



August 15, 2008



LETTER OF COMMENT NO. 75

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

Dear Mr. Golden:

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

Highwoods Properties, Inc. 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 fully integrated, self-administered and self-managed equity REIT that provides leasing, management, development, construction and other customer-related services for our properties and for third parties. Our stock is publicly traded on the NYSE. We are based in Raleigh, North Carolina, and our properties and development land are located in Florida, Georgia, Iowa, Kansas, Maryland, Mississippi, Missouri, North Carolina, South Carolina, Tennessee and Virginia.

To meet our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time, we enter into interest rate hedge contracts such as caps, collars, swaps and treasury locks in order to mitigate our interest rate risk with respect to various debt instruments. The timing at which we enter into derivative contracts is a business decision based upon deal structures and market conditions and does not necessarily coincide with the inception of the underlying debt instruments. Generally, we do not hold or issue derivative contracts for trading or speculative purposes.

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 increased complexity, increased costs, and less reliable and meaningful financial reporting. Additionally, we believe there is potential that our financial executives will avoid otherwise prudent risk management techniques due to the accounting implications.

Specifically, we disagree with the decision to prohibit (except in the limited circumstances provided for in the Exposure Draft) an entity from hedging individual risks. We are concerned that we will be unable to qualify for hedge accounting—even using a “reasonably effective” standard—for most of our common and straightforward hedging strategies. Even in situations when we qualify for hedge accounting under the proposed 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 and resultant accounting appears to be 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, nor are they designed to, hedge credit risk. We are 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 and concerns about the message that hedging our own credit risk signals to the marketplace. 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, reliable and up-to-date credit data is not readily available. 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. Implementation of a similar theoretical structure has already proven to be highly complex under the guidance provided by FAS 157. It is certainly not a simplification relative to the current bifurcation-by-risk model.

Finally, with the increased emphasis on convergence 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 note that the IASB is currently seeking comments until September 19, 2008 on two general approaches to changing hedge accounting and believe that it would be prudent for the FASB to wait for a formal decision regarding these alternative approaches before ratifying this amendment to FAS 133. 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. is costly, time consuming, and heavily scrutinized by both internal and external oversight.

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 new implementation questions and interpretation risk. Thus, we would strongly recommend either (1) retaining a bifurcation-by-risk approach to hedge accounting or (2) dropping the current project and pursuing 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,

A handwritten signature in black ink, appearing to read "Terry L. Stevens". The signature is written in a cursive style with a large initial "T".

Terry L. Stevens
Senior Vice President and Chief Financial Officer

TS/dkq