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International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH  
United Kingdom

Technical Director  
File Reference No. 1820-100  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

Subject: Leases Exposure Draft

Dear Sir/Madam:

Simon Property Group (Simon) welcomes this opportunity to respond to the request for comments from the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) (the Boards) on the Boards' Leases Project Exposure Draft (ED).

Simon is an S&P 500 company and the largest real estate company in the U.S. The Company currently owns or has an interest in 393 retail real estate properties comprising 264 million square feet of gross leasable area in North America, Europe and Asia. Simon is headquartered in Indianapolis, Indiana and employs more than 5,000 people worldwide. The Company's common stock is publicly traded on the NYSE under the symbol SPG.

Simon is strongly committed toward improving the relevance and usefulness of its financial reporting and routinely provides input on proposals issued by the FASB and Securities and Exchange Commission (SEC) through its membership in NAREIT.

We support the Boards' efforts to continue to develop high-quality accounting standards and understand the Boards' strong desire to progress towards a unified set of financial reporting principles. Differences between U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) have existed for an extended period of time which has impeded the comparability of similar reporting entities around the globe. We believe that improved clarity over the accounting and reporting principles for global organizations could dramatically improve comparability and aid end-users of the financial information in their investment-making decision processes.

However, we are quite concerned over a number of the proposals set forth in the ED. The financial markets have undergone significant uncertainty over the past several years. Adding an increased level of complexity to reporting of leases as set forth in the ED would add an additional element of uncertainty that we believe would be disruptive to the financial markets. This would be due to the placement of potentially inaccurate and difficult to interpret liabilities on lessee's balance sheets, and, impacting lessors financial statements with revenue and asset categories that are not aligned with the way that management or our stakeholders run and analyze the business. Additionally, we believe that the ED could lead to changes in behavior on how leasing arrangements are negotiated and consummated due the proposed manner that certain leases are to be recognized in the financial statements. We would hope that it was not the goal of the Boards' to alter the way that business is transacted for leasing arrangements, as the underlying business of leasing has not changed. Rather, we would hope that the goal of the Boards' should be to increase transparency and provide better clarity in the financial reporting by companies with significant leasing arrangements. Further, we would expect that an approach to report information with regards to leases would seek to gain the view of management of the business in developing the best financial standards. With regards to a large number of leases that are clearly not in-substance financing arrangements, the cash flow of the arrangement dictates the ultimate success to the business. Under the proposed ED, the impact of the actual cash flows from these arrangements on operating results would be completely veiled by a number of non-cash activities.

We understand the Boards' desire to reflect a liability on the lessee's financial statements for the lease commitment that they have entered into. However, we do not believe that the marketplace is currently confused by the current method of accounting for leases. The disclosure of the future payments is sufficient (both by lessees and lessors) and the financial institutions that lend and underwrite the organizations rarely have to obtain additional information on a company to make a lending decision. If the ED were to be in place, significant additional information that would not be part of the financial statements (and would therefore be non-public) would have to be provided in order for a financial institution to make an appropriate decision whether to lend to the subject company. This would appear to be a step backwards in regards to transparency.

We strongly encourage the board to reconsider the approach set forth in the ED for the reasons set forth above. A summary of our concerns in the ED are as follows:

1. **Symmetrical Accounting:** As stated above, we understand the desire to reflect a liability on the lessee's financial statements. And we do follow the ED which results in the lessee reflecting as an asset representing their right to use the underlying assets. However, the establishment of a liability for a lessor's corresponding obligation to provide use of the space would appear to be accounting developed for the mere sake of symmetry. We, as lessor, have title to the assets and have the right to re-lease the space should the tenant terminate their arrangement with us prior to the original expiration. When this occurs (e.g. an early termination) we typically recognize income for the amount of the future lease payments that we recognize. This is generally never the full amount of the future lease payments. Rather, a negotiation yields an amount that is fair based on a number of factors including the tenant's ability to pay the determined amount, our ability to quickly release the space, and other market factors. If we establish an obligation, and a corresponding asset, the measurement of these events (e.g. a lease termination) would be, at best, misleading, if not impossible to interpret in the financial presentation proposed by the ED.

