February 15, 2012

Financial Accounting Standards Board
Technical Director - File Reference No. 2011-200
Financial Accounting Standards Board
401 Merritt 7 - PO Box 5116
Norwalk, CT 06856-5116


Dear Board Members:

This letter represents the Real Estate Information Standards (“REIS”) Board’s comments on behalf of the members of the National Council of Real Estate Investment Fiduciaries” (“NCREIF”) and Pension Real Estate Association (“PREA”) to the Financial Accounting Standards Board (“FASB”) regarding the exposure draft, Financial Services – Investment Companies, Amendments to the Scope, Measurement, and Disclosure Requirements (Topic 946). Our comments also reference the release of the FASB’s exposure draft Real Estate – Investment Property Entities (Topic 973) and the International Accounting Standards Board’s (“IASB”) exposure draft, Investment Entities and our comment letters associated with them. In our opinion, it is imperative that the FASB and IASB align their thinking on a consistent basis globally regarding what constitutes Investment Companies/Entities and Investment Property Entities and how these entities should report their investment holdings. We urge the development of a single, global, principles-based, investment company accounting standard which results in comparable and consistent net asset values calculated on a fair-value basis and presented in a meaningful manner to investors.

Provided that the FASB embraces principles-based concepts to both scoping and reporting and because we are already substantially aligned with the qualifying criteria proposed in Topic 946, we are confident that global GAAP based comparable and consistently calculated fair-value net asset value (FV NAV) financial statements can be achieved. As this fundamental objective is not achieved within proposed Topic 973 for our industry, we have respectfully rejected that proposal in a separate response letter (the “IPE Response”), which should be read in conjunction with this response and is attached as Appendix 3.

We acknowledge the efforts by the FASB to issue fair-value accounting guidance for the real estate industry and have greatly appreciated the FASB’s willingness to engage in ongoing dialogue with us throughout the process, including the opportunity to discuss the proposed standards with the FASB Staff at the November 2011 NCREIF conference. We want this dialogue to continue as we anticipate additional challenges will lie ahead before the full incorporation of the private institutional equity real estate investment industry financial information with that of all other investment companies will be realized.

Our comments throughout the process have been and will continue to be directed toward achieving comparable net asset values calculated on a fair-value basis which are presented in a meaningful manner. Anything short of that goal for our industry results in financial statements and resulting performance measurements that are neither meaningful nor useful to the investors and other end users of the financial statements.
The Responding Organization

The REIS initiative is sponsored by NCREIF and PREA to develop, refine and integrate each of the standards within the Foundational Standards\(^1\) and provides interpretive guidance concerning their application within the private institutional real estate investment industry. NCREIF is an association of institutional real estate professionals which includes investment managers, plan sponsors (i.e. pension funds and endowments), academicians, consultants, public accountants and other service providers who share a common interest in the industry of private institutional real estate investment. NCREIF serves the institutional real estate community as an unbiased collector and disseminator of real estate performance information. NCREIF produces several quarterly indices that show real estate performance returns using data submitted by its members, most notably the NCREIF property index (NPI) and the NCREIF open end diversified core equity index (ODCE). PREA is a nonprofit organization whose members are engaged in the investment of tax-exempt pension and endowment funds into real estate assets. PREA's mission is to serve its members engaged in institutional real estate investments through the sponsorship of objective forums for education, research initiatives, membership interaction, and information exchange. Collectively the organizations represent the institutional real estate community consisting of over 9,000 investment properties with a fair value of approximately $350 billion.

Although two fair-value presentation and reporting models (generally a gross and net presentation) are utilized in our industry, the REIS Board and Council diligently and continuously work within an established GAAP framework to ensure that the resulting funds' net asset values are calculated on a consistent fair-value basis and the resulting returns generated from the underlying financial information under either model, are comparable. As noted herein, we urge continuation of these practices as they provide the information investors need to analyze widely divergent fund strategies and structures in order to make informed decisions.

Background on Fair-Value Reporting in Our Industry

Private institutional real estate investments are structured in a variety of ways including, but not limited to: fee simple interests, joint ventures, partnerships, pooled investment vehicles, single purpose entities, participating mortgages, mortgage receivables, CMBS, RMBS, and mezzanine loans. Ownership is primarily held in open-end and closed-end commingled funds and single investor (client) funds (accounts).

Regardless of the various strategies or various legal structures created to hold these assets, fund and investment performance must be measured holistically on a fair-value basis and calculated consistently across all investment vehicles. This information is critically important to investors and other users of the financial statements. Audited results that support the performance measurement calculations provide the much needed assurance to investors that those performance measures are accurate. Primary Fair-Value Net Asset Value ("FVNAV") financial statements, which are often subject to audit, calculated on a consistent and comparable basis are critical to investors, consultants, investment managers and other financial statement users primarily for the following reasons:

- Fair-value accounting is critical to industry-related performance measurement including industry benchmarks (i.e. NCREIF Indices) and the Global Investment Performance Standards ("GIPS")
- Although private real estate funds do not trade shares on an exchange, its investors (many of whom are identical to those invested in publicly traded funds) do trade shares in funds (particularly open-end funds) based on FVNAV. Therefore, FVNAV results are used to make subscription and redemption (buy/sell) decisions
- Investment decisions are primarily driven by a total return (comprised of income and appreciation return components) that can only be derived from the underlying FVNAV
- Institutional investors who are also pension plans, are required by ERISA to measure plan assets at fair value in order to determine settlement value of the plan
- Investments are managed and evaluated on a fair-value basis

\(^1\) Within REIS, Foundational Standards include U.S. Generally Accepted Accounting Principles, the Global Investment Performance Standards and the Uniform Standards of Professional Appraisal Practice.
• The fair value of investments is used to determine portfolio diversification/allocation (e.g. stocks, bonds, real estate) made by institutional investors.

• A fair-value accounting model improves transparency to financial statement users by providing financial results indicative of current market conditions.

• Comparability of audited fair-value results across real estate investment property type, structure, and strategy (i.e. core, value-add, opportunistic, or mixed) is essential to investors.

• Consistent fair-value accounting application to net asset value creates comparability of real estate with other investable asset classes, that are typically reported to investors at an exchange traded value.

• Institutional investors are able to evaluate and compare the performance of potential investment managers.

In 1983, in response to the needs of the investor community, the NCREIF Accounting Committee developed guidelines for fair-value accounting to be used by the institutional real estate investment industry. These guidelines, now known as the REIS Fair-Value Accounting Policy, are continuously reviewed and updated by the REIS Council to align with changes to U.S. GAAP. The fundamental premise for fair value is based on existing GAAP identified in Accounting Standards Codification (“ASC”) Topic 960, Plan Accounting – Define Benefit Pension Plans (i.e. former FASB Statement of Financial Accounting Standards No. 35) and Governmental Accounting Standards Board (“GASB 25”), Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, which require that certain investments held by tax-exempt investors, including defined benefit pension plans and endowments be reported at fair value. For example, Topic 960 which applies to corporate plans, requires that all plan investments be reported at fair value because it provides the most relevant information about the resources of a plan and its present and future ability to pay benefits when due. In addition, GASB 25 requires government-sponsored pension plans to present investments at fair value in their financial statements. Defined benefit and government-sponsored pension plans often invest in various real estate investments and/or real estate companies. Accordingly, the more traditional historical cost basis of accounting used by other real estate companies, owners, and operators is not appropriate; as it does not provide tax-exempt investors with the financial information they require in order to comply with authoritative accounting standards and is not viewed as a faithful representation of their investment activity.

