



LETTER OF COMMENT NO. 13

August 13, 2008

Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

File Reference: Proposed Statement of Financial Accounting Standards,

1590-100 Accounting for Hedging Activities, an amendment of FASB Statement No.

133

Dear Technical Director:

We appreciate the opportunity to comment on the Proposed Statement of Financial Accounting Standards titled, Accounting for Hedging Activities, an amendment of FASB Statement No. 133 ("Statement 133"). Many of the comments included in this comment letter are consistent with the FASB's own comments listed in the Alternative Views section of the proposed Statement document. In general, we believe the proposed Statement makes accounting for derivatives more complex and dramatically impairs common, simple and effective risk management tools used by companies. Furthermore, we question the merit of such changes at this time given the growing likelihood of a transition to International Financial Reporting Standards ("IFRS") and some form of IAS 39 in the next few years. Statement 133 was issued to help companies account for hedging strategies being used to mitigate risk and to provide more certainty in the forecasting process for future earnings. The proposed Statement will create limitations on the use of otherwise effective hedging strategies due to the misrepresentative and uneconomic income statement volatility that would result under the proposed Statement, which we believe is inconsistent with the Board's intentions. Below, we respond to some of the Boards specific issue questions from the proposed Statement.

Issue 1: Do you believe that the proposed Statement would improve or impair the usefulness of financial statements by eliminating the ability of an entity to designate individual risks and requiring the reporting of risks inherent in the hedged item or transaction?

The proposed statement would impair the usefulness of financial statements. Hedge accounting under Statement 133 is a difficult concept for both preparers and users to understand. The changes required by the proposed Statement are even more difficult to

comprehend for your average financial statement user. The proposed Statement requires effectiveness to be measured in relation to the underlying hedged item, which includes credit risk when hedging our own outstanding debt. Our actual derivative transactions are not designed to hedge our own credit risk. As a result, earnings may be much more volatile. Paragraph A16 of the proposed Statement discusses how the Board thinks it is just as important to reflect in the financial statements the economics of un-hedged risks in order to provide users with a more complete picture of an entity's financial position and results of operations from hedging activities. Requiring a company to reflect un-hedged risks is only going to provide a more confusing picture to the user of the financial statements. A company employs risk management strategies based on prudent risk measurement and established policies and procedures. This exposure draft requires a company to hedge all of its risk on an underlying, otherwise it must accept income statement volatility. This accounting forces a company to weigh the negative impacts to shareholders caused by income statement volatility against the benefits of prudent Unfortunately, there are going to be cases when the negative accounting treatment will discourage companies from entering into otherwise sound economic hedges. We ask the board to consider if shareholders are better served by a company partially hedging the risk of an underlying or by it not hedging the risk at all (which would seem a likely outcome of this exposure draft). It is to the detriment of the company's shareholders when accounting rules are prohibitive to these sound risk management activities.

In addition, we concur with the concerns expressed in the alternative views of the proposed Statement regarding the practical difficulties and public concerns resulting from accounting measurements based on theoretical assessments like incorporating a company's own credit, or its new issue premium. How do we define credit risk? We have the ability, as an owner of real estate, to issue public unsecured or private secured debt. Therefore, we have various credit risks inherent in our structure, in addition to corporate credit risk. Credit spreads on secured and unsecured debt issuances can vary greatly. Further, as a secured borrower there would be significant concern around how to value changes in credit spread. Such valuations will be influenced by the underlying assets, the value of the loan as compared to the value of the collateral, required debt service coverage ratios and other factors. These factors constantly change based on market conditions and will lead to an enormous amount of volatility in the calculation of ineffectiveness. In reality, by hedging the LIBOR rate, we are prudently hedging a portion of the variability in any of the types of debt that we may issue.

A company has limited options when it comes to hedging its own credit risk. There is a lack of suitable derivatives to achieve such a goal given the potential for self dealing and access to insider information. We believe that a more appropriate solution to address the Board's concerns, should it continue with this exposure draft, would be to add an expanded disclosure or discussion in the Quantitative and Qualitative Disclosures About Market Risk sections of the Form 10-Q/10-K to provide insight to the reader of the financial statements about the inherent unhedged risks surrounding future debt maturities.

Issue 2: Do you believe the Board should continue to permit an entity to designate those individual risks as a hedged risk?

Yes, it makes perfect economic and therefore accounting sense to permit an entity to designate individual risks as a hedged risk, because that is actually what the entity is hedging. For example, our normal forward starting swap interest rate derivative is made up of the forward curve of the risk free benchmark rate plus the credit spread for a AA rated bank. Its underlying does not include our company's credit spread. Why should a company have to record a fair value for something it has no rights to? The company has long viewed pre-issuance hedging of future fixed interest rate debt as a prudent riskmitigation strategy that is allowed for in its formal risk management policies and approved by senior management and the board of trustees. When thinking about an under-hedged situation, this issue is most glaring. The proposed approach creates income statement volatility when there is none. Furthermore, this Statement requires (except for the two excepted types of hedges) the underlying hedged item be recorded at fair value. Such a requirement seemingly goes beyond accounting for derivatives and addresses accounting issues we feel are better left to a more comprehensive effort dealing with when fair value measurement is appropriate. While we appreciate the interest rate exception allowing the designation of the hedged risk as a specific risk at inception of the asset or liability, we feel that it limits companies from responding to changing market conditions as they endeavor to manage their exposure and risk. We encourage the Board to continue to permit an entity to designate individual risks as a hedged risk, both at inception and thereafter. Further, we feel the individual risk exception discussed above should not be so limited if the FASB maintains the exposure draft's approach to designating underlying risks.

