



LETTER OF COMMENT NO. 5

August 6, 2008

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

Via email to director@fasb.org

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

Dear Mr. Golden:

LNR Property Holdings, Ltd. appreciates 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"). We are a leading commercial real estate investment, finance, management and development company which, in part, engages in making real estate finance investments, including unrated and non-investment grade rated commercial mortgage-backed securities ("CMBS"), high-yielding real estate loans and other subordinate real estate interests. We also engage in servicing activities, primarily related to managing and working out problem assets, and in activities related to the acquisition, development and management of commercial, multi-family residential, and residential land.

We periodically enter into derivative financial instruments for fair value and cash flow hedging purposes. Our fair value hedges consist primarily of interest rate swap agreements which are designed to hedge changes in asset values attributable to movements in interest rates on a portion of our available-for-sale securities. Our cash flow hedges consist of interest rate swap agreements, including forward starting swaps, which help us manage our interest costs and hedge against risks associated with changing interest rates on certain of our debt obligations.

While 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, we believe that certain of the proposed changes will not accomplish these objectives. Rather, we believe these changes simply introduce a new level of complexity, increase the administrative burden and cost to implement, and most importantly, provide less meaningful and reliable information for financial statement users. As a further complication for constituents and users alike, these changes come at a time when the profession is moving towards international convergence.

Specifically, we would like to offer comments to the FASB related to Issues 1 and 2 in the Exposure Draft. While we do not take specific exception to the remaining proposals in the Exposure Draft, we disagree with these two particular proposed amendments which reject the bifurcation-by-risk approach, thereby prohibiting an entity from hedging individual risks except in very limited circumstances. As noted above, our derivatives are designed to manage discrete risks (primarily interest rate risk). However, as a result of this proposal, some of our most common and straightforward hedging strategies may no longer qualify for hedge accounting, even using the proposed “reasonably effective” threshold. Even in situations in which we do qualify for hedge accounting under the proposed model, the earnings volatility associated with unhedged risks may be extreme and misleading as our income statement will reflect changes in credit spreads when the intent of our risk management strategy was to hedge only interest rate risk. As a result, we believe the proposed model is inconsistent with how we manage our risks and is not reflective of the true effectiveness of our risk management activities. While we acknowledge that the current bifurcation-by-risk model is by no means simple, our commentary below illustrates that the proposed model only serves to add significant complexity to an already complex model.

For example, we actively manage the interest rate risk associated with our CMBS and periodically enter into derivative instruments that are highly effective at managing that risk. However, those derivatives do not hedge credit risk, nor are they designed to do so. The proposed model in the Exposure Draft would expose our income statement to volatility related to this credit risk which we have no desire to hedge. Further, it is questionable whether we would be able to achieve fair value hedge accounting because we have no basis to assume that changes in the fair value of the interest rate swap would have any correlation to the changes in the overall fair value of the available-for-sale security. To this end, we share many of the same concerns and observations expressed in the Alternative Views section of the Exposure Draft. Based on the above, 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 for financial instruments.

As another example, we actively manage the interest rate risk associated with certain of our debt obligations through the use of interest rate swap agreements, including forward starting swaps. As these forward starting swaps are not exempt from the Exposure Draft’s proposal to eliminate the bifurcation-by-risk approach, the proposed model would result in earnings volatility related to our own creditworthiness, thereby producing counterintuitive results for risks that are essentially not hedgeable. Again, this is altogether inconsistent with our hedging strategy and is not representative of the effectiveness of our risk management practices given that our income statement would suggest increased exposure to risk when the hedge was simply designed to swap the interest rate and was effective at doing so. Even if we were to attempt to hedge this risk, as a private company, determination of our own credit risk would be based on unobservable and unreliable inputs, thereby again resulting in information which is not meaningful to the users of our financial statements. Further, we likewise share the concerns expressed in the Alternative Views section of the Exposure Draft regarding the legal implications which would most certainly come with any attempt to hedge our own credit risk, including issues surrounding self-dealing and insider information.

Finally, with the continued increasing emphasis on convergence towards International Financial Reporting Standards (“IFRS”), we do not believe that a significant change to the hedge accounting model, especially one that diverges from the current international model, is

justified at this time. Making significant changes to our systems and processes pursuant to the proposed amendment would be costly, time consuming, and, considering the impending trend toward convergence to an entirely different model, largely inefficient.

We believe that many of the practice issues and differences in interpretation surrounding hedge accounting have been adequately addressed over the past several years, and such a significant amendment to the hedge accounting model, particularly the elimination of the bifurcation-by-risk approach, will only serve to create a completely new set of implementation questions and interpretation risk. While the current hedge accounting rules are certainly complex in their own right, we believe they are preferable to Issues 1 and 2 in the proposed Exposure Draft. Thus, we strongly recommend either (1) retaining a bifurcation-by-risk approach to hedge accounting or (2) pursuing a joint plan in coordination with the International Accounting Standards Board to develop a hedging model that will eventually apply under both U.S. generally accepted accounting principles 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 members or the FASB staff at your convenience.

Respectfully submitted,

/s/ Rina Paniry

Rina Paniry
Vice President of Technical Accounting
LNR Property Holdings, Ltd.