

# **REIS ADOPTING RELEASE**

## **Summary of Chapter 4: Fund Reporting Standards**

Issued by the Real Estate Information Standards Council in Conjunction with the  
Real Estate Information Standards Board

August 26, 2008

### **Executive Summary**

This adopting release summarizes Chapter 4 – Fund Reporting Standards, a new chapter within the REIS Standards. The purpose of Chapter 4 is to provide a standard from which “Funds” (open and closed end funds as well as single investor investment accounts) can report a relevant, comparable, transparent and verifiable information set to investors within its periodic reports. Consistent with the philosophy of REIS, the required and recommended practices in Chapter 4 provide a conduit for Funds to disclose reliable information which is relevant to investor decision making processes and can be independently verified.

Chapter 4 introduces a Fund level compliance standard to REIS. It facilitates the specific objectives of the REIS compliance and verifiability initiative by allowing Fund (account) by Fund (account) compliance and verification of specific Fund Reports for specified periods. By including the required information and disclosures delineated in this Chapter 4, an individual Fund may assert its REIS compliance with the Fund Reporting Standards of REIS for a specific period, with the goal of enabling a third party verifier to opine on such an assertion.

The REIS Board and Council will periodically review the required and recommended practices included within Chapter 4 – Fund Reporting Standards and modify the standards as appropriate. It is anticipated that some current recommendations may become requirements in future versions of Chapter 4. Other verifiable elements may be added in the future in an effort to further promote consistency, comparability and transparency within the asset class and thereby contribute further to the understanding of real estate as an asset class and its place in the broader capital markets universe.

## **Modifications to REIS Standards**

As of August 26, 2008, Chapter 4, Fund Reporting Standards are included in the REIS Standards as follows:

## **Real Estate Information Standards**

### **Chapter 4-Fund Reporting Standards**

#### *Introduction*

- 4.01 In order to promote consistency, comparability, and transparency of information within the private, tax-exempt institutional real estate investment industry in the United States, the development of REIS Fund Reporting Standards resulted from the realization that there should be a requirement to periodically disclose minimum specific information within a Fund Report that is relevant to the investor's decision-making process. The Valuation, Accounting and Performance Measurement Standards established within the REIS Standards describe the policies and practices required and recommended to facilitate analysis of the reported information. Contrasted with the disclosures referenced in the first three chapters of the REIS Standards, the Fund Reporting chapter provides a communication conduit which will promote consistency, comparability, and transparency of information as well as compliance and verifiability of these interdisciplinary standards.
- 4.02 As used herein, the term "Fund" includes all commingled funds and single investor investment accounts. The term "Report" is intended to include the entire quarterly or annual reporting package submitted to Fund investors. Examples of information typically included in the Report are: letter to investor(s); summary of Fund activities; Fund highlights; market information; performance summary; financial information and such other information which is deemed useful to users. In order for an individual Fund to be REIS compliant, the required elements listed in this Chapter 4 are to be included in a Fund's Report.

#### *Required and Recommended Elements*

- 4.03 For all Funds, the information in the following chart is to be disclosed in the Fund Report, no less frequently than indicated. Note: Items in **bold face** are for illustrative purposes only. Numbers reference the paragraphs within Chapter 4.)

**CHAPTER 4: FUND REPORTING STANDARDS**

*(Applicable for All Funds Unless Otherwise Noted)*

<b>Element</b>	<b>Frequency</b>	<b>Chapter 4 Reference</b>	
<b><u>REQUIRED ELEMENTS</u></b>			
<b>Fund Overview</b>	Fund Name or Identifier	Quarterly	4.05
	Fund Contact	Quarterly	4.06
	Fund Inception Date	Quarterly	4.07
	Fund Structure	Annually	4.08
	Fund Style and Strategy	Annually	4.09
<b>Key Fund Performance Summary</b>	Fund Level Total Time-Weighted Return (TWR) gross and net of fees	Quarterly	4.10
	Benchmark Comparisons	Annually	4.11
	Net Asset Value	Quarterly	4.12
<b>Financial Information</b>	Condensed U.S. Fair Value (FV) GAAP based financial reporting (at a minimum)	Quarterly	4.13
	U.S. FV GAAP based financial statements and footnotes	Annually	4.14
	Schedule of Investments	Annually	4.15
	Valuation Policy Statement	Annually	4.16
<b>Additional Required Elements for Closed-End Funds</b>	Since Inception Internal Rate of Return (IRR), gross and net of fees	Quarterly	4.17
	Final Fund Closing Date	Annually	4.18
	Fund Scheduled Termination Date	Annually	4.19

<b><i>RECOMMENDED ELEMENTS</i></b>			
<b>Additional Performance Elements</b>	Management discussion of performance relative to Fund objective	Quarterly	4.20
	Leverage Percentage	Quarterly	4.21
<b>Characteristics</b>	Portfolio Characteristics by:		4.22
	Investment/Property Type	Quarterly	4.22.a.
	Region/Location	Quarterly	4.22.b.
	Nature of Investment (life cycle)	Quarterly	4.22.c.
	Investment Structure	Quarterly	4.22.d.
<b>Investor Capital Accounts</b>	Supplemental Schedule of Investor Capital Accounts	Annually	4.23
<b>Additional Recommended Elements for Closed-End Funds</b>	Aggregate Capital Commitments	Quarterly	4.24
	Aggregate Capital Received to Date	Quarterly	4.25
	Unfunded Commitments	Quarterly	4.26
	Distributions Since Inception	Quarterly	4.27
	Paid-In Capital Multiple	Quarterly	4.28
	Investment Multiple	Quarterly	4.29
	Realization Multiple	Quarterly	4.30
	Residual Multiple	Quarterly	4.31
<b>Additional Recommended Elements for Open-End Funds</b>	Fund level component TWR, gross and net of fees, current quarter calculated using the REIS Market Value Accounting Policy Manual	Quarterly	4.32
	Total Commitments	Quarterly	4.33
	Redemptions for quarter	Quarterly	4.34

	Total Redemption Requests	Quarterly	4.35
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### *Effective Date*

4.04 The effective date for implementation of this Chapter 4, Fund Reporting Standards is for fiscal years beginning after December 15, 2008, with earlier adoption encouraged.

