



October 9, 2007



* F S P A P B 1 4 - A *

LETTER OF COMMENT NO. 6

Mr. Russell G. Golden
 Director of Technical Application
 and Implementation Activities
 Financial Accounting Standards Board
 401 Merritt 7
 Norwalk, CT 06856-5116

RE: FSP APB 14-a, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)"

Dear Mr. Golden:

Thank you for this opportunity to respond to FSP APB 14-a, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)." Host Hotels & Resorts, Inc. has always been a strong proponent of well-founded accounting and financial reporting principles and practices that reflect the economic realities of the REIT industry. In this regard, certain executives of Host serve on committees and boards of various not-for-profit associations, such as the National Association of Real Estate Investment Trusts ("NAREIT"), so as to support the development of accounting and reporting standards.

In March of 2004, Host issued \$500 million of convertible securities. Currently, the accounting for our 2004 convertible securities is as follows:

- our balance sheet reflects the amount of cash due to investors (except for an insignificant amount of unamortized debt discount);
- interest expense equals the cash coupon paid to holders; and
- as the securities are dilutive, we have reported their effect in diluted earnings per share under the "if-converted" method.

The 2004 securities may be settled in cash, shares, or cash and shares at our election. Unlike many issuers, we chose not to amend these securities to avail ourselves of the EPS treatment of Instrument C in EITF Issue 90-19. These securities would be subject to the FSP and we assume that we would include the more dilutive of the interest expense as calculated under the proposed guidance in FSP APB 14-a or the gross shares underlying the bond under the "if-converted" method of calculating earnings per share.

In March of 2007, Host issued \$600 million of convertible securities. Our 2007 convertible securities, which incorporate the characteristics of Instrument C in EITF Issue 90-19, are currently accounted for as follows:

Mr. Russell G. Golden

October 9, 2007

Page 2

- the debt balance reflects the amount of cash owed to investors (except for an insignificant amount of unamortized debt discount);
- interest expense equals the cash coupon paid to holders; and
- the shares to be delivered upon conversion are included in diluted earnings per share.

Leverage levels and ratios are key areas of focus for investors and we believe that the accounting required by the FSP does not provide the clarity that investors need. The FSP would result in an issuer understating their debt balance and their leverage ratio for several years (until the debt discount created by the separation is fully amortized into the debt balance). Interest expense would be overstated and would not reflect the economic reality of the cash interest payments. We also are concerned about the valuation assumptions and methodology and the amount of judgment required to determine the value of the liability component at both inception and extinguishment in the FSP.

Paragraph 199 of FAS 133 provides guidance as to whether or not a conversion option in a convertible bond should be bifurcated and accounted for separately. Specifically, the FASB concluded that if the conversion option meets the requirement for the paragraph 11(a) scope exception (the option is indexed solely to the issuer's own stock and meets the requirements for equity classification), then the conversion option should not be bifurcated and accounted for separately. Accordingly, it appears that an amendment of FAS 133 would be required in conjunction with the amendment of APB 14 as part of this FSP.

While the FASB may not consider any of the arguments in this comment letter compelling, to the extent that the FASB chooses to proceed with the FSP in its current form, we believe that the FASB should consider classifying the option as a derivative/liability. The option should be recorded at fair value at inception and marked-to-market through a company's income statement each period. Under this methodology, a company's income statement and earnings per share calculations would better reflect the cost of the two components of the security. This treatment is consistent with the views of some Board members as stated in paragraph B5 of Appendix B in the FSP. For example, to the extent a company's convertible security was put by the investor to the company at the first call date and the option was out of the money, the fair value of the option would have decreased to \$0 and that decrease would have been recognized as an unrealized gain or gain on derivatives in the company's income statement over the course of the put period. While this method would not solve the understated debt balance issue, at least net income and retained earnings would be properly stated at the end of the security's life and the income statement would accurately reflect the true cost of the security over that period.

The FASB also needs to further clarify the amortization period for the debt discount. In general, it appears that for securities where the investor has a put right, the amortization period, as well as the period over which the debt discount would be calculated, would be from issuance to the date of the first investor put right as the issuer would no longer be in

Mr. Russell G. Golden
October 9, 2007
Page 3

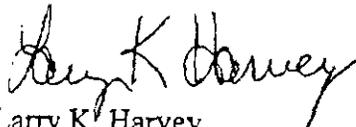
control as to whether the security would remain outstanding beyond that date. Any further clarification on this point is critical as this would be one of the key determining factors in the amount of the debt discount and the related value of the option.

In summary, we do not believe that the accounting treatment required by the FSP is preferable to current accounting practices due to the shortcomings discussed above. The existing accounting treatment should continue, as we believe that modifying the rules surrounding a small subset of convertible instruments is inappropriate. The FASB should continue to move aggressively on the Comprehensive Liabilities and Equity Project, rather than deal with complex issues related to that project on a one-off basis. The risk that further changes to convertible debt accounting may result from the final Liabilities and Equity Project is real. Dealing with the complex issues surrounding convertibles on a one-off basis leads to confusion for both investors and companies and may result in further, potentially conflicting modifications to convertible accounting once the Liabilities and Equity Project is completed. For example, the EITF recently formed a working group for EITF Issue 07-5, "Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock", which could have implications on the classification of the option component for convertible securities. At a minimum, we do not understand how the FSP could be finalized until the issues surrounding EITF Issue 07-5 are resolved. EITF Issue 07-5 is the perfect example as to why the accounting for complex securities must be addressed through the Liabilities and Equity Project, not on a one-off basis. Further, the FSP accounting treatment is inconsistent with IFRS as stated in paragraph B5 of the FSP. Given the recent receptiveness of the SEC concerning the ability of U.S. filers to potentially adopt IFRS in the near future, we are not sure why the FASB would want to issue an FSP in direct conflict with IFRS. We strongly believe that the accounting treatment for convertible securities must be addressed through the Liabilities and Equity Project and, as part of that process, the convergence issues for convertible securities also should be resolved.

* * * * *

We appreciate the opportunity to participate in the FASB's considerations. If you should have questions or require further information regarding the above comments, please feel free to contact me at (240) 744-5410.

Sincerely,



Larry K. Harvey
Senior Vice President

/vlc