SIMON
PROPERTY GROUP

Letter of Comment No: 63
File Reference: 1100-LEU
Date Received: 10/23/03

October 23, 2003

Mr. Robert H. Herz
Chairman
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. Herz:

Simon Property Group, Inc. (SPG), the nation's largest publicly traded owner of retail real estate, is writing to the Financial Accounting Standards Board (the Board) to urge the Board to reconsider certain aspects of Statement of Financial Accounting Standard No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150).*

As currently being interpreted, SFAS 150 will significantly impact SPG and the real estate industry in general. The implications of SFAS 150 have only recently become clear to the industry as we have begun to implement the standard.

Real estate companies, like SPG, invest in entities that are organized in a partnership structure (or "partnership-like" structure such as a limited liability company). By practice, or as required by certain state reporting statutes, these entities often have finite lives, frequently extending 99 years, and providing for further extension. When a real estate company controlled the jointly owned entity, the assets and liabilities of such entities were consolidated and the non-owned investor's portion 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 entity.

We understand that pursuant to the provisions of paragraph 9 of SFAS 150, effective in the third quarter of 2003, the jointly-owned consolidated entities described above may meet the definition of mandatorily redeemable financial instruments. They would therefore be required to be reported as liabilities and measured at their fair value at each balance sheet date. Further, the changes to the fair value would be included in the parent's operating results for the periods in which the change occurs. This accounting

115 West Washington Street • Indianapolis, Indiana 46204 • Phone: 317.636.1600

would not result in financial reporting that faithfully represents the economics of a parent company's interest in consolidated jointly owned entities. Paradoxically, the financial results reported by companies like SPG will worsen as the performance of the joint venture improves due to the changes in fair value of the minority partner's interest flowing through our operating results. This result would misrepresent the economic reality of the parent's interest in the jointly owned entity and the parent's operating results. We frankly wonder whether the inclusion of real estates joint ventures under the auspices of SFAS 150 was an unintended consequence.

We request that the Board urgently address this inappropriate financial reporting result. SPG is attempting to implement SFAS 150 for the third quarter of 2003. We believe that, at the very least, the Board should defer the application of SFAS 150 to those liabilities that represent residual interests with the right to participate in the final liquidation of the net assets of an entity that is included in the consolidated financial statements.

Sincerely,

SIMON PROPERTY GROUP, INC.

Stephen E. Sterrett
Executive Vice President & CFO