## **REQUIRED ELEMENTS**

### *Fund Overview*

4.05 Fund Name or Identifier (*Quarterly*): The label used to identify the Fund. As used herein, the term “Fund” refers to all commingled funds and single investor investment accounts.

4.06 Fund Contact (*Quarterly*): The name of the person, or persons responsible for issues relating to Fund reporting matters. Frequently, this is the Fund’s Portfolio Manager.

4.07 Fund Inception Date (*Quarterly*): The date of the first significant operating, financing or investing activity into the Fund.

4.08 Fund Structure<sup>1</sup> (*Annually*):

- a. Commingled fund: A term applied to all open-end and closed-end pooled investment vehicles. A commingled fund may be organized as a group trust, partnership, corporation, insurance company separate account, or other multiple ownership entity.
  - i. Open-end: A commingled fund with an infinite life, which allows periodic entry and exit of investors, and typically engages in ongoing investment purchase and sale activities.
  - ii. Closed-end: A commingled fund with a stated maturity (termination) date, with few or no additional investors after the final initial closing of the fund. Closed-end funds typically purchase a portfolio of properties to hold for the duration of the fund and, as sales occur, typically do not reinvest the sales proceeds.
- b. Single Investor Investment Account: Any investment account managed for the benefit of one investor. Single investor investment accounts may include either pools of assets owned by a single entity or individual assets owned by separate legal entities.

4.09 Fund Style and Strategy (*Annually*): In general, a description of Fund strategy includes the Fund’s plan for asset allocations taking into consideration goals, risk tolerance and holding period and includes, at a minimum, the investment style. The definitions

provided below describe investment styles/strategies commonly used in the Industry. They have been abstracted from the NCREIF White Paper: [Real Estate Styles Whitepaper](#)<sup>1</sup>. (This Whitepaper contains much more detailed information on the classification of funds by strategy and should be considered by managers in describing Fund strategy; however the fund strategy designation is the responsibility of the Fund's management).

- a. Core: A portfolio that includes a preponderance of core attributes. As a whole, the portfolio will have low leasing exposure and low leverage. A low percentage of non-core assets is acceptable. As a result, such portfolios should achieve relatively high income returns and exhibit relatively low volatility.
- b. Value-added: A portfolio that generally includes a mix of core investments and non-core investments that will have less reliable income streams. The portfolio as a whole is likely to have moderate lease exposure and moderate leverage. As a result, such portfolios should achieve a significant portion of the return from appreciation and are expected to exhibit moderate volatility.
- c. Opportunistic: A portfolio of preponderantly non-core investments that is expected to derive most of its return from appreciation and/or which may exhibit significant volatility in returns. This may be due to a variety of characteristics such as exposure to development, significant leasing risk, high leverage, or a combination of moderate risk factors.

#### *Key Fund Performance Summary*

- 4.10 Fund-level Total Time-weighted return (TWR), gross and net of fees (*Quarterly*):  
“Fund-level” is the aggregation of all of the investments made by the entity and the amounts earned or incurred which relate to the entity but are not specifically attributable to a particular investment.

“Time-weighted Return” is a calculation that computes period-by-period returns on an investment and removes the effects of external cash flows, which are generally investor-driven, and best reflects the firm's ability to manage assets according to a specified strategy or objective. A return is calculated for each equal length period, usually on a quarterly basis for real estate. Returns are then linked to calculate a multi-period return. Each return over the period has an equal weighting; therefore, the timing of the return and the amount invested for a period have no impact on the multi-period return<sup>2</sup>.

For a single period, the “Total Time-weighted Return” is the sum of the quarterly net income (loss) return and the realized or unrealized valuation adjustment (appreciation or depreciation) return. For longer periods, it is the geometrically-linked total returns for the individual periods within the longer period<sup>2</sup>.

“Gross returns” are before all investment advisory fees and incentive allocations, carried interests, promotes, etc. The Fund Report must clearly disclose what types of fees are deducted from the gross return to arrive at the net return (e.g., advisory fees, incentive fees, incentive allocations, carried interests, promotes, etc.).

“Net returns” are after all compensation to general partners and investment advisors including general partner priority distributions, investment advisory fees and incentive fees. The net of fees returns should be presented for all classes of investors. In situations where fees are billed separately (outside of the Fund) and/or when different fee arrangements exist for investors within a Fund, the Fund report must include disclosure of the impact of these fees on total TWR, expressed, at a minimum as a basis points range.

- 4.11 **Benchmark Comparisons (*Annually*):** A benchmark is an independent rate of return (or hurdle rate) forming an objective test of the effective implementation of an investment strategy<sup>3</sup>. A benchmark should be verifiable, should be appropriate to the investment portfolio to which it is being compared and should have a similar period or vintage year to the investment portfolio under examination. In certain situations, benchmarks may not be stipulated by the Fund’s manager. If a benchmark is stipulated it should be disclosed in the Fund report no less frequently than annually and appropriate comparisons of Fund performance to the benchmark should be described. If a benchmark is not stipulated, then the Fund must state that it does not have a stipulated benchmark.
- 4.12 **Net Asset Value (NAV) (*Quarterly*):** The fair value of real estate and all other assets less total liabilities