2. **Contingent Rents:** The ED calls for inclusion of contingent rents in the determination of the asset and liability established at the lease inception. The payment of the additional rent in many cases is not reasonably assured, and, is determined at the lease inception based on the then current market potential for the space and the tenant's operation. Many factors over time can affect the potential for the tenant to pay the contingent rent. A key example of this in our operations is the payment of overage rent by certain tenants. Once a set sales threshold is attained, the tenant pays a percentage of that as overage rent, above and beyond their base rent. Attempting to predict such rents for the entire term of the lease will open up a litany of issues, possibly driving a company to make wildly favorable assumptions. The predictions of these values would be taking into account a variety of market conditions, trends of the operating results of the tenant, future merchandising decisions of the tenant, and a number of other factors that are not even known at the time the estimate is made. Retailers make decisions annually regarding inventory and product mix based on the trends in their industry at that time. Over the past several years, sales by type of entity have fluctuated significantly. To attempt to include a component of contingent rent in the revenue recognition would be completely counter to the current, and proposed, revenue recognition models. We believe that contingent rents should not be included in the determination of the rent obligation until the amounts are known, and can be reasonably assured of collection.
3. **Long-Term Ground Leases:** We do not believe that long-term ground leases should be included in the ED's scope. When an organization leases land, it generally does so for an extended period of time. In the U.S., ground leases can generally be upwards of 100 years. In some global organizations, the term can be significantly longer (e.g. 999 years). If the accounting in the ED is applied, you would end up having a vast majority of the payments made under the ground lease going towards interest expense. At the end of a ground lease, the lessee generally does not have any title in the assets and the land has to be returned to the lessor in its original state. So at the end of the arrangement, a substantial amount of financing costs has just been recognized for an arrangement in which we will never have a fee interest in the underlying asset. Generally, it would seem that financing costs would be recognized when you are financing an asset that an entity will actually own and have title to at the end of the arrangement. Accordingly, we believe that, if the accounting in the ED is adopted in some form, long-term ground leases where title in the underlying land does not pass to the lessee should be scoped out of the ED.
4. **Options included in lease term:** The ED attempts to include in the lease term an extrapolation of possible time period covered by extension options, whether or not those options are above or below market, and whether or not those are mandatorily required. To include any period beyond the initial lease term, would be a guess, and generally is outside our control. We believe that inclusion of any extension period attributable to options would grossly overstate the lease period resulting in volatility in the statement of operations further adding to confusion over the trend of earnings of the organization.

5. **Fee vs. Leasehold Interest:** Overall, having a portion of the rental stream appear as interest income (to use as lessors) doesn't fundamentally fit our business model. We are a long term holder of real estate and are a fully integrated provider of retail space to our tenants. We have, and will always, own the space we lease. Further, we believe that the market understands the difference between a fee simple interest and a leasehold interest. Where there is, or will be at the conclusion of the lease arrangement, a transfer of ownership, we believe that the current accounting adequately provides for these instances where the lease is in substance a financing. If the Boards believe that there is abuse or misapplication of these arrangements, we would suggest a reworking of the current FAS 13 literature to continue to bifurcate operating leases from capital leases. This would seem to better fit the existence of a fee vs. leasehold interest, which will continue to exist in law past any implementation of amended accounting as called for the ED. Further, treating all of our leases as if they were in-substance financing arrangements significantly front-loads the revenue stream. Many of the costs of us to operate our centers escalate over time (e.g. personnel costs, utilities, cleaning supplies, etc.). Having the revenue front-loaded in this manner is a significant divergence from the economic model by which we manage and operate our properties. Again, we reiterate that moving further away from a cash flow and/or management's view in the method of reporting would appear to us to be a move the wrong direction.
  