Additionally, over the years, investments made by fund managers have become increasingly complex and it has become apparent that many of these funds have attributes similar to those of an “investment company,” as set forth in Topic 946, Financial Services – Investment Companies, (former AICPA Audit and Accounting Guide: Investment Companies). This authoritative guidance supports the use of a fair-value accounting model for those real estate funds that have the attributes of an investment company resulting in certain real estate funds in our industry following the current accounting guidance provided by ASC Topic 946.

The requirements for reporting and measuring mortgage debt for a real estate fund should be identical across all real estate funds. Any debt associated with the investment should be given consideration in determining the FVNAV of that investment or in aggregate across a fund as a whole. We recommend that the FASB give careful consideration to this issue as it relates to the FVNAV concept in the real estate industry.

**REIS Board’s Opinion on the Proposed Amendments to Topic 946: Investment Companies**

The REIS Board thinks that the amendments proposed by the FASB for ASC Topic 946 would provide a reasonable accounting model for the private institutional real estate investment industry subject to the following modifications:

• Global convergence with the proposed IFRS *Investment Entities* must be attained

• Scoping criteria must be principles-based and indifferent to fund structure, style or strategy in order to provide for FVNAV for our entire industry

• Indices, benchmarks, and related legacy performance measures must be preserved
- Principles-based reporting which provides for alternative revenue recognition and presentation models driven by factors such as fund strategy, structure, management, and investors’ needs

Our detailed comments are provided below.

**Global Convergence**

On January 5, 2012, the REIS Board submitted its comments to the IASB on the proposed accounting standard, *Investment Entities*. Our response is included herein as Appendix 4. Our comments noted inconsistencies between the amendments proposed for Topic 946 and the IASB position. Rather, the IASB’s position was more aligned with the existing Topic 946. As global convergence is warranted and imminent, we urge convergence of views as the first step to achieving a single global standard for investment companies.

Additionally, as it concerns real estate property investments held outside of investment companies, as part of the overall convergence efforts we encourage the FASB to consider providing the ability to measure real estate properties acquired for investment purposes at fair value, similar to International Accounting Standard 40, Investment Property (IAS 40) with the changes noted in Topic 946 for the recording of income and elimination of the option.

**Scoping Criteria**

**General considerations**

In today’s global capital markets there are a wide variety of non-exchange traded real estate investment vehicles (e.g. commingled funds and single investor funds) that invest in a wide range of real estate and real estate related investments spanning the spectrum of public and private debt and equity investments. Such investments include a diverse array of controlling, non-controlling and partial interests in various types of real estate. A high-quality FVNAV measure that is comparable among investment vehicles is of the utmost importance because of the manner in which the FVNAV measure influences the placement of investor capital in those investment structures. Therefore, we strongly support principles-based scoping criteria which are indifferent to investment structure, style or strategy. We think that any proposed accounting standard that reduces the quality and comparability of the FVNAV measurement, because the fund structure, style, or strategy scopes some investments out of fair-value treatment, will be poorly received by the investment community due to the negative impact on performance assessment and the ability to make informed investment decisions.

**Single Investor Funds**

We note that the proposed amendments within Topic 946 preclude single investor funds from investment company treatment. To appropriately scope in the single investor funds, it is imperative that an exemption from the unit-ownership and pooling-of-funds criteria, similar to what was proposed in the IPE Exposure Draft, be made available to certain subsidiary entities where the parent otherwise funds for substantially all of its assets on a fair-value basis. These include, but are not limited to, entities that (a) have a parent entity that is required to account for its investments at fair value with all changes in fair value recognized in net income in accordance with US GAAP or (b) have a parent entity that is a not-for-profit entity under Topic 958 that measures its investments at fair value.

**Various Investment Strategies**

Investments made within the private real estate industry include: direct and indirect ownership of real estate and real estate related properties; and traditional core, value added and opportunistic investment strategies. Many institutionally sponsored real estate investment funds diversify investments based on a number of variables such as: market conditions, investor liquidity requirements, or performance return objectives. Various forms of pools, exchanges, and ownership share structures exist to deal with issues around the transaction liquidity and the financial and tax-driven needs of the investors. An investor may determine that each of the various equity
real estate investment vehicles or property types presents a unique risk/return solution for different portions of their portfolio. Varying investment structures provide investors the mechanisms to access investments in an off-market situation when the trading of the underlying asset is not particularly liquid. It is customary for a fund to hold a partial investment in an investment property by acquiring: i) a non-controlling financial interest in a special purpose vehicle such as a joint venture, limited partnership or limited liability company that owns the property; or ii) assume a debt position such as a mortgage receivable, participating mortgage, CMBS, or RMBS, or investment in a non-traditional property type such as a hotel or senior living property. Similar in nearly every respect to a wholly-owned, direct ownership, each of these investments is dependent on the underlying real estate for the generation of returns to the investors and they are each managed, evaluated, and reported on a fair-value basis. As stated above, our fundamental objective is to provide investors audited financial statements accounted for on a full, fair-value basis (including the resulting FVNAV) which are comparable regardless of investment styles, structures or strategies. Accordingly, a principles-based approach applied to the determination of whether a fund is an investment company should be applied and be indifferent to fund structure, style or strategy.

Creating a separate class of entities referred to as investment property entities ("IPE") with a distinct set of criteria as outlined in the Exposure Draft for Topic 973 that results in a different fair-value result than it would have under the investment company accounting model is confusing and adds a complexity that is not necessary. Apart from the type of asset class an IPE invests in, such an entity is not different from an investment company and therefore, in all material aspects, the guidance proposed under the Exposure Draft for Topic 973 should be the same as the guidance proposed under the Exposure Draft for Topic 946.

Indices and Benchmarks

FVNAV and the underlying revenue recognition model (described below) are key drivers in calculating meaningful income, appreciation and total time-weighted investment returns. Since the early 1970’s time-weighted component returns have been calculated and presented within the NCREIF Property Index (NPI), the private real estate investment industry’s primary benchmark. Since that time, NCREIF has developed additional indices and benchmarks—notably the NCREIF Open-end Diversified Core Equity Index (ODCE). In addition, the Global Investment Performance Standards (GIPS) requires the presentation of these component time-weighted returns for real estate composite performance reporting. These returns, indexes and benchmarks are critical metrics widely accepted and used by investors to make investment decisions regarding where to place their capital (within real estate and across investable asset classes), which investment management firms are selected to manage capital, and, in some cases, provide the basis for compensation to the investment managers. Accordingly, legacy reporting must be maintained. The use of audited GAAP information for these calculations is of paramount importance as exchange traded valuations are not available within the private market.

Without preserving these two return components (evaluated together as total return), as part of the audited fair-value GAAP financial statement information, the industry developed indexes (e.g. the NPI and ODCE) our industry would be burdened with providing other means, outside of GAAP, to maintain the availability of this critical data. A potential divergent treatment threatening the loss of the historical information would be highly detrimental to the analysis of existing funds’ performance.