### *Financial Statements*

- 4.13 **Condensed U.S. Fair Value GAAP Based Financial Statements (*Quarterly*):** The condensed financial statements at a minimum must include: a Statement of Assets and Liabilities (which separates key components of assets and liabilities) or equivalent (e.g., Balance Sheet); a Statement of Operations or equivalent (e.g. Income Statement); Net Asset Value; Contributions made to the Fund; and Distributions Paid from the Fund to Investors for each quarter presented. The reference to GAAP based fair value financial statements does not suggest that an entity must qualify under U.S. GAAP to report investments at fair value. This requirement can be satisfied using a Fund’s primary financial statements or a combination of primary financial statements and supplemental financial information.
- 4.14 **U.S. Fair Value (GAAP Based) Financial Statements and Footnotes (*Annually*):** The Fund Report must contain comprehensive U.S. Fair Value GAAP based financial statements and footnotes that are prepared no less frequently than annually. The Fund report must provide a clear indication of the accounting model used to prepare such information. This requirement can be satisfied using a Fund’s primary financial

statements or a combination of primary financial statements and supplemental financial information. It is recommended that this information be audited annually and the audit opinion should accompany the Fund Report.

4.15 Schedule of Investments (*Annually*): The Schedule of Investments must separately disclose, at a minimum, the following information for all investments.

- Investment Name: The Fund's Identifier
- Property Type: See Portfolio Characteristics (4.22)
- Investment Structure: See Portfolio Characteristics (4. 22)
- Acquisition Date: The year or date acquired by the Fund
- Location: If practical, use City/State, Metropolitan Statistical Area (MSA), or Country if outside of the U.S. If the investment represents a diversified portfolio use Country/Region where the most significant portion of the investment is located.
- Size: Use square footage or other appropriate measure based upon the nature of the investment (ex. Number of rooms for hotels; acres for land)
- Fair Value as of Statement Date: The Fund's share of the fair market value of the investment as reported in the Fund's financial statements.

4.16 Valuation Policy Statement (*Annually*): In addition to the required disclosures under U.S. GAAP surrounding Valuation Policy, the Fund Report must contain a statement that the Fund complies with the Property Valuation Standards described within Chapter 1 of REIS.

*Additional Required Elements for Closed-End Funds:*

4.17 Since-Inception Internal Rate of Return (IRR), gross and net of fees (*Quarterly*): The IRR is the annualized implied discount rate (effective compounded rate) that equates the present value of all of the appropriate cash inflows associated with an investment with the sum of the present value of all of the appropriate cash outflows accruing from it and the present value of the unrealized residual portfolio.

The Fund Report must disclose (a) the time period for the calculation, and (b) the frequency of the cash flows used in the calculation.

“Gross returns” are before all investment advisory fees and incentive allocations, carried interests, promotes, etc. The Fund Report must clearly disclose what types of fees are deducted from the gross return to arrive at the net return (e.g., advisory fees, incentive fees, incentive allocations, carried interests, promotes, etc.).

“Net returns” are after all compensation to general partners and investment advisors including general partner priority distributions, investment advisory fees and incentive fees. The net of fees returns should be presented for all classes of investors. In situations where fees are billed separately (outside of the Fund) and/or when different fee arrangements exist for investors within a Fund, the Fund report must include disclosure of the impact of these fees on IRR, expressed, at a minimum as a basis points range.

- 4.18 Final Fund Closing Date (*Annually*): The date of admittance of final investor(s) into the Fund.
- 4.19 Fund Scheduled Termination Date (*Annually*): The date the Fund is scheduled to liquidate, per the Fund’s legal documents.

## **RECOMMENDED ELEMENTS**

### *Additional Performance Elements*

- 4.20 Management Discussion of Performance Relative to Fund Objective (*Quarterly*): A summary discussion of the Fund's performance for the quarter including comparisons to established fund objectives and stated investment strategy and parameters.
- 4.21 Leverage Percentage<sup>4</sup> (*Quarterly*): Also known as the Debt to Assets Ratio, the Leverage Percentage indicates what proportion of debt an entity has relative to its assets. Used in conjunction with other measures of financial health, the leverage percentage can be one measure of an entity's level of risk. A leverage percentage greater than 100% indicates that the fair value of the debt exceeds the fair value of the assets. A leverage percentage of less than 100% indicates that the fair value of the assets exceeds the fair value of the debt. There are a variety of calculations that could represent Leverage Percentage. Two calculation methods are listed below. Note: If a Leverage Percentage is presented within a Fund Report, the formula used to calculate the percentage must be disclosed.

#### ***UNCONSOLIDATED METHOD:***

$$\text{Debt Percentage} = \frac{\text{Wholly Owned debt (property \& fund) + Fund's Economic Share of JV Debt}}{\text{Total Assets + Fund share of Total JV Liabilities}}$$

#### ***CONSOLIDATION:***

$$\text{Debt Percentage} = \frac{\text{Wholly Owned debt (property \& fund) + Fund's Economic Share of JV Debt}}{\text{Total Assets - JV Partner Economic Share of RE Partnership Assets}}$$

### *Characteristics*

- 4.22 Portfolio Characteristics (*Quarterly*): Calculated as a percentage, the value of real estate assets in each category divided by the total value of real estate investments. The basis for the calculation must be disclosed (gross real estate assets or net real estate assets).
- a. By Investment/Property Type<sup>5</sup>: Suggestions include those in the NCREIF Property Index (Office, Industrial, Retail, Apartment, and Hotel) in addition to Timberland and Agriculture, which NCREIF reports as separate indexes.

Other investment/property types might include:

Entertainment (e.g., theaters, golf courses, bowling alleys, restaurants, pubs, casinos)

Healthcare (e.g., hospitals and outpatient clinics)

Land

Manufactured housing (e.g., pre-manufactured housing complexes and mobile home facilities)

Parking

Self-Storage

Senior Living (e.g., Assisted Living, Skilled Nursing, etc.)

