

REIS COUNCIL PROSPECTUS

As approved by the REIS Board on August 26, 2008

Project Name: Debt Valuation: Determination of Whether Debt Should be Reported at Fair Value for all Fund Structures

Date: August 12, 2008

1. Description and Purpose of the Project

The mission of the Debt Valuation Task Force (DVTF) is to determine whether the current REIS standard mandating that debt be reported at fair value in all circumstances is appropriate. As part of its work, the DVTF will consider the ramifications of its conclusions on both Fund reports as well as Investor reports. As used herein, the term “Fund” includes all commingled funds and single investor investment accounts. The term “Fund Report” is intended to include the entire quarterly or annual reporting package submitted to Fund investors. The term “Investor Report” refers to reporting requirements which a Fund Investor must consider when reporting the fair value of the plan assets to its beneficiaries. As a result of its work, the DVTF will propose whether the REIS Standards should retain, modify, or eliminate its current requirement to carry all debt at fair value

2. Background and Project Description

In June, 2006, the REIS Council and Board issued an [Adopting Release](#) entitled: *Summary of Notes Payable Accounting Standards and Related REIS Modifications*. This adopting release amended Section 3 of the REIS Market Value Accounting Policy Manual (Manual) and stated: “Unless prohibited by accounting principles generally accepted in the United States of America, notes payable are to be carried at market value as described in paragraph 3.05.”

In March, 2007, the REIS Council and Board issued a [conforming change](#) document entitled: *Conforming Change to REIS Market Value Accounting Policy Manual resulting from the Issuance of the Fair Value Option*. FASB Statement Number 159, *The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment to FASB Statement 115*” (the Fair Value Option) became effective for fiscal years that begin after November 15, 2007. The Fair Value Option provides a one-time option, or election, to report notes payable liabilities at fair value. Therefore, there is no longer a GAAP prohibition to report notes payable at fair value. Accordingly, Paragraph 3.03 of the Manual was amended to state: “Notes payable are required to be carried at market value as described in paragraph 3.05. Accordingly, in order to be in compliance with REIS, SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment to FASB Statement 115* must be elected for each note payable instrument held.”

It has come to the attention of the REIS Council and Board that some Funds, particularly closed-end funds and single investor separate accounts have not elected the Fair Value Option for notes payable. It is expected that the DVTF will survey investment managers and investors to determine what current industry practice is.

In its deliberations the DVTF should consider the following:

- What factors should be considered in making the determination of whether debt should be carried at fair value?

- Should the decision to carry debt at fair value be dependent upon the Fund’s structure?
- Should the decision to carry debt at fair value be different depending on whether the debt is Fund level debt or property level debt?
- Does the investment structure impact the decision to fair value debt?
- What guidance should REIS provide in order to foster an increased understanding of the issue of debt valuation?
- What is the impact of the decision to carry debt at fair value on disclosures of performance?
- If, as a result of its findings and recommendations mixed practices result, what disclosure elements should be required/recommended within REIS in order to promote comparability across Funds?
- How is an investor required to measure the fair value of its investment in a Fund?
- What standards for debt valuation, if any, are required/recommended within International Financial Reporting Standards (IFRS)?

A report of the findings and conclusions of the DVTF will be presented to the REIS Council and Board. The report will include a recommendation to retain, modify, or eliminate the current requirement in Chapter 2, Accounting which is to value all debt. The DVTF will not address issues surrounding debt valuation calculations.

3. Proposed Composition of the DVTF and Advisory Group

As the issues surrounding debt valuation are complex and REIS Standards compliance is of paramount importance to the REIS Council and Board the DVTF will discern why different practices exist. An Advisory Group will be assembled to provide critical guidance throughout the project. Doug Poutasse, REIS Board Chair, will serve as chair of this group. Other members of the advisory group include: Lynn Thurber, REIS Board Member; Jeff Kiley PricewaterhouseCoopers; Kevin Scherer, BlackRock; Tom Mulvin, Virginia Retirement System and Joe Pagliari, REIS Board Member.

The DVTF will be chaired by Jim Strezewski, LaSalle Investment Management .

<u>Name</u>	<u>Standing Committee</u>	<u>Employer</u>
<i>Chair</i>		
Jim Strezewski	Accounting	LaSalle Investment Management
<i>Others</i>		
Lindsey Adams	Portfolio Management	AMB
Peter Brooks	Accounting	Ernst & Young
Sara Geiger	Plan Sponsor	Florida State Board of Investment
Ken Greguski	Performance Measurement	RREEF
Denisa Hall	Accounting	Prudential
Barbara McDowell	Performance Measurement	ORG Real Property
Michael Morrell	Plan Sponsor	NYSTRS
Monica Parikh	Research	Metzler, NA
Brian Ruben	Accounting	Deloitte
Ashley Strange	Plan Sponsor	Teachers Retirement System of Texas
Connie Tirondola	Accounting	BlackRock
Candice Todd	Accounting/Port. Mgmt.	Morgan Stanley

Serena Wolfe
Staff

Accounting

Ernst & Young

Marybeth Kronenwetter

4. Costs/Benefits

Since the DVTF is expected to complete some form of survey of Investment Managers and Investors, it is likely that there may be costs to complete such a survey. Any such expenditure must be approved in advance by the NCREIF and PREA Boards since no funds were budgeted for such work this fiscal year.

Debt Valuation has been a long standing issue within the REIS Council and NCREIF. The DVTF will assess why mixed practices exist, document its findings and present its recommendations. The Task Force and Advisory Group have been carefully selected in order to ensure that all views are represented. This consensus building effort will serve to further the notion of compliance and verifiability within the REIS Standards.

5. Projected Timetable for Completion

Work will begin upon tentative REIS Council and approval of this prospectus. Timing is critical and all work must be completed as soon as possible but in no event later than December 1, 2008. For existing notes payable liabilities the election to adopt The Fair Value Option must be made before the end of the fiscal year which began after November 15, 2007. For most Funds within our industry, this means that the election must be made by December 31, 2008. Critical dates are as follows:

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| • August 1, 2008 | Final identification of Task Force participants |
| • August 6, 2008 | Prospectus preliminary approval by REIS Council |
| • August 7 –October 1, 2008 | Task Force work |
| • August 20 | Formal Council Prospectus Approval and Council Update |
| • August 26, 2008 | Formal Board Prospectus Approval and Board Update |
| • October 15, 2008 | Presentation of Preliminary Findings to REIS Council |
| • November 14, 2008 | Presentation of Findings to REIS Board |
| • December 1, 2008 | Issuance of Final Report |