6. **Implications of changes to accounting for Investment Property:** We are aware that the FASB is also undertaking a study of the related aspects of Investment Property. The current proposed direction is that Investment Property should be reported at Fair Value, and if that is the case, then the Lessor is scoped out of the accounting proposed in the Leases ED. This theoretically makes sense as otherwise the asset for the lease could potentially get double-counted. However, the assumptions that underly this are that (1) we will have a very different model for business combinations than we have today for real estate, and (2) that Investment Property at FV is deemed acceptable and has been vetted in an exposure draft process prior to adoption. The current FAS 141(R) approach would result in us having to establish leases in an acquisition at their fair market value. In order for the scope exception for the ED to work, the Boards' would first have to deal with the Business Combinations issues surrounding real estate transactions – which [in the U.S.] currently meet the definition of a business. We understand that this is not globally the case as with many IFRS reporters, real estate acquisitions, and those that meet the definition of a business pursuant to FAS141(R), are accounted for as asset purchases. We believe that this divergence on an already converged standard should be addressed prior to any additional new converged standards that would have significant interplay amongst one another. However, IFRS real estate companies do not generally treat real estate transactions as a business – even though we are 'converged' on business combinations. Accordingly, we believe that the Leases ED should be tabled until all downstream aspects of this, including the FV for Investment Property and implications to other standards (e.g. Business Combinations) are more fully addressed and remedied to avoid having to provide carve out exceptions to adopters over multiple reporting periods.

7. **Accounting System Implications:** The proposed timeline in the ED does not properly consider the massive implications such a change in accounting could have on companies' financial systems. Currently, leasing systems for lessors are designed to capture and bill the cash component of the lease arrangement and also compute the appropriate straight-line rent calculation. If we were required to adopt many of the elements of the proposed ED, such items would require us to completely reconfigure our financial accounting systems, essentially requiring us to convert our main billing system to that of a financial institution. With the large number of leases that we have in place, this undertaking could take upwards of two annual business cycles to fully implement. We do not believe that the ED properly considers this in the timeline for proposed adoption, and we would recommend that further study be given to this facet before any direction is determined on change to the accounting for leases for lessors.

The attached appendix to our letter sets forth detailed responses to certain additional questions set forth in the ED.

Simon appreciates the opportunity to comment and is available to assist in the continuing process of refining the lease proposal. We encourage the Boards' to work diligently to develop workable rules for accounting for leases that is responsive to the stakeholders of the financial statement users and balances the outcomes of the adoption to maximize usefulness and minimize adverse implications.

Very truly yours,



Steven K. Broadwater  
Senior Vice President and Chief Accounting Officer  
Simon Property Group, Inc.

Attachment

Appendix – Responses to additional selected detailed questions set forth in the ED follows:

Question 1 (a): We believe that a lessee should establish a liability for the lease payments that they will make when the lease qualifies for treatment as a financing (or a capital) lease, which assumes that they lessee will have, or has taken, title in the underlying space, or if certain factors indicate that the risk of loss for the space has passed from the lessor to the lessee. We believe the current model for determining whether a lease is operating or capital is not entirely flawed and should be reexamined to determine if this model would be workable and accomplish the objectives of additional clarity for users of IFRS financial statements.

Question 1 (b): If the lease is not in-substance a financing, that is, if the lessee is merely renting space and does not have, nor will ever take title in the underlying assets, and, they will never bear full risk of loss for the underlying asset, then no, we believe that no financing expenses should be recorded by a lessee in those circumstances.

Question 2 (a): We do not believe that either approach is workable. Under either approach, we either significantly gross up the balance sheet, or provide for fundamentally different recognition in the statement of operations than that which aligns with the way that management and our stakeholders view and measure the business of a real estate concern.

Question 3: We believe that short-term leases should continue to be treated in accordance with the current basis of accounting, that being that all of the rent received would be reported as rent revenue within the one-year period of the lease.

Question 5: As mentioned in our comment letter, we believe that the accounting for investment property at fair value should be evaluated prior to the establishment of a new basis for accounting and reporting leases. The activities of a real estate company will have both of these key processes to evaluate and given that investment property has been cited as a scope exception, we believe it would be prudent to provide clarity on that accounting first. Additionally, the accounting for investment property could affect already converged standards (e.g. Business Combinations), so a thorough evaluation of this set of literature will help provide a better understanding of those companies that would have to evaluate their method of reporting leases under a presumed adoption of any form of the accounting proposed by the ED.

Question 6: We do not believe that service components should be included in determining the rent component of the lease. These services are generally documented in the lease agreement as a matter of convenience. They are separate services with a separate and distinct set of costs related to their provision to tenants. The costs of these services are generally escalating with CPI and as such the charges for these services to the tenants are either set to have increasing steps, or, are adjusted periodically in accordance with the underlying costs for providing the service. To include these in the determination of revenue to be recorded in a manner proposed by the ED would dramatically overstate in the early years the revenue associated with these service components.