Condo conversion

Homebuilding

Infrastructure (e.g. Transport, Regulated Utilities, Communications; Social)

Medical Office

Mixed-use facilities

b. By Region/location: NCREIF U.S. geographic divisions (Northeast, Mideast, East North Central, West North Central, Southeast, Southwest, Mountain, and Pacific). If a Fund includes non-U.S. investments, include country.

c. By Nature of Investment (Life Cycle)<sup>5</sup>:

i. Forward Purchase Commitment: Fund's commitment to purchase at a pre-specified price when all conditions agreed to in the forward commitment agreement have been met (off-balance sheet).

ii. Pre-Development: Raw land or land undergoing property site development.

iii. Development: Property under construction, including preparation and installation of infrastructure.

iv. Initial Leasing: Completed construction that is less than 60% leased and which has been available for occupancy for less than one year.

v. Operating/stabilized: Completed construction that has achieved 60% leasing status since the end of construction or has been available for occupancy for more than one year.

vi. Repositioning/Redevelopment: A property that is undergoing significant capital intensive activities such as redevelopment or asset repositioning such as Class B to Class A. This classification can also be used for investment companies undergoing a transformation or repositioning.

d. By Investment Structure: The investment structure is defined as one of the following: wholly-owned investments; joint ventures; bonds; senior debt; subordinated debt; mezzanine debt; participating mortgages; commercial mortgage-backed securities (CMBS); public real estate security; and private real estate operating company.

### *Investor Capital Accounts*

- 4.23 Supplemental Schedule of Investor Capital Accounts (*Annually*): The statement of changes in members' equity/partner's capital or statements of changes in net assets included in the financial statements referred to in paragraph 4.14 are required by U.S. GAAP to present each class of investor (in the aggregate). A supplemental schedule of changes in individual investor capital accounts for the annual period is also recommended for non-unitized funds. (Unitized funds represents funds with units specifically called for in governing underlying legal or offering documents.) It is recommended that the supplemental schedule of changes in individual investor capital accounts accompany the U.S. Fair Value GAAP based financial statements. Hence, the audit opinion should make reference to such supplemental schedule and assess if the schedule is fairly stated in comparison to the primary financial statements taken as a whole<sup>6</sup>. It should be noted that individual investor names need not be included on the schedule. An account number or other general or generic identifier is satisfactory.

### *Additional Recommended Elements for Closed-End Funds*

- 4.24 Aggregate Capital Commitments (*Quarterly*): The total amount committed to the Fund by the investors.
- 4.25 Aggregate Capital Received to Date (*Quarterly*): The total amount of investor capital received by the Fund as of the date of the Fund Report.
- 4.26 Aggregate Unfunded Commitments (*Quarterly*): As of the date of the Fund Report, Unfunded Commitments represent the difference between Aggregate Capital Commitments and Aggregate Capital Received to Date, increased by capital returned to investors which can be reinvested, if applicable.
- 4.27 Distributions Since Inception (*Quarterly*): The amount of Distributions Paid from the inception date of the Fund through the date of the Fund Report.
- 4.28 *Paid-In Capital Multiple* (*Quarterly*): The Paid-In Capital Multiple, also known as the paid-in capital to committed capital multiple (PIC), is computed as the Aggregate Capital Received to Date divided by the Aggregate Capital Commitments.
- 4.29 Investment Multiple (*Quarterly*): The Investment Multiple, also known as the Total Value to Paid-In Capital Multiple (TVPI), is computed as the sum of Distributions Paid since inception plus NAV at the measurement date, divided by the Fund's Aggregate Capital Received to Date.
- 4.30 Realization Multiple (*Quarterly*): The Realization Multiple, also known as the cumulative Distributions to Paid-In Capital multiple (DPI), is computed as the sum of Distributions Paid since inception divided by the Fund's Aggregate Capital Received to Date.

- 4.31 Residual Multiple (*Quarterly*): The Residual Multiple, also known as the Residual Value to Paid-In capital multiple (RVPI), is computed as the Fund's NAV at the measurement date divided by the Fund's Aggregate Capital Received to Date.

*Additional Recommended Elements for Open-End Funds*

- 4.32 Fund Level Component TWR (gross and net of fees) calculated using the REIS Market Value Accounting Policy Manual: (current quarter) (*Quarterly*): The Fund Report must provide disclosure of TWR for the applicable periods using data derived from the accounting methodology described in the REIS Market Value Accounting Policy Manual.
- 4.33 Total Commitments (*Quarterly*): The aggregate total dollar amount of contractual capital subscriptions not yet contributed to a Fund as of the reporting date. The Fund Report should indicate what portion of the amount reported is revocable.
- 4.34 Redemptions for Quarter (*Quarterly*): The aggregate amount paid to investor(s) exiting the Fund during the reporting period.
- 4.35 Total Redemption Requests (*Quarterly*): The aggregate total dollar amount of formal requests for redemption which have been received from investors to redeem out of a Fund but that have not been fulfilled as of the end of the reporting period. The Fund Report should indicate what portion of the amount reported is revocable.
- 4.36 *Footnotes to Disclosure Definitions*

Footnotes:

<sup>1</sup> NCREIF White Paper: Real Estate Investment Styles Whitepaper (Chicago: National Council of Real Estate Investment Fiduciaries, Oct. 2003).

<sup>2</sup> Real Estate Information Standards (REIS), Appendix 2, Glossary (Chicago: National Council of Real Estate Investment Fiduciaries, 16 Mar. 2007).

<sup>3</sup> “Benchmark”, Global Investment Performance Standards, February, 2005, Appendix E, Glossary of Terms.

<sup>4</sup> “Debt Ratio,” Investopedia, 18 Jul. 2007 <http://www.investopedia.com/terms/debtratio.rsp>.

