

## Synopsis of REIS EXPOSURE DRAFT

### Proposed Revisions to REIS for Debt Liability Valuation - Issued by the Real Estate Information Standards Council in Conjunction with the Real Estate Information Standards Board (Exposure draft comment period ends September 7, 2010)

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#### ***Purpose***

The purpose of the Exposure Draft is to solicit feedback from the institutional real estate investment industry surrounding the notion to revise the REIS standards surrounding debt liability valuation as follows:

1. Modify the REIS standards to maintain a requirement to value all debt on open-end funds and change the debt valuation requirement for all debt in closed-end funds and single investor investment accounts to a recommendation.
2. Introduce the concept of REIS Net Asset Value (REIS NAV) as a required element.
3. Enhance the REIS standards with expanded disclosure requirements around the valuation of debt liabilities for all Funds.<sup>1</sup>

These changes were deemed necessary in order to:

1. Keep the REIS standards current and to supplement changes made by Foundational Standards organizations<sup>2</sup> that lacked specific guidance for the real estate industry.
2. Acknowledge the optionality under existing U.S. Generally Accepted Accounting Principles (GAAP) however, maintain the REIS position that all debt should be valued
3. Continue to promote and enhance compliance and verifiability of the REIS standards.

#### ***Modify the current REIS Standard***

There are two prevailing viewpoints on the requirement to elect the Fair Value Option<sup>3</sup> within the REIS standards:

1. Provide optionality for closed-end funds and single investor investment accounts.
  - a. The owner of the financial statements should have the ability to exercise the Fair Value Option.
  - b. The REIS standards serve to benefit the industry, which has requested optionality – that exists in GAAP.
  - c. Financial statement and other fund reporting disclosures should supplement the reported information and not affect the financial results.
2. Maintain existing standard for all Funds.
  - a. The REIS standards have always required debt valuation
  - b. Fair value financial statements should carry all assets and liabilities at fair value.
  - c. Comparability of key performance measures which use GAAP NAV would be compromised

#### ***Expanded Disclosure Requirements***

The expanded disclosure requirements include the following:

1. Which debt instruments are valued and which are not
2. The magnitude of the impact of not valuing certain debt liabilities

#### ***REIS NAV***

REIS NAV is a non-GAAP measure, which considers the impact of reporting fair value NAV when Funds do not report full fair value financial statements.

The fundamental premises for requiring this reconciliation are:

1. Fair value reporting entities need this information
2. GAAP will not allow presentation of multiple NAVs
3. When Fair Value Option was not exercised, debt liabilities can be reported at fair value

#### ***Conclusion***

Maintaining a verifiable set of consistent, comparable and transparent standards is the goal of REIS and the proposed changes in this exposure draft are intended to bring the industry closer to that goal.

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<sup>1</sup> As used herein, Funds include open and closed-end commingled funds and single investor investment accounts.

<sup>2</sup> The Foundational Standards Bodies within REIS are U.S Generally Accepted Accounting Principles (GAAP), the Global Investment Performance Standards (GIPS) and the United States Standards of Professional Appraisal Practices (USPAP).

<sup>3</sup> Accounting Standards Codification 825: Financial Instruments