



HOST MARRIOTT  
CORPORATION

Letter of Comment No: 74  
File Reference: 1100-LEU  
Date Received: 10/24/03

October 24, 2003

Mr. Robert H. Herz  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 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:

Host Marriott Corporation is writing to the Financial Accounting Standards Board (the FASB) to urge the FASB 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)*. Host Marriott is a Fortune 500 company and the largest lodging real estate investment trust in the United States. We have always been a strong proponent of well-founded accounting and financial reporting principles and practices that reflect the economic realities of the REIT industry and we periodically respond to exposure drafts, standards and interpretations.

Based on our initial review and adoption of SFAS 150, we did not believe that the provisions of the standard applied to any of our consolidated partnerships. However, based on the FASB's recent (October 8) interpretation of SFAS 150 communicated to us by our auditors, the standard will have a significant impact on Host Marriott and all companies with consolidated partnerships.

We invest in entities that are organized in a partnership or limited liability company structure where we have third party co-investors. As required by certain state laws, these entities often have finite lives, frequently extending 99 years, with provisions for further extension. Prior to SFAS 150, to the extent we controlled an entity, we consolidated it and reflected our minority partners' interest in the mezzanine section of the balance sheet at their book value.

We understand that pursuant to the provisions of paragraph 9 of SFAS 150, the partnership entities described above meet the definition of mandatorily redeemable financial instruments, which requires minority interests 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.

Although we implemented SFAS 150 with respect to our minority interests in consolidated finite life partnerships in time for our earnings release on October 15, we disagree with the application of SFAS 150 to minority interests for several reasons, as follows:

LARRY K. HARVEY

SENIOR VICE PRESIDENT & CORPORATE CONTROLLER

6003 ROCKLEDGE DRIVE, SUITE 1500, BETHESDA, MD 20817 240-766-5010 FAX 240-766-5013  
LARRY.HARVEY@HOSTMARRIOTT.COM

- by fair valuing only the minority interests of a consolidated partnership, the corresponding remaining assets and liabilities of the partnership are still reflected at book value, misstating the partnership's impact on the parent's financial statements;
- stretching to define a minority interest as a financial instrument that must be fair valued is inconsistent with the treatment of many true debt instruments that are not fair valued (particularly given that partnerships are generally liquidated based upon the partners' decision to sell, not the termination date designated in the partnership agreement);
- to the extent the fair value of a partnership's net assets appreciate, SFAS 150 actually decreases the earnings of the parent. Correspondingly, when the value of the net assets decline, the earnings of the parent will actually increase; and
- financial statement transparency is obfuscated by the difference in treatment (minority interest versus interest expense and mezzanine equity versus liability) of consolidated partnerships solely based on whether they have an infinite life or a finite life.

We believe that the application of SFAS 150 to minority interests is inconsistent with the economic reality of the consolidating parent's interest in the partnership with respect to both its balance sheet and statement of operations. We request that the FASB address this situation and amend their interpretation of SFAS 150 with respect to minority interests as expeditiously as possible.

If you have any questions or require further information regarding the above comments, please contact me at (240) 744-5410.

Sincerely,



Larry K. Harvey

/vlc