Reporting

Principles-Based Revenue Recognition

We think income recognition should be principles-based allowing for an appropriate fair-value methodology to be utilized. For example, in our industry, a property’s operating results can be reported based on accrued rental income. This methodology provides for reporting rental income in accordance with the lease agreement and consistent with the way real estate is valued and traded (rather than straight-lining rent) and expenses which are directly correlated to the property’s day to day operations (the income component of the return); along with the realized and unrealized gains and losses on the investment’s net asset fair value (the capital appreciation component return). Reporting investment property at fair value and recording income on an accrual basis focuses the investor on the current and future economic characteristics of investment properties and the
presentation of rental income and fair value of the tangible real estate. It provides a useful and widely supported approach for evaluating performance in light of changing market values for rents and valuation yields and enables meaningful financial analysis to be undertaken. These metrics are industry-wide key performance indicators and crucial to real estate investors. Although we rejected Topic 973 as it did not provide for a holistic view of fair value, the proposed revenue recognition model is widely used and accepted in our industry and should be incorporated within Topic 946.

Additionally, although we understand and agree that Topic 323: Equity Method and Joint Ventures is not appropriate for investment companies, we also think that more clarity is required concerning the application of the “Fair Value Through Net Income” concept. Currently, our industry reports unconsolidated investments using a similar approach as to the equity method. This treatment simply includes a separation of the net income recognition into an income component (i.e. net income from operations) and an appreciation component (i.e. the investments share of the change in fair value of the asset adjusted for additional capital invested). This treatment has served the industry well over several years and has allowed for the development of consistent, comparable and useful indexes (e.g., NPI and ODCE); composite presentations. (i.e. GIPS) and component return track records.

As investments within real estate and across the broader capital markets are made to meet the investor's overall investment objectives, we recognize the need to provide a principles-based approach to determine the appropriate revenue recognition model to utilize. We would be happy to assist the FASB in the development of appropriate criteria.

Principles-Based Presentation of Investments

We think the presentation of the line item components of net asset value under either a gross (where assets, liabilities, rental revenues and operating expenses are separately reported on a gross basis) or net financial statement presentation should be principles-based; allowing for both net and gross presentations depending on such factors as fund strategy, structure, management, and investor needs. The reported FVNAV, and resulting total returns are comparable under either presentation (see attached example financial statements – Appendix 2). Accordingly, the presentation (gross vs. net) represents only a bifurcation of the unit of account being valued which is the net investment value. We support addressing transparency concerns through financial statement disclosures. We would welcome the opportunity to develop such principles with members of the FASB Staff.

As previously discussed in this response, in order to balance the risk and diversity of their portfolios, investors acquire a variety of real estate investments with a wide range of risk/return scenarios. For example, an investor may invest in a lower-risk core real estate fund that invests in high-quality, highly-leased investment properties in desirable markets. These types of investments would typically be expected to generate a significant portion of their total return from operating income complemented by a lesser portion related to capital appreciation. From an investor perspective, it is generally useful to see a more detailed gross presentation of the balance sheet and income statement for the investor to understand how the fund's investments are performing with respect to the income component of the return. This presentation is used by the investor to evaluate the performance of the investment as well as to make a comparison with other investments with similar risk/reward characteristics.

At the other end of the risk/reward spectrum would be an investment with an opportunistic strategy. For example, an investment in an investment property may need significant renovation and repositioning in the marketplace and has few, if any, tenants. The primary purpose of the investment is to ultimately generate a large capital return upon disposition of the asset over the period of years it takes to ultimately maximize and realize the enhanced value. During the lifecycle of this investment, there may be limited income generated; however, the timing and level of that income generation is modest in relation to the capital appreciation. In this situation, a gross presentation by the parent would yield little additional information or material benefit to investors, while potentially requiring significant effort to provide the requisite financial detail necessary for that gross presentation. In this situation, a net presentation is more appropriate. Gross presentation of investees by certain real estate funds, such as one with an opportunistic strategy, may face additional unintended consequences under certain circumstances, or may not be practicable. Other issues that exist with an opportunistic strategy are:
• Application of a gross presentation may detract from an investors’ ability to analyze and compare results across other similar investment vehicles

• A gross presentation within an opportunistic fund strategy may require auditors to perform additional audit procedures that will result in increased audit fees thereby reducing the potential return to investors

• A real estate investment entity may be faced with practical difficulties in obtaining financial information from its investees prepared under U.S. GAAP

• A gross presentation may place a substantial burden (including monetary, available expertise, and system capabilities) on real estate funds that have not previously reported property level operating data

**Concluding Remarks**

In our industry, the purpose of primary financial statements, which are often subject to audit, is to provide investors with relevant transparent, comparable, and consistent information presented in a meaningful manner in order for them to appropriately value assets and make capital allocation decisions within and among advisors and fund choices. This is not achieved in our industry without a principles-based accounting model which results in a comparable and consistent FVNAV calculation that allows for flexibility in presentation in order to provide the most useful information to investors. We think this will be achieved with a single, principles-based, globally-encompassing investment company accounting framework based on the proposed Topic 946 with the additional considerations we have outlined above.

Our responses to the specific questions proposed in the exposure draft are included at Appendix 1 to this letter.

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

Very truly yours,

John Baczewski  
Chairman of the Board  
Real Estate Information Standards
APPENDIX 1 - ANSWERS TO QUESTIONS FOR RESPONDENTS
QUESTIONS FOR RESPONDENTS

**SCOPE**

**Question 1:** The proposed amendments would require an entity to meet all six of the criteria in paragraph 946-10-15-2 to qualify as an investment company. Should an entity be required to meet all six criteria, and do the criteria appropriately identify those entities that should be within the scope of Topic 946 for investment companies? If not, what changes or additional criteria would you propose and why?

**Answer:** No, we do not think an entity should be required to meet all six criteria in paragraph 946-10-15-2 to qualify as an investment company. However, we think the criteria described within the exposure draft should serve as strong indicators that an entity should be within the scope of Topic 946. In addition and as indicated in our response to criterion 3 and 4 below, we propose a provision to allow for single client accounts to be considered investment companies. We have observed that standards proposed by the International Accounting Standards Board generally are principles based. We are strong advocates of global convergence and the development of principles based standards.

Our comments on each criterion are as follows:

1. **Nature of the Investment activities.** The investment company’s only substantive activities are investing in multiple investments for returns from capital appreciation, investment income (such as dividends or interest), or both.

   We think the following words should be struck: “only”, “multiple” and “(such as dividends or interest)”.
   a. Only: This word is too prescriptive. Using the word “substantive” will provide a sufficient principles-based approach.
   b. Multiple: Please also see our response to the “pooling of funds” criterion below (#4). We are concerned that the requirement for “multiple” investments may cause a fund not to be considered an investment company where all other indicators would dictate otherwise. For example: An investment company fund may be established to purchase multiple assets but subsequently finds it is unable to acquire more than one investment. The fund in all other respects meets the criterion to be an investment company. Financial statements presented on a fair value basis are as useful and important here as with other investment companies which hold multiple assets. Therefore, this single property entity should still qualify as an investment company.
   c. *Such as dividends and interest:* Please see our response to criterion 2 below. We think this wording may cause a prescriptive interpretation that precludes other forms of revenue recognition which are most meaningful to our investors. The phrase, excluding the parenthetical is appropriate.

2. **Express business purpose** of the investment company is investing to provide returns from capital appreciation, investment income (such as dividends or interest), or both.

   Please see 1c above relating to “such as dividends or interest”. Except as described, we think this is a strong indicator that the entity is an investment company.

3. **Unit ownership.** Ownership in the investment company is represented by units of investments, in the form of equity or partnership interests, to which a portion of the net assets are attributed.

   Please see answer to part 4 below.

4. **Pooling of funds.** The funds of the investment company’s investors are pooled to avail investors of professional investment management. The entity has investors that are not related to the parent (if there is a parent) and those investors, in aggregate, hold a significant ownership interest in the entity.

