



Real Estate Information Standards (REIS)

July 8, 2009

Technical Director, FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference: Proposed FSP FAS 157-g.

SENT VIA EMAIL – director@fasb.org

Dear Technical Director:

The Real Estate Information Standards (REIS) Council appreciates the opportunity to provide our response on the proposed FSP FAS 157-g, *Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value per Share in Accordance with the AICPA Audit and Accounting Guide, Investment Companies* (the “FSP”).

Responding Organization

The REIS standards were first published in 1995 in collaboration with the National Council of Real Estate Investment Fiduciaries, the Pension Real Estate Association, and the National Association of Real Estate Investment Managers in order to provide standards for calculating, presenting and reporting investment results to the institutional real estate investment industry. The REIS Council is responsible for establishing transparency and open involvement in the REIS process and for communicating its activities to the industry. Our industry investors consist primarily of tax-exempt pension funds that own equity interests in the estimated \$750 billion of commercial real estate and real estate related investments held by real estate investment vehicles of which we estimate approximately one half of such property is financed with commercial mortgage financing.

The REIS standards represent an effort to codify a single set of desired industry practices and to improve standardization of valuation procedures, fair value financial accounting and reporting, and reporting of investment performance return information. The REIS standards play an important part in the overall efficiency of the real estate investment industry as consistency, comparability and transparency are critical for institutional investors to make efficient and sound investment decisions regarding their investments, investment managers,

**Two Prudential Plaza
180 N. Stetson Ave., Suite 2515
Chicago, IL 60601
312.819.5890**

and the asset class. The REIS standards depend upon, and are intended to supplement and in some cases, clarify, but not replace other established standards from authorized bodies including, but not limited to, valuation standards established through Uniform Standards of Professional Appraisal Practice (USPAP), accounting standards established by Generally Accepted Accounting Principles (GAAP) and the performance measurement and reporting standards known as the Global Investment Performance Standards (GIPS).

In general, we are supportive of provisions of the FSP and offer the following responses to the Board's request to provide comments on the proposed FSP. Please note that we reiterated the FASB's original questions in italics.

1. This proposed FSP would apply to an investment in an entity that meets the definition of an investment company in the investment companies Guide for which its net asset value per share (or its equivalent, for example, partners' capital per share for an investment in a partnership) has been calculated in accordance with that Guide. However, this proposed FSP would not apply if the fair value of the investment is readily determinable as defined in paragraph 3 of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (with one exception described in paragraph 13 of this proposed FSP). Do you believe there are other investments that should be within the scope of this proposed FSP? If so, what principle should be used to determine which investments are within the scope of the proposed FSP? Do you agree that the Board should not permit the application of the proposed FSP to investments in entities that have readily determinable fair values as defined in paragraph 3 of Statement 115? Are there other investments that the Board should exclude from the scope of this proposed FSP?

We believe there are other investments that are similar in nature to those that are scoped into the FSP that should be included in the scope of the FSP. For example, some private real estate investment funds trade or report on net asset value (NAV). This NAV is also derived under fair value precepts, but follows fair value investment concepts of Statement 35 *Accounting and Reporting by Defined Benefit Pension Plans* (FASB 35) and GASB Statement 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB 25). These funds calculate NAV, and operate in all material respects, similar to those funds scoped into the AICPA Investment Company Guide. The significant theoretical difference between funds that achieve fair value accounting under FASB 35 or GASB 25 and funds accounted for under the AICPA Investment Company Guide relate to financial reporting presentation. We therefore strongly believe this other investment vehicle should be included in the scope of the FSP to ensure comparability in reporting similar investment vehicles by investors for our real estate asset class.

We agree with the Board that investments in entities that have readily determinable fair values as defined in paragraph 3 of Statement 115 should be the only investments excluded from the FSP as those level of inputs are exchange-based, rather than, based on unobservable inputs under Statement 157 *Fair Value Measurements*.

2. Are there circumstances in which an investment might initially have a readily determinable fair value and in a subsequent period not have a readily determinable fair value (and thus arguably become eligible for the practical expedient)? If so, please describe those circumstances. In those circumstances, should the investment be eligible for the practical expedient even though the investor may not be able to transact with the investee (fund) at net asset value per share?

Yes, there may be circumstances when a real estate investment may have a readily determinable fair value (e.g., listed on a national exchange) and in a subsequent period not have a readily determinable fair value. An example may be an investment in a publicly traded real estate investment trust (REIT) which is taken private and no longer traded on a national exchange. In those circumstances, the structure of the newly formed private REIT would likely take the form of an “alternative investment” as defined in Section 4 of the FSP, and therefore the investor would be provided their net asset value per share or its equivalent. In this circumstance, the investment would be eligible for the practical expedient as the net asset value per share is the most relevant estimate of fair value available that would not require undue cost and effort.

