according to the issues identified by the FASB in the Exposure Draft (ED). We have only addressed the issues that gave us the most concern and included two additional items we would like considered.

We would like to express that we agree with most of the disclosures required by existing authoritative guidance or the ED related to our derivative program and believe the information is important to the users of the financial statements. Although there are several disclosures in the ED that we agree with, we are not explicitly mentioning them in this letter. We have only discussed below the few items we do not agree with or that need further clarification, with our main concern being the level of detail being requested.

Issue 4:

Do you foresee any significant operational concerns or constraints in compiling that information for this disclosure?

The intent of our derivative program is similar to our insurance program for our properties. We want to manage/reduce risk at the lowest possible cost. For our insurance program we are managing many different types of risk of loss on our properties. For our derivative program we are managing/reducing the risk of increased interest rates. In either case, it is extremely important to the Company to reduce the risks to an acceptable level for the lowest possible cost.

From an operational perspective, providing the type of information contemplated by the ED will negatively impact our negotiations with counterparties and potentially increase our costs. By disclosing the various structures, particularly regarding contingent features we currently have, each counterparty to a future transaction would have information available to them that would result in leverage against us in future negotiations. For example, we currently have several counterparties for unsecured hedges that would potentially start requiring some type of collateralization because they would be able to determine from our disclosure that in some similar cases we have provided collateral. Providing this information would be very detrimental from a business perspective as we feel it would give both our counterparties and competitors proprietary information.

Additionally, we question the usefulness of this information when a similar level of detail is not required for other financial instruments, i.e. mortgage debt. Although we do feel that the current level of disclosure for other financial instruments is adequate we do not disclose the business terms of every mortgage debt contract we have. Due to the nature of our business (real estate), mortgage debt is a significant portion of our balance sheet.

Furthermore, we understand that some derivative contracts are entered into for speculative reasons which present much higher risks than those derivative contracts that are executed to essentially hedge against interest rates fluctuations. We question why this information is being required for all derivatives and is not more focused on the derivative contracts that are entered into for speculative reasons.

Additional clarification needs to be provided surrounding what would be required for the contingency disclosures. Specifically, what is meant by contingency in this Statement? Does this mean any mandatory cash settle dates for a forward-starting interest rate swap, mutual puts to terminate at fair value, or only credit triggers? Guidance on what would be required to be presented is also needed. Can we present the contingencies in general terms (i.e. present average thresholds that trip the trigger) or does it have to be specific by agreement?

The disclosures being required seem to be much more detailed about the structure of the deals than even the required debt disclosures. Why are all derivatives and not the derivative contracts that are entered into for speculative reasons, being singled out for so much disclosure of this nature and why is that deemed necessary? The amount of information required for derivatives will be confusing and overwhelming for the users of the financial statements.

The information requested on the impact if the contingencies were tripped as of the reporting period does not seem useful. For example, we would have to disclose the amount we would need to post if all of our contingencies were triggered as of the reporting date. This amount will be a stale number by the time it gets to the users of the financial statements and thus not useful.

Issue 5:

Do you agree that this proposed Statement should require the disclosure of notional amounts? Why or why not?

The disclosure of the notional amounts as it is written in this exposure draft could be misleading. We frequently utilize a series of step up swaps. For example we may enter into a series of five \$100 million forward-starting interest rate swaps, each with a tenor of one year. Since the strike rate for each swap chronologically increases (steps up) and are five separate derivatives we document them as such and receive five separate confirmations. Each of the five swaps will be designated as a hedge of the same piece of debt. The proposed disclosure requirements would result in the disclosure of \$500 million in notional, whereas in reality we have \$100 million of notional outstanding for five years.

The use of step up swaps is very common and we believe this to be an accurate example of how the proposed disclosures would be misleading. We recommend that the FASB consider eliminating the proposed notional requirements for all derivatives.

Issue 11:

Does the effective date provide sufficient time for implementation?

The effective date presented will be difficult to comply with. In order to prepare for the implementation significant preparatory work will be required. That work can not be started until the final release is out which will further reduce our implementation time. Furthermore, we will also be implementing the FAS 157 requirements during the same time frame which will cause additional strain on resources. We respectfully request a 1-year extension on the effective date of the proposed requirements.

Additional Items:

Quarterly Reporting:

One other issue that we would like to address is the requirement for quarterly reporting of all of the proposed disclosures instead of only reporting them annually. We do not feel that quarterly disclosure is necessary or useful to the users of the financial statements. Our overall hedge program does not materially change on a quarterly basis. We do not view the execution of additional contracts as a significant change to our overall hedge program. Additionally, we currently discuss the financial impact of our hedging program on a quarterly basis and we feel that is an appropriate disclosure. Furthermore, all other significant disclosures are only required on an annual basis and derivatives should not be singled out. Additionally, this information would be difficult to compile and ensure its accuracy on a quarterly basis due to the magnitude of information required and the reduced reporting time frame for Form 10Qs.

Assessment of Current Disclosure Requirements:

With the FASB's review of derivative disclosure requirements our hope was that the Board would also consider the usefulness of the current requirements. Unfortunately all of the changes in the Exposure Draft are additive in nature, and none of the previous requirements has been removed.

One item that we view as of little use to financial statement users is that of the current requirement to project the next 12 months of OCI reclassification. Our belief is that, similar to the proposed contingency features disclosures, this figure is a stale figure by the time it reaches the financial statement users. Since the 12 month projection uses information at year end, it is only valid for that specific moment in time. Our use of derivatives consists of interest rate derivatives, and therefore this disclosure is only accurate to the extent that rates do not move. By the time a financial statement reader receives our information the interest rate environment is very different from when we make the projection.

We would like to see the Board remove current requirements that add little value to the end users.

We ask the FASB to consider our comments for clarification on certain items and reconsider other requirements. Please contact us if you have any questions on our comments outlined above. We appreciate the FASB's time and consideration of this matter.

Sincerely,

Forest City Enterprises, Inc.



/s/ Betsy Link
Director of SEC Research
216-416-3354