   We do not think the legal form of an entity should dictate the accounting. Therefore, we think that single client accounts should be scoped into Topic 946. We note that single client accounts would generally have been scoped into the proposed Topic 973-10-15-3. As noted in the REIS Board response the Topic 973 exposure draft, (see attached Appendix 3) we do not think there should be a classification of “investment property entities”. Rather, we think that such investment vehicles should be scoped into Topic 946. Since we think that single client accounts should be scoped into Topic 946, we also note that the “Unit ownership” criteria may not be appropriate for these...
types of accounts. By definition, a single client account can own 100% of the entity. It should also be noted that single client accounts may contain a single investment (see our answer to criterion 1 above).

Further note that single client accounts represent one of various legal entity structures used by our industry’s investors (e.g. pension plans) to invest in real estate. Real estate represents a portion of the investments of the pension plan which are established for its beneficiaries. Although there may not be “pooling” or “units” at the single account level, these characteristics are evident at the plan level. To exclude these accounts from Investment Company treatment would be inappropriate and burdensome to our investors.

Please see our response to questions 7 and 9 below for further comments.

5. **Fair value management.** Substantially all of the investment company’s investments are managed, and their performance evaluated, on a fair value basis.

Generally, we agree that fair value management is a strong indicator that the entity is an investment company. We question however, whether funds need to be managed on a fair value basis if as described in the Nature of the Business Activity “the investment company’s only substantive activities are investing in multiple investments for returns from capital appreciation, investment income or both”. Funds which meet the strong indicators criteria and which invest for returns from capital appreciation only are managed on a fair value basis and should be considered investment companies. Similarly, funds which meet the strong indicators criteria and invest for returns from income only may not be managed on a fair value basis but should not be precluded from consideration as investment companies.

6. **Reporting entity.** The investment company provides financial results about its investment activities to its investors. The entity can be but does not need to be a legal entity.

We agree that this is a strong indicator that the fund is an investment company.

**Question 2:** The definition of an investment company in the proposed amendments includes entities that are regulated under the SEC’s Investment Company Act of 1940. Are you aware of any entities that are investment companies under U.S. regulatory requirements that would not meet all of the proposed criteria in paragraph 946-10-15-2? If so, please identify those types of entities and which of the criteria they would not meet.

**Answer:** Since our membership is predominantly represented by the private sector, we do not typically have investment vehicles that are subject to the SEC’s Investment Company Act of 1940. We therefore, cannot identify investment vehicles that would have issues with being erroneously scoped out of investment company treatment. However, as indicated in our answer to question #1 above, using a principles-based approach to scoping would likely serve to mitigate any such discrepancies.

**Question 3:** The proposed amendments would remove the scope exception in Topic 946 for real estate investment trusts. Instead, a real estate investment trust that meets the criteria to be an investment property entity under the proposed Update on investment property entities would be excluded from the scope of Topic 946. Do you agree that the scope exception in Topic 946 for real estate investment trusts should be removed? In addition, do the amendments in the proposed Updates on investment companies and investment property entities appropriately identify the population of real estate entities that should be investment companies and investment property entities?

**Answer:** As noted in our answer to question #1 criterion #4, we do not think the legal form of an entity should be a determining factor for classification as an investment company. Accordingly, we think real estate investment trusts (“REITs”) which meet the parameters to be considered investment companies should be classified as such and therefore, we agree that the scope exception in Topic 946 for REITs should be removed. Within our industry some funds, classified as investment companies, have changed their fund structure for strategic reasons (e.g. tax considerations between a REIT and a commingled fund or bringing a commingled fund to a private REIT structure). These changes had no impact on the scoping criterion described in question 1 above and therefore, we strongly think these funds should remain investment companies.

Please refer to the REIS Board’s response to the Proposed Accounting Standards Update, Topic 973: Real Estate – Investment Property Entities; issued October 21, 2011 (“Topic 973”), wherein we proposed that Topic 973 be rejected.
(Attached as Exhibit A.) Accordingly, we do not think there should be any real estate entities that should be classified as investment property entities.

**Question 4:** The proposed amendments would require an entity to reassess whether it is as an investment company if there is a change in the purpose and design of the entity. Is this proposed requirement appropriate and operational? If not, why?

**Answer:** We agree an entity should be required to reassess whether it is an investment company if there is a change in the purpose and design of the entity. However, we think that further clarification is needed as to how the entity should evaluate whether “a change in the purpose and design” has occurred.

In evaluating whether a change in purpose and design has occurred, we believe it is appropriate to consider the criteria of an investment company as identified in paragraph 946-10-15-2. However, when evaluating the entity’s nature of investment activity, we do not believe the requirement to invest in multiple investments should be part of the reassessment criteria (or even part of the initial assessment criteria, please see our response to question 1 above).

For example, if the entity originally met the criteria in paragraph 946-10 -15-2, but was subsequently no longer investing in multiple investments, this does not change the underlying purpose and design of the entity. Although the intent was to invest in multiple investments, facts and circumstances limiting the fund’s capabilities as originally envisioned resulted in only a single investment. These economically influenced decisions do not change the objectives nor the purpose of the fund; all else is equal to the investor.

Additionally, we believe that subsequently changing the accounting for an entity will be a costly endeavor, confusing for the financial statement users, and will not necessarily provide relevant information to the financial statement users.

**NATURE OF THE INVESTMENT ACTIVITIES**

**Question 5:** An entity may be an investment company when it performs activities that support its investing activities. As a result, a real estate fund or real estate investment trust (that is not an investment property entity) could be an investment company if the entity (directly or indirectly through an agent) manages only its own properties. However, the entity would be precluded from being an investment company if the other activities were considered more than supporting the entity’s investment activities (for example, construction). Is this requirement operational, and could it be consistently applied?

**Answer:** We think the requirement is operational and can be consistently applied provided that language is incorporated within the standard which indicates that “substantially all” of the other activities support the investment entity’s activities. When it would not be true that substantially all of the other activities supported the entity’s investment activities, then the express business purpose of the fund would change and classification of the fund as an investment company may no longer be appropriate.

**Question 6:** The proposed implementation guidance includes examples of relationships or activities that would indicate that an entity obtains or has the objective of obtaining returns from its investments that are not capital appreciation or investment income. Do you agree with these examples? If not, how would you modify the examples while still addressing the Board’s concerns identified in paragraphs BC15 and BC16?

**Answer:** We think that investors of an investment company should not have strategic relationships with its investees. However, we do not believe the list included in the Exposure Draft is appropriate. Instead, in the interest of pursuing a principles-based approach, the proposed language should be based on the principle introduced by paragraph 946-10-55-7, which is that the nature-of-the-investments criterion would not be met if the entity or its affiliates obtain or have the objective of obtaining returns from its investments other than capital appreciation or investment income. We believe the additional guidance in paragraphs 946-10-55-7(a)-(f) should be eliminated and that this list be used only as indicators to support an overall analysis. We also think that the FASB should indicate that the guidance in this paragraph is not meant to capture transactions executed on an arm’s length basis in the normal course of business.
UNIT OWNERSHIP AND POOLING OF FUNDS

**Question 7:** To be an investment company, the proposed amendments would require an entity to have investors that are not related to the entity’s parent (if there is a parent) and those investors, in aggregate, must hold a significant ownership interest in the entity. Is this criterion appropriate? If not, why?

**Answer:** The criterion is appropriate only if the entity can have one or more investors. Please see our responses to question #1 (criterion 4) above and question #9 below relating to single client accounts.