<sup>5</sup> NCREIF Data Contributor Manual (Chicago: National Council of Real Estate Investment Fiduciaries, 2006).

<sup>6</sup> Statement of Auditing Standards #29, Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents (AU 551).

## Appendix A – Alternatives Considered and Basis for Conclusions Reached

- 4.A.1. The purpose of Chapter 4 is to provide a standard from which “Funds” (open and closed end funds as well as single investor investment accounts) can report a relevant, comparable, transparent and verifiable information set to investors within its periodic reports. Consistent with the philosophy of REIS, the required and recommended practices in Chapter 4 provide a conduit for Funds to disclose reliable information which is relevant to investor decision making processes and can be independently verified.
- 4.A.2. On August 1, 2007, the REIS Council and Board issued an Exposure Draft entitled Proposed Chapter 4: Investor Reporting Standards (“Version 1”). Version 1 was exposed to the public through September 30, 2007. Twenty-eight firms, representing a cross section of investment managers, consultants and plan sponsors responded to Version 1. The REIS Council and Board considered each response and concluded that Version 1 as written could not be incorporated into the REIS Standards. Significant changes were deemed necessary and therefore the REIS Council and Board concluded that a re-exposure of Chapter 4 was warranted (“Version 2”).
- 4.A.3. During the comment review process for Version 1, the REIS Council and Board concluded that certain suggestions should be incorporated into this Version 2 of Chapter 4. These suggestions included: a narrowing of the scope of Chapter 4 to focus on Fund (rather than Investor) Reporting Standards; reclassifying standards into required and recommended practices (all practices in Version 1 had been required); eliminating certain elements; and adding recommendations suggested by the plan sponsor and consulting community.
- 4.A.4. On February 14, 2008 (subsequent to the public comment period for Version 1), the FASB issued FASB Staff Position (“FSP”) SOP 07-1-1 which indefinitely deferred the effective date of Statement of Position (“SOP”) 07-1, Clarification of the Scope of the Audit and Accounting Guide *Investment Companies* (“IC Guide”) and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies. Respondents to the March 2007 NCREIF-sponsored REIS Reporting Survey indicated that over 70% of their Funds would be “scoped” into the IC Guide and would therefore be required to use the IC Guide for primary U.S. Fair Value GAAP based financial statement reporting. The requirement to use the IC Guide would significantly reduce (but not eliminate) accounting model differences in the private U.S. tax-exempt real estate industry and thereby foster more widespread comparability and consistency of reporting across these Funds. Accordingly, the REIS Council and Board determined that the deferral of SOP 07-1 further supported the revision and re-exposure of Chapter 4 and the immediate need to establish required and recommended Fund Reporting Standards.
- 4.A.5. This Version 2 of Chapter 4 was exposed to the public from March 1, 2008 through April 30, 2008. A total of 22 responses were received from the Public Comment Process. Respondents represented a cross section of industry participants including: investment

managers; plan sponsors and real estate consultants. The Council and Board considered the comments received in the resulting Chapter 4, Fund Reporting Standards which is included in this adopting release. The Council and Board will periodically review the Fund Reporting Standards and incorporate changes as appropriate.

4.A.6. Chapter 4, Fund Reporting Standards are an integral part of REIS for the following reasons:

- Fund Reporting represents a substantial portion of the periodic communication to investors and service providers and therefore establishing standards for Fund Reporting represents significant progress towards the REIS mission to provide clear, concise, comparable, consistent, transparent and verifiable information to the institutional real estate investment community.
- REIS provides guidance when foundational standards are silent or subject to interpretation.
- Multiple fair value accounting models are used in our Industry, making comparisons of significant Fund performance and attributes difficult.
- The *required* standards are most relevant to investors and users of Fund Reports. The *recommended* standards provide useful additional information to Fund Report users.
- The *required and recommended* standards are verifiable by independent means.
- Fund level compliance is established within the Fund Reporting Standards. By including the required information and disclosures delineated in this Chapter 4, an individual Fund may assert its REIS compliance for a specific period, which may therefore enable a third party verifier to opine on such an assertion.

## Appendix B- Public Comment Process

The key issues and questions considered by industry participants as part of the public comment process for the Chapter 4 exposure draft are as follows:

- 4.B.1. **Establishment of Fund Reporting Standards:** Chapter 4, Fund Reporting Standards establishes an additional chapter within REIS. As used herein, Funds include commingled funds and single investor separate accounts. In August 2007, the Council and Board issued an Exposure Draft which recommended the development of Investor Reporting Standards (Version 1) which would encompass communications to clients beyond those contained in a Fund's quarterly report. Based upon the comment letters and ensuing discussion at the REIS Council and Board, it became apparent that the Investor Reporting Standards should be revised to focus solely on Fund Reporting. Should REIS develop Fund Reporting Standards rather than Investor Reporting Standards? Is it appropriate that these standards be applicable to single investor separate accounts as well as commingled funds? What are the benefits or disadvantages of such a chapter?

*All respondents agreed that Fund Reporting Standards should be developed by REIS. Several respondents expressed the need for clarification of what is included in a Fund Report. This clarifying language was incorporated into Chapter 4. The term "Fund" includes all commingled funds and single investor investment accounts. The term "Report" is intended to include the entire quarterly or annual reporting package submitted to Fund investors. Examples of information typically included in the Report are: letter to investor(s); summary of Fund activities; Fund highlights; market information; performance summary; financial information and such other information which is deemed useful to users.*

*The majority of the respondents indicated that the standards should be applicable to single investor separate accounts as well as commingled funds. Those respondents that did not say yes offered the following comments: 1) scope of standards should be (initially) limited to open-end funds; 2) exclude opportunity funds from compliance; 3) allow for "flexibility" for compliance by single investor separate accounts; and 4) develop informal guidance for separate accounts.*

