

August 12, 2008

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



LETTER OF COMMENT NO. 28

File Reference Number 1590-100, Proposed Statement of Financial Accounting Re: Standards, Accounting for Hedging Activities, an amendment of FASB Statement No. 133

Dear Mr. Golden:

We appreciate the opportunity to provide comments and observations on the Financial Accounting Standards Board's ("FASB") Exposure Draft of Proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities, an amendment of FASB Statement No. 133 (the "Exposure Draft"). Vornado Realty Trust (NYSE: VNO) is a fully integrated real estate investment trust (REIT). Vornado is one of the largest owners and managers of real estate in the United States with a portfolio over 100 million square feet in its major platforms, primarily located in the New York and Washington, DC metro areas. Vornado has utilized derivatives instruments primarily for hedging purposes. These instruments include interest rate swaps/caps and put/call positions in certain publicly traded equity securities.

Although we support the FASB's desire to simplify the accounting for hedging activities, resolve certain practice issues, and improve the financial reporting of hedging activities for users of financial statements, we do not believe that the Exposure Draft as currently drafted meets those objectives. Rather, we are concerned that certain of the proposed amendments will result in significantly increased complexity, increased costs, and less reliable and meaningful financial reporting.

Most significantly, we disagree with the decision to prohibit an entity from hedging individual risks (except in very limited circumstances). Our company is very concerned that we will be unable to qualify for hedge accounting—even using a "reasonably effective" standard—for many of our most common and straightforward hedging strategies, including hedges of forecasted debt issuances and hedges entered into after the inception of the debt. Even in situations in which we do qualify under the new model, we



believe the associated earnings volatility often will be extreme and largely misleading. As a result, we are troubled that the proposed hedging model appears to be very inconsistent with how we manage our risks and will be unrepresentative of the effectiveness of our risk management activities.

For example, we actively manage our interest rate risk and enter into derivative instruments that are extremely effective at managing that risk. However, those derivatives do not hedge credit risk and are not designed to hedge credit risk. Our company is not trying to hedge our own credit risk, and we are not interested in hedging that risk for many of the same reasons noted in the Alternative Views section of the Exposure Draft. In particular, we have serious concerns about the legal implications and potential accusations regarding self-dealing, concerns about the message that hedging one's own credit risk signals to the marketplace, and concerns about the potentially very significant transaction costs if we could find a willing counterparty. Accordingly, we do not believe the proposed model is reasonable or operational in practice, and we strongly advocate that the FASB retain a "bifurcation-by-risk" approach to hedge accounting.

A related concern is that the new hedge accounting model is heavily based on unobservable and unreliable inputs. For many companies, including ours, reliable and upto-date credit data is not readily available. In addition, for hedges of forecasted debt issuances, we have almost no information about the market supply and demand that will exist at the date we expect to issue our debt. We are concerned, therefore, about the complexities of trying to model theoretical transactions in theoretical markets. It is certainly not a simplification relative to the current bifurcation-by-risk model.

Finally, with the increased emphasis on converging with international standards, we do not believe that a significant change to the hedging model, especially one that diverges from the current international model, is justified at this time. We are concerned about changing the hedge accounting model now in the U.S. only to have to change again in the near future. Making significant changes to our systems, approaches, documentation, etc., as would be required by the proposed amendment, is very costly and probably underestimated. From our perspective, it seems that most of the practice issues and differences in interpretation surrounding hedge accounting have been resolved over the past several years, and we believe such a significant amendment to the hedge accounting model will only create a flood of new implementation questions and interpretation risk. Thus, we would strongly recommend either (1) retaining a bifurcation-by-risk approach or (2) developing a joint plan to work with the International Accounting Standards Board to develop a hedging model that will eventually apply under both U.S. GAAP and IFRS.



We thank the Board for its consideration of our recommendations and would be pleased to discuss these issues in more detail with the Board or staff at your convenience.

Sincerely,

Matthew Iocco

Senior Vice President Senior Financial Officer