



Letter of Comment No: 47
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October 22, 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:

Gables Residential Trust (Gables) 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)*. Gables is a real estate investment trust (REIT) that develops, owns, operates, and finances income-producing real estate.

As currently being interpreted, SFAS 150 will significantly impact the real estate industry. The implications of SFAS 150 have only recently become clear to the industry as companies like ours began to implement the standard. Further, the impacts of SFAS 150 on the industry's financial reporting will be exacerbated by the implementation of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities (FIN 46)*, which will increase the extent to which the industry will be required to report minority interests in consolidated entities.

Many real estate companies invest in entities that are organized in a partnership structure (or "partnership-like" structure such as 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 investors' portion was 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 would not result in financial reporting that faithfully represents the economics of a parent company's interest in consolidated jointly owned entities.

The great majority of these jointly-owned entities provide the minority party with a residual interest in the final liquidation of the net assets of the entity that is included in the consolidated financial statements of the parent. If these entities are consolidated in the financial statements of their parent, SFAS 150 would produce an anomalous result of requiring the minority interest liability to be adjusted to settlement value based on the fair value of the jointly-owned entity's underlying assets that continue to be carried at historical cost in the consolidated financial statements. Said more simply, the very changes in asset value that create the recognized adjustments to the SFAS 150-minority interest liability would not be themselves reflected in the parent's consolidated financial statements. Therefore, if the value of an investment property held by a consolidated jointly-owned entity increases by \$10 million and 30% accrues to the minority interest, the parent would increase the minority interest liability and charge earnings for \$3 million. At the same time, neither the \$10 million nor the \$3 million increase in the value of the underlying asset would be recognized in the parent's consolidated financial statements. This result would misrepresent the economic reality of the parent's interest in the jointly-owned entity and the parent's operating results.

We request that the Board urgently address the inappropriate financial reporting result. We believe, 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.

Thank you for your consideration.

Sincerely,



Dawn Severt
Vice President and Chief Accounting Officer