*The majority of the respondents cited numerous advantages to the development of the standards including: transparency, consistency, comparability, accountability and efficiency. Disadvantages included: 1) costs/burden for items over and above what is required by GAAP or the GIPS Standards; and 2) potential conflicts with "tried and true" reporting currently in place. The REIS Council and Board concluded that the advantages outweighed the disadvantages because the minimum standards required within Chapter 4 provide a mechanism for reporting a comparable, information set to investors who generally invest in different investment vehicles and strategies.*

*Additional costs to comply with the required standards is not expected to be significant as most of this information is already provided within Fund Reports.*

- 4.B.2. **Include Required and Recommended Practices:** Chapter 4 includes both required and recommended standards for Fund reporting within REIS. The suggested frequency with

which each required or recommended practice is to be applied is based upon feedback from industry constituents and the Council's and Board's perspective with respect to relevance to the Report user. Do you agree with the notion of establishing both required and recommended Fund Reporting Standards within REIS? Do you agree that the frequency of line item disclosures presented herein is appropriate for every Fund?

*The majority of the respondents agreed that both required and recommended standards should be included within Chapter 4. Of those that did not agree, some indicated that all of the proposed standards should be required; one respondent said that REIS should limit itself to only the minimum required elements (rather than embracing recommended elements) as recommendations may be readily construed as requirements by audit firms; and one said that required and recommended standards are appropriate for open-end funds, but other funds should only have recommended elements. In Version 1, the Council and Board proposed more required elements. Based upon the comments letters received on Version 1, and ensuing discussions with the Council and Board, it became apparent that certain practices should be recommended only or removed altogether. This version of Chapter 4, represents the results of those discussions which have generally been well received during this public comment process. The Council and Board have also concluded that the required and recommended elements included in Chapter 4 should be reviewed periodically.*

*Most respondents agreed that the periodicity established within Chapter 4 was appropriate. Those respondents that did not agree thought quarterly disclosure for all items was most appropriate. The Council and Board concluded that more frequent reporting would not be precluded within the standard.*

4.B.3. **Effective date –fiscal years beginning after December 15, 2008 (4.04):** The effective date of Chapter 4 is for fiscal years beginning after December 15, 2008 with earlier application encouraged. Do you agree with the proposed effective date of this Exposure Draft? If you do not agree, please propose an alternative.

*The majority of the respondents agreed with the proposed effective date. One respondent who said no indicated that the effective date should correspond with SOP-07-1 and another respondent indicated that the effective date should be later if the standards are not finalized in a timely manner. SOP-07-1 has been indefinitely deferred and the Council and Board thinks that the elements included in Chapter 4 will serve to foster comparability across Funds so that timing consistent with SOP-07-1 is not appropriate. The Council and Board think the issuance of the adopting release at this time affords ample opportunity for compliance by the effective date.*

4.B.4. **Require comparisons to stipulated benchmarks (4.11):** A benchmark is an independent rate of return (or hurdle rate) forming an objective test of the effective implementation of an investment strategy. The purpose for requiring a Benchmark is to allow the investor to compare the risk and performance of the Fund. Not all Funds have stipulated benchmarks. For Funds with stipulated benchmarks, Chapter 4 requires benchmark comparisons to be prepared no less frequently than annually. For those Funds where benchmarks have not been stipulated, Chapter 4 requires specific disclosure as to

why benchmarks are not presented. Should the standards require annual reporting of a benchmark comparison if a benchmark is stipulated? Should the standards require specific disclosure as to why benchmarks are not presented for a Fund? Should benchmark comparisons be recommended versus required?

*Most respondents agreed that the standards should require (not recommend) the annual reporting of a benchmark comparison if a benchmark is stipulated. Some dissenting views indicated that benchmark reporting should be recommended rather than required, because benchmarks are frequently not available. One respondent who answered no thought the requirement was impractical as the report which contained the information would follow long after this information was reported to and evaluated by the client and consultants. One respondent who answered no thought that benchmarks should be determined by the investor. The Council and Board thought that benchmark comparisons were an important measure of Fund performance as compared to stated objectives and should therefore be required if stipulated.*

*Most respondents did not agree that the standard should require specific disclosure why benchmarks are not presented for a Fund. The respondents who did not want this disclosure thought if investors and/or fund documents didn't stipulate one there should be no reason to account for the lack of a requirement. One respondent that said yes indicated that REIS should provide guidance with respect to appropriate wording. One respondent who responded no thought that the requirement should be a recommendation only. The Council and Board noted that specific disclosure of why benchmarks are not presented for a Fund is a requirement for composite disclosure reporting within the Global Investment Performance Standards (GIPS)- the foundational standard for performance reporting within REIS. Based upon comments received, the requirement was modified so that a Fund need only disclose that it does not have a stipulated benchmark if one is not presented. In addition, a performance measurement task force has been established within REIS which is expected to provide additional guidance for appropriate benchmark disclosures.*

**4.B.5. Minimum requirement for quarterly condensed and annual comprehensive Fair Value GAAP financial statements (4.13, 4.14):** Chapter 4 requires each Fund to present, at a minimum, condensed U.S. Fair Value GAAP based financial statements quarterly and to present comprehensive U.S. Fair Value GAAP based financial statements and footnotes (including a schedule of investments and a valuation policy statement) on an annual basis. Should all Funds be required to present, at a minimum, condensed U.S. Fair Value GAAP based financial statements quarterly and comprehensive U.S. Fair Value GAAP based financial statements annually in its Fund reports? Should all Funds be required to present a schedule of investments annually? Should all Funds be required to report all of the information elements presented on the proposed Schedule of Investments? Are there additional elements which should also be required? Is the materiality limit of separate disclosure of the 20 largest investments and each investment representing 5% or more of Net Asset Value appropriate?

