



Letter of Comment No: 41
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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:

We are communicating with you, as chairman of 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)*.

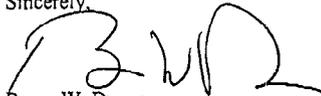
As a real estate investment trust, Equity Residential often invests in entities that are organized in a partnership structure (or “partnership-like” structure such as a limited liability company). By practice, or as required by certain state reporting statutes, these entities often have finite lives, 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.

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. In other words, 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 this inappropriate financial reporting result. 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,



Bruce W. Duncan
President & CEO



David J. Neithercut
Executive Vice President &
Chief Financial Officer