As mentioned above, single client accounts represent one of various legal entity structures used by our industry's investors (e.g. pension plans) to invest in real estate. Real estate represents a portion of the investments of the pension plan which are established for its beneficiaries. Although there may not be "pooling" or "units" at the single account level, these characteristics are evident at the plan level. To exclude these accounts from Investment Company treatment would be inappropriate and burdensome to our investors.

**Question 8:** The proposed unit-ownership criterion would require an entity to have ownership interests, in the form of equity or partnership interests, to be an investment company. The entity would consider only those interests in determining whether it meets the proposed pooling-of-funds criterion. Therefore, a securitization vehicle, such as a collateralized debt obligation, may not qualify as an investment company under the proposed amendments because it may not meet the unit-ownership or the pooling-of-funds criterion. The entity would not consider interests held by its debt holders when evaluating these criteria to be an investment company. For entities that do not have substantive equity interests (for example, those considered variable interest entities under Subtopic 810-10), should the unit-ownership and pooling-of-funds criteria to be an investment company consider interests held by debt holders? Please explain.

**Answer:** Our membership does not typically structure our investment vehicles as described in the question. We would however prefer to see the availability of an economic argument (i.e. principles-based assessment) whereby some features of the debt instruments in question may allow the assessment to include the underlying debt holders as a pooled interest and therefore, equity owners in substance.

For example, several loans with equity conversion options or interest payments more closely related to the operations of the investments (i.e. participating mortgages) would be allowed to qualify as they have a number of equity-like characteristics.

**Question 9:** Certain entities may meet all of the other criteria to be an investment company but have only a single investor (for example, a pension plan). The amendments in FASB’s proposed Update on investment property entities provides that if the parent of an entity is required to measure its investments at fair value under U.S. GAAP or the parent entity is a not-for-profit entity under Topic 958 that measures its investments at fair value, the entity would not need to meet the unit-ownership and pooling-of-funds criteria to be an investment property entity. Considering the Board’s concerns identified in paragraph BC24, should the criteria in this proposed Update be amended to address situations in which the entity has a single investor?

**Answer:** Yes. Please see our response to Question #1, criterion #3 (Unit Ownership) and criterion #4 (Pooling of Funds) above. In addition, please see our REIS Board response to proposed Topic 973, Investment Property Entities.

We recognize and appreciate that appropriate accounting and disclosures for single client accounts may need to be developed within the framework of Topic 946. We welcome the opportunity to collaborate with the FASB on this matter as the REIS organization has been involved in developing industry practice with respect to financial statement and investor reporting where US GAAP was unclear or non-existent for the past several years.
**Question 10:** The unit-ownership and pooling-of-funds criteria in the proposed amendments do not consider the nature of the entity’s investors for evaluating if an entity is an investment company. That is, the criteria do not differentiate between passive investors and other types of investors. Do you agree that the nature of the investors should not be considered in evaluating the unit-ownership and pooling-of-funds criteria?

**Answer:** Yes, we agree that with respect to whether an investor is considered either “passive” or “active”, the nature of the investors should not be considered when evaluating the pooling of interests criterion. As stated in our answer to Question #7 above, we think that it is important that the investor(s) are not related when determining if a Fund qualifies as an investment company. For example, in our industry, our funds can be structured to include advisory boards comprised of investor members. Their roles within the fund would likely be considered “other than passive” as they would have a role in determining the investment activities of the fund. However, these investor board members do not alter the fundamental purpose for consideration as an investment company, as described in criterion 1.

**FAIR VALUE MANAGEMENT**

**Question 11:** The proposed amendments would require that substantially all of an investment company’s investments are managed, and their performance evaluated, on a fair value basis. Do you agree with this proposal? If not, why? Is this proposed amendment operational and could it be consistently applied? If not, why?

**Answer:** We believe that fair value management is a significant indicator and driver and basis for fair value reporting, however as noted in our response to Question 1, we believe the 6 criteria should serve as strong indicators that an entity should be within the scope of Topic 946. We support a more principles-based approach to the criteria vs. the need to meet all 6.

**INTERESTS IN OTHER ENTITIES**

**Question 12:** The proposed amendments would retain the requirement that an investment company should not consolidate or apply the equity method for an interest in an operating company unless the operating entity provides services to the investment company. However, the proposed amendments would require an investment company to consolidate controlling financial interests in another investment company in a fund-of-funds structure. An investment company would not consolidate controlling financial interests in a master-feeder structure. Do you agree with this proposed requirement for fund-of-funds structures? If not, what method of accounting should be applied and why? Should a feeder fund also consolidate a controlling financial interest in a master fund? Please explain.

**Answer:** We agree that an investment company should not consolidate its controlling financial interests in a master-feeder structure, however we disagree with the Board’s proposal to require an investment company to consolidate its controlling financial interests in another investment company in a fund-of-funds structure. We strongly believe that an investment company should generally report its investment in another investment company at fair value.

We think that the non-consolidation accounting model in a master-feeder structure provides the appropriate form of transparency for financial statement users by reporting the fair value of its investments in their appropriate form (e.g. Investment in Limited Partnership) and distinguishing them from directly-owned assets such as investment properties or marketable securities. The investor entity’s consolidation of controlling financial interests in another investment company can confuse readers as to what the investor entity owns indirectly versus what the investor entity directly owns. A non-consolidation model between investment companies under U.S. GAAP also aligns and converges with proposed IFRS, and thereby provides global consistency in accounting standards.

It is uncommon for an investor entity to control an investee in a fund-of-funds structure. However, similar to disclosure requirements applicable to a master-feeder structure, it would be appropriate for an entity to include in its disclosures the financial statements of a fund-of-funds entity in which it holds controlling financial interests. This
approach provides additional transparency through disclosures in a cost-effective manner while permitting the
investor entity to report the true nature of its investments on the face of its financial statements.

**Question 13:** The proposed amendments would require an investment company to consolidate a controlling financial interest in an investment property entity. Should an investment company be subject to the consolidation requirements for controlling financial interests in an investment property entity? If not, what method of accounting should be applied and why?

**Answer:** We indicated in our comment letter addressed to the Board regarding the Investment Property Entity exposure draft that we reject the institution of an “investment property entity”, or the proposed Topic 973 under U.S. GAAP. Instead, we have proposed that the scope of Topic 946, and therefore investment companies expand to include those entities that invest directly or indirectly in investment properties and other real estate–related investments, while satisfying other criterion for an investment company.