*Most respondents agreed that all Funds should be required to present, at a minimum, condensed U.S. Fair Value GAAP based financial statements quarterly and comprehensive U.S. Fair Value*

*GAAP based financial statements and footnotes on an annual basis. Some respondents said no because their primary basis of accounting is not U.S. Fair Value GAAP but rather historical cost and supplemental reporting was used to generate fair value financial statements which the respondents thought should satisfy the requirement. The Council and Board agreed. Accordingly, the requirement was modified to indicate that the reference to GAAP based fair value financial statements does not suggest that an entity must qualify under U.S. GAAP to report investments at fair value. The requirement can be satisfied using a Fund's primary financial statements or a combination of primary financial statements and supplemental financial information. Consistent with the recommendation in Chapter 2, Accounting, Chapter 4 reiterates that position to recommend annual financial statement audits and the corresponding audit opinion should be included in the Fund Report. (See also 7 below.)*

*Respondents overwhelmingly agreed that a schedule of investments should be prepared. Some yes respondents indicated that this information should be disclosed quarterly. One of the respondents who indicated yes said there may be situations (such as a fund in liquidation) when selected information should be kept confidential. The respondent who answered no indicated that it should be made available upon request but there may be some issues associated with the Freedom of Information Act. The Council and Board noted that a schedule of investments was generally required for U.S. GAAP reporting purposes or included as additional information.*

*Most respondents agreed that all the information elements presented should be required. The respondents that answered no expressed concerns about specific fields of data or they expressed concern to disclose any fields that were not required by GAAP or could not be subjected to independent verification. Based upon feedback received, the Council and Board made the following changes to the schedule of investments: 1) a fund identifier can be used in lieu of an investment name; 2) current year cost is eliminated as the information is not relevant within the context of fair value financial statements; 3) Acquisition Date can be reported as a year or an actual date; 4) location can allow for disclosure of MSA; and 4) it should be noted that the investment size disclosure is unaudited.*

*Some respondents included suggestions for additional elements to be added to the Schedule of Investments. The REIS Council and Board will consider these additional elements in future versions of the Fund Reporting Standards. Respondents also suggested that the Schedule of Investments should include anything required by GAAP and exclude anything not required by GAAP. The Council and Board have noted that different GAAP models are used in our industry and all may not require presentation of a Schedule of Investments. In order to provide useful, comparable information to investors and other report users, the Council and Board thought it was prudent to require the elements commonly disclosed when a Schedule of Investments is presented.*

*The response was split with respect to the materiality limit. Some indicated it was acceptable, some indicated that all investments should be presented and some indicated that the limit should be based on either the top 20 or 5%. The Council and Board noted that all investments are required to be disclosed within SEC filings. After significant discussion, the Council and Board concluded that annually, at a minimum, the Schedule of Investments must include every investment.*

- 4.B.6. **Management discussion of performance relative to stated objectives recommended (4.20)**: Based upon the feedback received from comment letters on Version 1, the Council and Board recommends that the quarterly Fund Reports contain a management discussion of performance relative to stated objectives. This discussion will serve to enhance and/or supplement benchmark reporting requirements. Should a management discussion of performance relative to objectives be a quarterly recommendation within REIS? Should the management discussion of performance relative to objectives be required vs. recommended? Should REIS establish specific elements which should be disclosed in the discussion? If so, please describe.

*The respondents were split nearly evenly as to whether the management discussion should be required or recommended. The Council and Board will continue to evaluate this response and consider it as a requirement within a future version of Chapter 4. For this version, the management discussion will be recommended. The respondents were also split as to whether REIS should establish specific elements to be included in the discussion. In some cases it was indicated that REIS should provide guidance in this area. Suggested elements were: micro and macro market analysis; performance and appropriate comparisons; strategy and operating results. This information will be considered in a future update to Chapter 4 or as additional guidance.*

- 4.B.7. **Verification of individual partner capital accounts recommended to be included in annual audit procedures (4.23)**: Currently, Fund agreements can provide for capital allocations between investors which may not be pro-rata. Such allocation differences stem from different sources (e.g. capital contribution hurdles; differing fee arrangements; timing of entrance and exit, etc.) and may become complex. Based upon the feedback received from the Plan Sponsor Community on Version 1, the Council and Board thought it was appropriate to recommend that the manager of each Fund sponsor an independent, third party verification (either as part of an annual audit opinion or by separate agreed upon procedures report) of the allocation of capital accounts between each class of investors (including, as in the case with partnerships, the general partner(s) and each class of limited partners) in order to determine that such allocations have been performed in accordance with the Fund documents (e.g. Partnership agreement). Do you think that the independent, third party verification of partner/investor capital accounts should be **recommended** within the Fund Reporting Standards? Provide specific comments to support your answer. Do you think that the independent, third party verification of partner/investor capital accounts should be **required** within the Fund Reporting Standards? Provide specific comments to support your answer.

*Responses received varied. The answers were nearly split between yes and no and several respondents indicated that the verifications should be neither recommended nor required. One respondent who answered that the verification should be required indicated that it should be at the investor class level only. Those who did not think the verification should be either required or recommended noted cost consideration, the practicality for closed end funds where entry and exit is restricted and the legal issues surrounding disclosure of specific investor information within a Fund Report. Based upon feedback received and further discussion, the Council and*

Board clarified this recommendation. Feedback received from plan sponsor community indicated that the calculation or identification of such information can be very difficult or impossible without supplemental information included in the Fund Report. Accordingly, the recommendation notes that a statement of changes in members' equity/partner's capital or statements of changes in net assets is included within the audited financial statements (see 5 above) and are required by U.S. GAAP to present each class of investor (in the aggregate). For non-unitized funds (i.e., funds which do not have units specifically called for in the governing underlying legal or offering documents), it is also recommended that a supplemental schedule of changes in individual investor capital accounts be included and subjected to the audit procedures conducted described in [Statement of Auditing Standards #29, Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents \(AU 551\)](#). Such audit procedures consider whether the statement of changes in individual partner's capital accounts is fairly stated in comparison to the primary financial statements taken as a whole. This schedule is not necessary for unitized funds as the investor's share of the fund can be determined by multiplying the units outstanding by the unit value of the fund. It should be noted that individual investor's names need not be included on the schedule, but rather an identifying account number can be provided. The Council and Board concluded that investors should have ready access to their share of the market value of a Fund within a Fund Report as investors are generally required to report all plan assets (including real estate) at market value in each reporting period.