Issue 3: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for fair value hedging relationships and cash flow hedging relationships? Do you believe that the proposed Statement would improve or impair the usefulness of financial statements by eliminating the shortcut method and critical terms matching, which would eliminate the ability of an entity to assume a hedging relationship is highly effective and to recognize no ineffectiveness in earnings?

The proposed Statement will make the quarterly reporting process more difficult, more time consuming and ultimately more expensive. The changes in the proposed Statement require a company to perform at least two valuation calculations per trade at each valuation date (one calculation to determine the value of the hedge and one calculation to determine the value of the hedged item). Secondly, the elimination of the short-cut method for calculating ineffectiveness will obviously result in greater efforts to determine the extent of accounting ineffectiveness, which differs from an economic or market based assessment of the performance of our hedges. Therefore, under Statement 133, some of our trades are perfectly effective and we use the short-cut method, requiring only valuation of the derivative quarterly. Under the proposed Statement, we would calculate

ineffectiveness and also qualitatively analyze whether or not the trade continues to qualify for hedge accounting.

In addition, we currently enter into forward starting swaps and designate the trades as hedges to offset the changes in benchmark interest rate risk related to a forecasted future secured or unsecured debt issuance for a date range. Based on the proposed method of calculating ineffectiveness using the change in value of the hedged item, these trades may not qualify for hedge accounting or at the very least would become so restrictive in their designation as to render their use prohibitively limiting. Should they qualify for hedge accounting, calculating the ineffectiveness to run through the income statement will require companies to make estimates of changes in their credit spread. These estimates likely will not be based on observable market inputs. These restrictions and limits will result in a loss of flexibility in how companies manage risk associated with issuing public or private debt. Hedge accounting is important, because without proper hedge accounting, derivative hedges would otherwise be reported in the income statement as if they were speculative. Financial statement users thus would be misled or unable to ascertain the true nature and design of our risk management strategies, including how effective they were to mitigate certain risks of the company.

In addition, the requirement to record the difference between the fair value of the hedge and the underlying hedged item will result in more volatile earnings and therefore impair the ease with which users can understand the financial statements and ultimately the usefulness of those financial statements.

Issue 4: Do you believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate? For situations in which interest rate risk is currently designated as the hedged risk for financial instruments but would no longer be permitted under this proposed Statement, do you believe you would continue to qualify for hedge accounting utilizing your current hedging strategy? If not, would you (a) modify your hedging strategy to incorporate other derivative instruments, (b) stop applying for hedge accounting, (c) elect the fair value option for those financial instruments, or (d) adopt some other strategy for managing risk?

The modification of the effectiveness threshold to reasonably effective is helpful, but we don't believe that it makes our process easier because in order to calculate effectiveness on a quarterly basis, we will still be required to complete an effectiveness calculation and record a charge through the income statement quarterly. In practice, we believe that the quantitative analysis, whether intended or not, will be a major component of the analysis in determining whether or not the hedge continues to be reasonably effective. Also, we recognize that volatility in a company's credit risk could result in a hedge becoming ineffective, and therefore no longer qualifying for hedge accounting. This has the potential to disqualify some of the most simple and most commonly used economic hedging strategies. Accounting rules do not drive our economic decisions but they are certainly a consideration, especially when the accounting rules do not properly reflect the economic and financial impact of a transaction or business operation. The earnings

volatility this proposed Statement introduces is unnecessary and unfortunately of such significance that it potentially may prevent us from utilizing a majority of our current derivatives and realizing the tremendous risk management benefits they provide, which could prove detrimental to the company and its investors. Unfortunately, the fair value option creates the same disconnect between accounting and economic reality by being irrevocable and having to be applied to an entire instrument and not to specific component risks. Accordingly, the fair value option continues not to be a viable option for us.

Issue 5: Do you foresee any significant operational concerns in creating processes that will determine when circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness each reporting period? Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? If so, why?

See our response to Issue 3 above.

Issue 6: Do you agree with the Board's decision to continue to require that hedge accounting be discontinued if a hedge becomes ineffective? Alternatively, should an effectiveness evaluation not be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term?

We concur with the Board's proposal that hedge accounting should be discontinued if a hedge becomes ineffective.

Issue 7: Do you believe that Statement 133 should be amended to prescribe the presentation of these amounts?

We do not believe Statement 133 should be amended to prescribe the presentation of these amounts. A company's management should be able to use its judgment to select the most appropriate presentation and Statement 161 will address much of the Board's concern through required disclosure.

Issue 8: Do you believe that the proposed effective date would provide enough time for entities to adopt the proposed Statement?

The proposed timetable for adoption is not a concern, but we prefer leaving Statement 133 intact given the ever more likely transition to IAS 39.

Issue 9: Do you believe there are any specific disclosures that should be required during transition?

Statement 161 and APB 28, as amended by Statement 154 are sufficient.

Issue 10: Do you agree with the Board's decision to allow a one-time fair value option at the initial adoption of this proposed Statement? Do you agree with the Board's decision to limit the option to assets and liabilities that are currently designated as hedged items under Statement 133?

We agree, a company must have full flexibility to select new strategies in response to the significant changes proposed. Limiting the option to assets and liabilities that are currently designated as hedged items under Statement 133 seems reasonable.

Issue 11: Do you believe the Board identified the appropriate benefits and costs related to this proposed Statement?

We believe the benefits are fewer and the costs greater than the Board intends for the reasons stated above. A change to current hedge accounting rules is ill advised based on the pending adoption of IFRS and IAS 39.

We would be pleased to discuss our comments with the Board Members or the FASB Staff at your convenience.

Sincerely,

Mark J. Parrell

Chief Financial Officer of Equity Residential

Ian S. Kaufman

Chief Accounting Officer of Equity Residential