We think that consolidation between two investment companies, regardless of ownership structure (see Question 12) is not appropriate. In addition to previously stated reasons for this position, we are also deeply concerned about the following unintended consequences of consolidation between two investment companies:

a. In the event the parent entity holds a less than a 100% controlling financial interest in the consolidated entity, the parent entity’s consolidated balance sheet will report 100% of consolidated assets while only reporting its proportionate share in the consolidated assets in its Statement of Investments which can be potentially confusing to financial statement users;

b. The parent entity’s Statement of Operations could be confusing, or in some cases deceiving because the financial statement user will look to the net income reported without taking into account (i.e. or netting out) the net income component pertaining to non-controlling interests;

c. The concept of investment companies reporting investments at fair value is generally founded on the presumption that investors tend to move in and out of investments frequently and therefore require a fair value NAV measurement that identifies the value of their investment and supports anticipated transactional activity. Accordingly, as investors naturally increase or decrease their investment in an investment vehicle (i.e. investment company parent) frequently and unexpectedly, the investment company parent may be forced to increase or decrease its investment in underlying entities. This frequent change in the ownership level could impact whether consolidation criteria is met or not met, and thereby result in frequent shifts between a consolidated and deconsolidated presentation. This would further create reporting inconsistencies between reporting periods, confusion for financial statement users, and generally negate any other perceived benefits of transparency related to consolidation;

d. The assessment of control under Topic 810, particularly the variable interest entity model, is a time-consuming and costly process. As indicated previously, we do not believe there is sufficient transparency in consolidation between two investment companies that supports the additional expense that would be incurred, in particular for additional staff and audit fees, and eventually passed on to investors;

e. A “mixed” presentation will result when reporting similar investments in multiple funds where some are reported at fair value while others are reported on a consolidated basis and thus cause confusion for financial statement users;

f. Operational difficulties will be prohibitive to the consolidation process when existing legal agreements will have to be renegotiated to allow the parent investment company to obtain the necessary information to consolidate another investment company. This process will result in additional costs that will be passed on to the investors;

g. Public entities will encounter many challenges when attempting to obtain timely information from controlled, non-public entities in order to complete the consolidation process. Most non-public entities do not have the same stringent reporting deadlines as public entities and therefore the consolidation process will be problematic to the public parent investment company;

As an alternative to the transparency offered by consolidation in investment companies, we would recommend a principles-based assessment of whether a single investment in an entity is so material to the investment company entity that one of the following alternative steps is necessary:

- Provide additional disclosures regarding the investee’s business and holdings;
• If the investee is a public entity, provide a link to where the investee’s financial information can be obtained.

Although we understand and agree that Topic 323 is not appropriate for investment companies, we also think that more clarity is required concerning the application of the “Fair Value Through Net Income” concept. Currently, our industry reports unconsolidated investments using a variant of the equity method. This treatment simply includes a separation of the net income recognition into an operating component (i.e. net income from operations) and a value component (i.e. the investments share of the change in fair value of the asset adjusted for additional capital invested). Without preserving these two net income components, the industry developed indexes (e.g. the NPI and ODCE) referred to above, would be unable to continue as supported by both NCREIF and GIPS. These components are vital to making strategic decisions within a fund such as an investment's hold period or the effectiveness of a particular investment manager or strategy.

**Question 14:** The proposed amendments would prohibit an investment company from applying the equity method of accounting in Topic 323 to interests in other investment companies and investment property entities. Rather, such interests would be measured at fair value. Do you agree with this proposal? If not, why?

**Answer:** An investment company must be required to report all equity investments at fair value therefore we agree that the application of the equity method, as fully prescribed in Topic 323, is not an appropriate method of accounting for an investment company. It is of paramount importance for an investment company to report all of its investments at fair value. The application of the equity method would prohibit an investment company from meeting this objective, particularly if the investee entity does not report all of its investments at fair value.

Although we understand and agree that Topic 323 is not appropriate for investment companies, we also think that more clarity is required concerning the application of the “Fair Value Through Net Income” concept. Currently, our industry reports unconsolidated investments using a similar approach to that of the equity method. This treatment simply includes a separation of the net income recognition into an operating component (i.e. net income from operations) and a value component (i.e. the investments share of the change in fair value of the asset adjusted for additional capital invested). Without preserving these two net income components, the industry developed indexes (e.g. the NPI and ODCE) referred to above, would be unable to continue as supported by both NCREIF and GIPS. These components are vital to making strategic decisions within a fund such as an investment’s hold period or the effectiveness of a particular investment manager.

**PRESENTATION AND DISCLOSURE**

**Question 15:** An investment company with a controlling financial interest in a less-than-wholly-owned investment company subsidiary or an investment property entity subsidiary would exclude in its financial highlights amounts attributable to the noncontrolling interest. Do you agree that the amounts attributable to the noncontrolling interest should be excluded from the calculation of the financial highlights? If not, why?

**Answer:** We agree that the amounts attributable to the noncontrolling interest should be excluded from the calculation of the financial highlights.

**Question 16:** If an investment company consolidates an investment property entity, the proposed amendments require the investment company to disclose an additional expense ratio that excludes the effects of consolidating its investment property entity subsidiaries from the calculation. Do you agree? If not, why?

**Answer:** We disagree with consolidation so therefore, we disagree with disclosures surrounding consolidated entities. If we reach the conclusion that some investment companies should consolidate its controlling financial interests, then this disclosure would be appropriate.

**Question 17:** Do you agree with the additional proposed disclosures for an investment company? If not, which disclosures do you disagree with, and why? Would you require any additional disclosures and why?
**Answer:** We disagree with consolidation so therefore, we disagree with disclosures surrounding consolidated entities. Otherwise, we agree with the additional proposed disclosures and do not feel any more should be added.

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### RETENTION OF SPECIALIZED ACCOUNTING

**Question 18:** The proposed amendments would retain the current requirement in U.S. GAAP that a noninvestment company parent should retain the specialized accounting of an investment company subsidiary in consolidation. Do you agree that this requirement should be retained? If not, why?

**Answer:** We agree that the specialized accounting of an investment company subsidiary should be retained.

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### EFFECTIVE DATE AND TRANSITION

**Question 19:** An entity that no longer meets the criteria to be an investment company would apply the proposed amendments as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption by calculating the carrying amounts of its investees as though it had always accounted for its investments in conformity with other applicable U.S. GAAP, unless it is not practicable. If not practicable, the entity would apply the proposed amendments as of the beginning of the period of adoption. Do you agree with this proposal? If not, why?

**Answer:** We agree with this proposal for two reasons. First, for the period under which an entity meets the criteria on an investment company, that presentation is most appropriate and therefore, meets investors’ reporting needs more closely for that time period. Second, our industry has already assessed that the ability to move from an unconsolidated environment to a consolidated one and found that it is difficult to execute even on a forward looking basis. To ask that a fund implement a retrospective and prospective treatment in less than a year would not be operational considering the need to obtain information that may not be available or legally obtainable.

**Question 20:** How much time would be necessary to implement the proposed amendments?

**Answer:** Our industry is predominantly applying a FVNAV model already, however, depending on what the final standard requires, transition could take in excess of one year for all funds represented.

**Question 21:** The proposed amendments would prohibit early adoption. Should early adoption be permitted? If yes, why?

**Answer:** We agree that early adoption should be prohibited. Considering the complexity of the issues for both the IPE and IC exposure drafts, the possibility that the standard could change prior to the stated effective date is relatively high. Therefore early adopters could be penalized by having to further adopt subsequent changes which could disrupt the reporting process to an even greater extent.

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### NONPUBLIC ENTITIES

**Question 22:** The proposed amendments would apply to both public and nonpublic entities. Should the proposed amendments apply to nonpublic entities? If not, how should the proposed amendments differ for nonpublic entities and why?

