



## **Real Estate Information Standards (REIS)**

September 1, 2010

Technical Director  
File Reference No. 1830-100  
Financial Accounting Standards Board  
401 Merritt 7  
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**Proposed Accounting Standards Update, “Fair Value Measurements and Disclosures-Amendments for Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS” (Topic 820)**

### **File Reference No. 1830-100**

Dear Sir/Madam:

We appreciate the opportunity to provide comments to the Financial Accounting Standards Board (FASB or the Board) in response to the Proposed Accounting Standards Update to Topic 820 (Fair Value Measurements and Disclosures – Amendments for Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS (the proposed ASU)). We generally support the Board's effort to improve upon the existing fair value measurement and disclosure guidance under Topic 820. We believe that meaningful transparent disclosures regarding fair value measurements will serve to increase investor confidence in financial reporting. We however do have certain concerns with respect to the requirements outlined in the proposed ASU pertaining to the sensitivity for Level 3 measurements.

### **Responding Organization**

The Real Estate Information Standards (“REIS”) 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 Board is an established body which serves as the official governing body of REIS and provides leadership and expertise in establishing REIS as authoritative and verifiable for the institutional 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 an estimated \$750 billion of commercial real estate and

real estate related investments 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 prudent investment decisions regarding their investments, investment managers, 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).

### **Response to Proposed ASU**

We believe, that given the subjective nature of fair value measurements determined under Level 3 reporting, providing additional disclosures would not necessarily enable the users to better assess these measurements and might serve to confuse or have the information misunderstood. By definition, all Level 3 measurements are derived from unobservable inputs as defined in ASU 820. In practice, however, not all Level 3 measurements are inherently judgmental. A range of reasonable amounts could likely exist. With certain asset classes there are market information/forces that do exist to help one derive a measure of fair value that would be supportable in the market place (i.e., one that a market participant as defined in Topic 820 would use). ASC 820 has the objective to determine the point that is most representative of fair value under current market conditions. Topic 820 also provides for the preparer to provide disclosure information as to the approach or method one uses to arrive at that value. The proposed ASU would require entities to disclose additional information based on the change in significant inputs thus providing other reasonable alternatives to the fair value presented in the financial statements. The goal seems to be to provide users with additional ranges of values that management might have considered in determining the ultimate value used and reported on by the entity. We believe that this would be a cause of confusion for the user of the financial statement and an added source of confusion that does not now exist.

The need to disclose the basis for arriving at the value and an indication that judgment is necessary in interpreting market data is clearly there. Also the need to indicate that the amount ultimately to be realized could only occur in an actual market exchange and may vary from the estimated fair value presented must be disclosed.

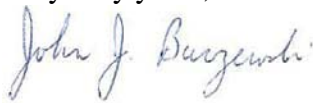
We believe that the determination of other reasonable possible alternative inputs could also be subjective and therefore could result in a number that provides no better information. Further, providing these alternative sensitivity disclosures may have the unintended consequences of

providing what may be misunderstood to be the worst case or best case scenario an outcome we suspect would be not at all what the FASB had intended.

We suggest that the board consider revising the proposed ASU to provide for more narrative disclosures about the inputs and methods used to arrive at the fair value vs. providing additional possible alternative values. With respect to the complexity of valuing real estate, values are derived by taking the various methods of valuation, cost, market and/or income to conclude on the value of a particular property. Each valuation method requires multiple inputs and assumptions. For example, the discounted cash flow approach alone utilizes inputs such as tenant turnover, current and projected vacancy rates, market rent, operating costs, tenant reimbursements, tenant improvements and leasing commissions, leverage assumptions, holding period and exit cap rates. The property type, geographic location and sub-market also have varying levels of impact on the value of a property. When evaluating a portfolio of real estate that consists of multiple properties, the number of inputs becomes significant. Further, each of these assumptions are not viewed by the valuer in a vacuum, but rather are interdependent upon one another. For example, the conclusion of a discount rate considers the valuer's perception of the market's risk corresponding with the assumptions embodied within the cash flow. Providing an alternative value would involve calibrating all other adjustments to correspond with a revised discount rate. To alter only the discount rate in this situation would provide a misleading value that would fail to consider these interdependent variables. A disclosure that would try to contemplate all of these complexities would be extremely difficult and could be confusing to the users of the financial statements.

We would be pleased to discuss our comments with the Board members or the FASB at your convenience. Should you wish to discuss the contents of this letter with us, please feel free to contact John Baczewski at 978-887-3750.

Very truly yours,

A handwritten signature in cursive script that reads "John J. Baczewski".

John Baczewski  
REIS Board Chair