

Stacey Sutay

Subject: FW:



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October 27, 2003

Letter of Comment No: 60
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Mr. Larry Smith
Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Statement of Financial Accounting Standard No. 150 -
Accounting for Certain Financial Instruments with Characteristics of both
Liabilities and Equity

Dear Mr. Smith:

Equity Office Properties Trust is writing to the Financial Accounting Standards Board to urge you to reconsider certain aspects of your Statement of Financial Accounting Standard No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). Equity Office is the largest publicly owned REIT in the country, with over 700 buildings located throughout the United States.

As currently being interpreted, SFAS 150 will significantly impact both Equity Office and the real estate industry. The implications of SFAS 150 have only become clear to us as we have begun to implement the standard this quarter.

The partnership structure is widely used in the real estate industry. These entities often have finite lives, frequently extending 99 years or longer. Prior to SFAS No. 150, when a real estate company controlled jointly owned assets, the assets and liabilities of those entities were consolidated and the outside partners' portions were reflected in the mezzanine section of the balance sheet as minority interest. Prior to the issuance of SFAS 150, these minority interests reflected the book value of the minority partners' claim on the net assets of the consolidated entities.

Effective in the third quarter of 2003, we understand that these jointly-owned consolidated entities described above may meet the definition of mandatorily redeemable financial instruments. As a result, the outside partners' interests will be required to be reported as liabilities and measured at their fair value at each balance sheet date. Changes to the fair value of the entities must be included in the parent's operating results for the periods in which the change occurs. We believe this accounting treatment will not result in financial reporting that faithfully represents the economics of a parent company's interest in consolidated jointly owned entities. Nor, given the extent of individualized judgements required, do we believe it will facilitate comparisons between periods or different entities.

These jointly owned entities typically provide the minority party with a residual interest in the final liquidation of the net assets of the entity. When these entities are consolidated in the financial statements of their parent, SFAS 150 is producing very confusing results. The minority interest liability needs to be reflected at the current value of the underlying assets. However, the asset side of the balance sheet remains at historical costs. Therefore, if the value of an investment property held by a consolidated jointly owned entity decreases by \$10 million and 30% accrues to the minority interest, the parent must decrease the minority interest liability and increase earnings by \$3 million. At the same time, the decrease in the value of the underlying asset is not recognized in the parent's consolidated financial statements.

We believe that reporting an increase in Equity Office's earnings as a result of a

decrease in the value of our jointly owned properties is not only the wrong result from a common sense perspective, but is both inaccurate and misleading. We simply do not understand the logic for this treatment. In addition, we believe this rule makes our financial statements very difficult to understand.

We currently anticipate that Equity Office's results for the third quarter 2003 will include the effects of SFAS No. 150. However, both Richard Kincaid, our CEO and I are very concerned about how we will certify Equity Office's financial statements. As you know, those qualifications do not refer to compliance with GAAP. We are asked to personally certify that the statements are "not misleading" and "fairly present" in all material respects the financial condition of Equity Office Properties Trust. We are struggling with whether SFAS No. 150 impacts our ability to make those certifications.

Thank you for your consideration. If you have any questions, please call me at 312-466-4339.

Sincerely,

Marsha Williams
Executive Vice President and
Chief Financial Officer
Equity Office Properties Trust

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