**Answer:** We agree that the proposed amendments should apply to both public and non-public entities.
APPENDIX 2- SAMPLE FINANCIAL STATEMENTS
## SAMPLE FINANCIAL STATEMENTS - BALANCE SHEET

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Scenario #1 - Fair Value Gross Reporting</th>
<th>Scenario #2 - Fair Value Net Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REAL ESTATE INVESTMENTS (at fair value):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments in real estate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate and improvements</td>
<td>$ 2,547,000,000</td>
<td></td>
</tr>
<tr>
<td>Real estate partnerships and joint ventures</td>
<td>767,000,000</td>
<td></td>
</tr>
<tr>
<td>Mortgage and other loans receivable</td>
<td>202,000,000</td>
<td>202,000,000</td>
</tr>
<tr>
<td>Other real estate investments</td>
<td>2,000,000</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Total real estate investments</td>
<td>3,518,000,000</td>
<td>3,134,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CASH AND CASH EQUIVALENTS</td>
<td>200,000,000</td>
<td>200,000,000</td>
</tr>
<tr>
<td>ACCRUED INVESTMENT INCOME</td>
<td>13,000,000</td>
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<tr>
<td>OTHER ASSETS</td>
<td>141,000,000</td>
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<tr>
<td>Total assets</td>
<td>3,872,000,000</td>
<td>3,334,000,000</td>
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<td></td>
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<td></td>
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<tr>
<td>LIABILITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NOTES PAYABLE (portfolio level debt only)</td>
<td>80,000,000</td>
<td>75,000,000</td>
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<tr>
<td>MORTGAGE LOANS PAYABLE</td>
<td>379,000,000</td>
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<tr>
<td>ACCRUED REAL ESTATE EXPENSES AND TAXES</td>
<td>48,000,000</td>
<td></td>
</tr>
<tr>
<td>OTHER LIABILITIES</td>
<td>25,000,000</td>
<td>14,000,000</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>532,000,000</td>
<td>89,000,000</td>
</tr>
<tr>
<td>NON-CONTROLLING INTERESTS</td>
<td>95,000,000</td>
<td></td>
</tr>
<tr>
<td>Scenario #1 - Fair Value Gross Reporting</td>
<td>Scenario #2 - Fair Value Net Reporting</td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------</td>
<td>----------------------------------------</td>
<td></td>
</tr>
<tr>
<td><strong>INVESTMENT INCOME:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue from investments in real estate</td>
<td>$ 293,300,000</td>
<td></td>
</tr>
<tr>
<td>Revenue from real estate and improvements</td>
<td>$ 260,000,000</td>
<td></td>
</tr>
<tr>
<td>Equity in income of real estate partnerships and joint ventures</td>
<td>112,000,000</td>
<td></td>
</tr>
<tr>
<td>Interest and equity income on mortgage and other loans receivable</td>
<td>15,000,000</td>
<td></td>
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<tr>
<td>Other interest income</td>
<td>6,000,000</td>
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</tr>
<tr>
<td>Total investment income</td>
<td>$ 393,000,000</td>
<td></td>
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<tr>
<td></td>
<td># 299,300,000</td>
<td></td>
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<tr>
<td><strong>INVESTMENT EXPENSES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate expenses and taxes</td>
<td>69,000,000</td>
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</tr>
<tr>
<td>Interest expense</td>
<td>16,000,000</td>
<td></td>
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<tr>
<td>Provision for uncollectible amounts</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td>Professional fees</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>7,000,000</td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>5,000,000</td>
<td></td>
</tr>
<tr>
<td>Non-controlling interest in consolidated partnerships</td>
<td>7,700,000</td>
<td></td>
</tr>
<tr>
<td>Less: investment advisory fees</td>
<td>28,000,000</td>
<td></td>
</tr>
<tr>
<td>Total investment expenses</td>
<td>$ 134,700,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td># 41,000,000</td>
<td></td>
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<tr>
<td><strong>NET INVESTMENT INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>258,300,000</td>
<td></td>
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<tr>
<td></td>
<td># 258,300,000</td>
<td></td>
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<tr>
<td><strong>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net proceeds from real estate investments sold</td>
<td>333,400,000</td>
<td></td>
</tr>
<tr>
<td>Less: Cost of real estate investments sold</td>
<td>371,200,000</td>
<td></td>
</tr>
<tr>
<td>Realization of prior periods’ unrealized gain (loss) on sale</td>
<td>(33,600,000)</td>
<td></td>
</tr>
<tr>
<td>Non-controlling in realized gain (loss) on sale</td>
<td>5,400,000</td>
<td></td>
</tr>
<tr>
<td>Net gain (loss) realized on real estate investments sold</td>
<td>(9,600,000)</td>
<td></td>
</tr>
<tr>
<td>Change in unrealized gain (loss) on real estate investments</td>
<td>55,000,000</td>
<td></td>
</tr>
<tr>
<td>Non-controlling interest in unrealized gain (loss)</td>
<td>(11,500,000)</td>
<td></td>
</tr>
<tr>
<td>Net unrealized gain (loss) on real estate investments</td>
<td>43,500,000</td>
<td></td>
</tr>
<tr>
<td><strong>NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>33,900,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td># 33,900,000</td>
<td></td>
</tr>
<tr>
<td><strong>INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 292,200,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td># $ 292,200,000</td>
<td></td>
</tr>
</tbody>
</table>

Return Calculations

- Income return: 7.96% 7.96%
- Appreciation return: 1.04% 1.04%
- Total return: 9.00% 9.00%
APPENDIX 3- COMMENT LETTER ON PROPOSED
TOPIC 973: INVESTMENT PROPERTIES
February 15, 2012

Financial Accounting Standards Board
Technical Director - File Reference No. 1850-100
Financial Accounting Standards Board
401 Merritt 7 - PO Box 5116
Norwalk, CT 06856-5116


Dear Board Members:

This letter represents the Real Estate Information Standards (“REIS”) Board’s comments on behalf of the members of the National Council of Real Estate Investment Fiduciaries” (“NCREIF”) and Pension Real Estate Association (“PREA”) to the Financial Accounting Standards Board (“FASB”) regarding the exposure draft, Real Estate – Investment Property Entities (Topic 973). Our comments also reference the release of the FASB’s exposure drafts on the proposed amendments to Financial Services – Investment Companies (Topic 946) and the International Accounting Standards Board’s (“IASB”) exposure draft, Investment Entities and our comment letters associated with them. In our opinion, it is imperative that the FASB and IASB Boards align their thinking on a consistent basis globally in regards to what constitutes Investment Property Entities and Investment Companies/Entities and how these entities should report their investment holdings. We urge the development of principles which result in comparable and consistent net asset value calculated on a fair-value basis. As explained further herein, since this fundamental objective cannot be achieved within proposed Topic 973, we respectfully reject it. We appreciate the opportunity provided by the FASB to comment on the exposure draft.

We acknowledge the efforts by the FASB to issue fair-value accounting guidance for the real estate industry and have greatly appreciated the FASB’s willingness to engage in ongoing dialogue with us throughout the process, including the opportunity to discuss the proposed standard with the Staff at the November 2011 NCREIF meeting. Our comments throughout the process have been directed toward achieving comparable net asset values calculated on a fair-value basis that are presented in a meaningful manner. Anything short of that goal for our industry results in financial statements and resulting performance measurements that are neither meaningful nor useful to the investors and other end users of the financial statements.

The Responding Organization

The REIS initiative is sponsored by NCREIF and PREA to develop, refine and integrate each of the standards within the Foundational Standards and provides interpretive guidance concerning their application within the private institutional real estate investment industry. NCREIF is an association of institutional real estate professionals which includes investment managers, plan sponsors (i.e. pension funds and endowments), academicians, consultants, public accountants and other service providers who share a common interest in the industry of private institutional real estate investment. NCREIF serves the institutional real estate community as an unbiased collector and disseminator of real estate performance information. NCREIF produces several quarterly indices that show real estate performance returns using data submitted by its members, most notably the NCREIF property index (NPI) and the NCREIF open end diversified core equity index (ODCE). PREA is a nonprofit organization whose members are engaged in the investment of tax-exempt pension and endowment funds into real estate assets. PREA’s mission is to serve its members engaged in institutional real estate investments through the sponsorship of objective forums for education, research initiatives, membership interaction, and information exchange. Collectively the organizations represent the institutional real estate community consisting of over 9,000 investment properties with a fair value of approximately $350 billion.