3. The Board also considered alternative approaches to the scope of this proposed FSP. One approach would have indicated that a condition to using the practical expedient is that the primary means to enter and exit the investment is transactions (for example, redemptions or distributions) between the investor and the investee (that is, the fund) at net asset value per share. Another approach would have indicated that a condition to using the practical expedient is that the principal or most advantageous market for the investment is transactions (for example, redemptions or distributions) between the investor and the fund at net asset value per share. Do you believe the Board should pursue one of the alternative approaches instead of the approach taken in this proposed FSP? If so why?

We believe the approach taken in the FSP is appropriate for the private real estate industry because the funds trade (either in the primary or secondary market) on NAV, primarily based on the underlying investments in real estate, measured at fair value.

4. The Board recognizes that permitting rather than requiring the application of this proposed FSP for entities within its scope potentially reduces comparability. The Board decided to permit rather than require that reporting entities apply this proposed FSP to investments within its scope, in part, to avoid potential conflicts with the “good faith” requirements of the Investment

Company Act of 1940 and Accounting Series Releases No. 113, Statement Regarding “Restricted Securities,” and No. 118, Accounting for Investment Securities by Registered Investment Companies. Do you agree with the Board’s decision to permit rather than require the application of this proposed FSP? Are there any other unintended consequences of requiring the application of this proposed FSP to investments within its scope?

We agree with the Board’s decision to permit rather than require the application of this proposed FSP. We believe there are circumstances that may warrant an investor (or reporting entity) that has investments that are scoped into the FSP to adjust the net asset value per share

(or its equivalent). For instance, if a reporting entity (e.g. a commingled fund) does not elect to fair value debt (e.g. mortgage property level or unsecured credit lines at fund level) under Statement 159 *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* and the investor's accounting policy is to elect the fair value option on all its eligible financial instruments, the investor may desire to adjust NAV to account for these policy differences to achieve consistency in their own financial reporting. If the Board requires "practical expediency", there is a risk that the unadjusted NAV does not reflect the investor's determination of the fair value of their investment in accordance with Statement 157.

The REIS Board and Council have conducted extensive research and debate on the application of overall fair value principles for the institutional real estate investment industry. We have noted that there is widespread inconsistency in the application of these principles and think that, unless and until these differences are resolved, the real estate investment industry should have the flexibility to adopt a principles based, rather than formulaic approach, to fair value measures and provide adequate disclosures so that the results can be prudently interpreted. Therefore, we think the "practical expediency" should only be recommended, rather than required.

5. Are the disclosure requirements of this proposed FSP operational? Should the Board require all of the disclosure by major category (or should it permit some of them on a more aggregated basis)? If the final FSP is effective upon issuance (for example, assume issuance is July 31, 2009), can the disclosures be provided for prior periods for which financial statements have not been issued? Are there other disclosures that the Board should consider requiring?

We believe disclosure requirements a-d and f in paragraph 16 of the FSP appear operational and prudent for an investor to understand the nature and risks of their underlying investments. However, we believe that the disclosure requirement e in paragraph 16 of the FSP to estimate the lapse of restriction against redemption could be difficult to obtain from the management of the underlying investment. In addition, there is a risk that investors could be misled as to the actual timing of the liquidity of their investment, especially in these volatile financial markets. Given the proposed timing of the FSP, we would recommend that the adoption of this FSP be prospective and therefore commence on the first reporting period ending after December 15, 2009. We believe that the original adoption provisions of the FSP may be too onerous for some investors to adopt for any financial statements that have not been issued; including the interim period ended June 30, 2009 to meet any pre-established reporting deadlines. We would not be opposed to the FASB encouraging early adoption of the FSP upon issuance. In addition, obtaining timely information from the underlying investment could be problematic to satisfy the disclosure requirement e in paragraph 16 of the FSP as the information may not be available until after the investor reporting timeframes.

We appreciate the invitation to comment on this complex matter and would like to express our gratitude to the ongoing efforts of the FASB. If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Marybeth Kronenwetter, REIS Administrator via e-mail at (Marybeth@ncreif.org) or phone at (630) 469-4088.

Very truly yours,

A handwritten signature in black ink that reads "Kenny Smith". The signature is written in a cursive style with a large, stylized "K" and "S".

Kenny Smith
Chair, Real Estate Information Standards Council