4.B.8. **Disclosure of open-end fund total commitments and total redemption requests recommended (4.33, 4.35):** Open-end funds are required by GAAP to disclose the amount of redemptions it paid out quarterly. GAAP does not require Funds to disclose the amount of redemptions which have been requested in writing but remain unpaid (i.e., the queue). Similarly, open-end funds are not required by GAAP to disclose the Commitment Queue. Based upon feedback received from Version 1, the Council and Board recommends that all open-end funds disclose both the commitment and redemption queue as an additional measure of the fund's performance. Do you agree that Fund Reporting Standards should include a recommendation to disclose the commitment and redemption queues for open-end funds? Should the Fund reporting standard *require* (versus recommend) disclosure of the commitment and redemption queue?

*Responses to this question varied. Most respondents indicated that the standard should be either required or recommended with nearly an equal number on each side. Some respondents indicated that the element should not be required or recommended. Legal reasons and/or concern for recommending disclosures which were in addition to those required by U.S. GAAP were most commonly cited as the reason why the queues should not be required or recommended. The Council and Board discussed that the intent of the disclosures were to provide an indication of the aggregate total dollar amount of contractual capital subscriptions not yet contributed to a Fund as of the reporting date and the aggregate total dollar amount of formal requests for redemption which have been received from investors to redeem out of a Fund but that have not been fulfilled as of the end of the reporting period. Accordingly, the notion of a queue was omitted and the elements were renamed "Total Commitments" and "Total Redemption Requests" for commitments and redemptions, respectively to clarify any misunderstanding that the information was to be provided by investor. In accordance with the*

*feedback received the disclosures should indicate what portion of the commitment and redemption amounts reported are revocable.*

4.B.9. **Substantial support for required and recommended practices as presented:** As part of the public comment process the Council and Board sought any additional comments on the individual provisions of the proposed Fund Reporting Standards and on the aggregate impact of the Chapter. Are the definitions and calculations for each required and recommended element reasonable? Are these required elements currently utilized within your Fund reports? Specifically address (using paragraph numbers for reference) any elements which should not be required, recommended, or both and provide reasons to support your answer. Are there any elements which should be required or recommended which are not? Describe reasons to support your answer and provide definitions for any elements you are proposing. Would any of the proposed minimum **required** standards presented (either individually or in aggregate) cause you to forego compliance with REIS for a given Fund's quarterly report? If so, please specify which standards and why.

*As a result of some of the feedback received, the following definitions were clarified: Fund name (4.05); Fund Inception Date (4.07); gross and net of fees (time-weighted returns and IRR) (see 4.10) and the leverage percentage (4.21). The Fund name was changed to allow for an identifier, rather than the legal name of the Fund. The Fund Inception Date was changed to the date of the first significant operating, financing or investing activity into the Fund as certain Funds have significant activity before the first capital is called. Gross of Fees was clarified so that the Fund Report clearly discloses what types of fees are deducted from the gross return to arrive at the net return (e.g., advisory fees, incentive fees, incentive allocations, carried interests, promotes, etc.). The Council and Board recognize the importance of disclosure of the leverage percentage, yet also recognizes that the formulas used to calculate such a percentage may vary among Funds. Therefore, the element was changed to require disclosure of the calculation methodology used when this recommended element is included in the Fund Report. It is expected that subsequent versions of Chapter 4 may further expand upon disclosure elements for leverage.*

*In isolated instances, respondents indicated that the following elements should be eliminated: 1) Fund Style and Strategy (required ) a) as these elements are vetted within the fund's marketing and offering materials and b) better objective measures of risk should be developed; 2) only Fund Level total Time-weighted Return (TWR) or Since Inception IRR (SI-IRR) should be required for closed-end funds – requiring both is confusing and causes a resource drain; 3) SI-IRR should be recommended rather than required for closed-end funds; 4) in order to mirror the GIPS Standards, either gross or net of fee TWR should be required with appropriate disclosure; 5) multiples should only be recommended after further vetting within the Council and Board and NCREIF Standing Committees. Except for the disclosure of Fund Style and Strategy, it should be noted that respondents who provided this information did not indicate they would forego REIS compliance if such elements became a part of the standards. The REIS Council and Board noted that the GIPS Standards require disclosure of investment strategy definitions, and TWR gross of fees. The GIPS Standards recommend disclosure of TWR net of fees and SI-IRR for closed-end funds. In addition, the Private Equity Chapter of the GIPS Standards require disclosure of the*

*multiples which are recommended in Chapter 4. As the GIPS Standards are the Foundational standard within REIS for performance measurement, the Council and Board concluded that these disclosures should remain a part of the standard.*

*Some respondents submitted additional elements for consideration within the Fund Reporting Standards which had not been considered in either this Chapter 4 or Version 1. The REIS Council and Board are expected to consider this information in future updates to Chapter 4.*

*Except as noted with respect to Fund Style and Strategy above, one respondent indicated that they would forego REIS compliance if condensed financial statements were required as the respondent indicated that such information was not necessary. Another respondent indicated that they would forego REIS compliance if benchmarks comparisons were required. As indicated above, there was substantial support for these elements and as a result the disclosures remained unchanged.*