Within REIS, Foundational Standards include U.S. Generally Accepted Accounting Principles, the Global Investment Performance Standards and the Uniform Standards of Professional Appraisal Practice.

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Chicago, IL 60601
312.819.5890
www.reisus.org

Sponsored By:
Although two fair-value reporting models (generally a gross operating model for pension plans and a net basis under investment company) are utilized in our industry, the REIS Board and Council diligently and continuously work within an established GAAP framework to ensure that the resulting funds’ net asset values are calculated on a consistent fair-value basis and the resulting returns generated from the underlying financial information under either model, are comparable.

**Background on Fair-Value Reporting in Our Industry**

Private institutional real estate investments are structured in a variety of ways including, but not limited to: fee simple interests, joint ventures, partnerships, pooled investment vehicles, single purpose entities, participating mortgages, mortgage receivables, CMBS, RMBS, and mezzanine loans. Ownership is primarily held in open-end and closed-end commingled funds and single client accounts.

Regardless of various strategies or various legal structures created to hold these assets, fund and investment performance measured holistically on a fair-value basis and calculated consistently across all investment vehicles, is critically important to investors and other users of the financial statements. Audited results that support the performance measurement calculations provide the much needed assurance to investors that those performance measures are accurate. Fair-Value Net Asset Value ("FVNAV") financial statements calculated on a consistent and comparable basis and audited are critical to investors, consultants, investment managers and other financial statement users primarily for the following reasons:

- Fair value is critical to industry-related performance measurement including industry benchmarks (i.e. NCREIF Indices) and the Global Investment Performance Standards ("GIPS")
- Although private real estate does not trade shares on an exchange, its investors (many of whom are identical to those invested in publically traded funds) do trade shares in funds (particularly open-end funds) based on FVNAV. Therefore, FVNAV results are used to make subscription and redemption (buy/sell) decisions.
- Investment decisions are primarily driven by a total return (comprised of income and appreciation) that can only be derived from the underlying FVNAV.
- Institutional investors who are also pension plans, are required by ERISA to measure plan assets at fair value in order to determine settlement value of the plan
- Investments are managed and evaluated on a fair-value basis
- The fair value of investments is used to determine portfolio diversification/allocation (e.g. stocks, bonds, real estate) made by plan sponsors
- A fair-value accounting model improves transparency to financial statement users by providing financial results indicative of current market conditions made readily accessible to investors and other users
- Comparability of audited fair-value results across real estate investment property type, structure, and strategy (i.e. core, value-add, opportunistic, or mixed) is essential to investors
- Consistent fair-value accounting application creates comparability of real estate with other investable asset classes, that are typically reported to investors at an exchange traded value
- Enables the investor to evaluate and compare the performance of potential investment managers

In 1983, in response to the needs of the investor community, the NCREIF Accounting Committee developed guidelines for fair-value accounting to be used by the institutional real estate investment industry. These guidelines, known as the REIS Fair-Value Accounting Policy, are continuously reviewed and updated by the REIS Council to align with changes to U.S. GAAP. The fundamental premise for fair value is based on existing GAAP identified in Accounting Standards Codification ("ASC") Topic 960, *Plan Accounting – Define Benefit Pension Plans* (i.e. former FASB Statement of Financial Accounting Standards No. 35) and Governmental Accounting Standards Board ("GASB 25"), Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, which require that certain investments held by tax-exempt investors, including defined benefit pension plans and endowments be reported at fair value. For example, Topic 960 which applies to corporate plans, requires that all plan investments be reported at fair value because it provides the most relevant information about the resources of a plan and its present and future ability to pay benefits when due. In addition, GASB 25 requires government-sponsored pension plans to present investments at fair value in their financial statements. Defined benefit and government-sponsored pension plans often invest in various real estate investments and/or real estate companies. Accordingly, the more traditional historical cost basis of accounting used by other real estate companies, owners, and operators is not appropriate; as it does not provide tax-exempt investors with the financial information they require to comply with authoritative accounting standards and is not viewed as a faithful representation of their investment activity.
Additionally, over the years, investments made by fund managers have become increasingly complex and it has become apparent that many of these funds have attributes similar to those of an “investment company,” as set forth in Topic 946, Financial Services – Investment Companies, (former AICPA Audit and Accounting Guide: Investment Companies). This authoritative guidance supports the use of a fair-value accounting model for those real estate funds that have the attributes of an investment company.

REIS Board’s Opinion on the Proposed Investment Property Entities Standard

REIS recognizes and appreciates the overall objectives of the FASB which include addressing the diversity in practice related to entities that invest in real estate and aligning the scope of entities that would apply the proposed lessor accounting model under US GAAP and IFRS. However, under the proposed exposure draft the comparable and consistent fund net asset value calculated on a fair-value basis, which is of paramount importance to our industry and the users of its financial statements, is not achieved. Therefore REIS rejects the proposed in the exposure draft.

Our fundamental objective is to provide investors audited financial statements accounted for on a full fair-value basis (including the resulting FVNAV asset value) which are comparable across all investment styles, structures and strategies.

Under the proposed exposure draft, some investments may be prohibited from being reported at fair value. We think all investments must be reported at fair value and the related accounting principles should be indifferent to investment style, structure or strategy. The real estate industry does not limit the scope of its real estate investments solely to direct or indirect ownership of real estate properties nor to the traditional property types of office, retail, industrial, and residential, nor to traditional core investment strategies. Many institutional sponsored real estate investment vehicles hold diversified investments based on market conditions for various investment types and sometimes for investor liquidity purposes. Various forms of pools, exchanges, and ownership share structures exist to deal with issues around the transaction liquidity and the needs of the investors. An investor may determine that each of the various equity real estate investment vehicles or property types presents a unique risk/return solution for different portions of their portfolio. Varying investment structures provide investors the proper mechanisms to access property investments in an off-market situation when the trading of the underlying asset is not particularly liquid. It is widely customary for a fund to hold a partial investment in an investment property by acquiring: i) a noncontrolling financial interest in a special purpose vehicle such as a joint venture, limited partnership or limited liability company that owns the property; or ii) a mortgage receivable, participating mortgage, CMBS, or RMBS, or investment in a non-traditional property type such as a hotel or senior living property. Similar to a direct ownership interest in a traditional property type, each of these investments are dependent on underlying real estate for the generation of investment returns to the investors, and they are each managed/evaluated, and reported on a fair-value basis. The nature of business activities criterion for investment property entities (“IPE”) states: “substantially all of the entity’s business activities are investing in a real estate property or properties”. Accordingly, this requirement could prohibit a reporting entity (e.g. fund) from potentially qualifying as an IPE because of its diverse interest in real estate investments that include investments other than direct or indirect ownership of investment properties. If the reporting entity in fact satisfies the criteria of an IPE, but holds other real estate investments the following concerns persist:

- An IPE is not permitted to report these other real estate investments at fair value unless permissible under other GAAP and

- Currently, mortgage debt is required to be measured in accordance with other US GAAP, which is amortized cost, unless the fair-value option in Topic 825 is elected. This lack of a “required” critical accounting treatment will create diversity in practice and result in diversity in results. Different funds’ net asset values will not be comparable due to the diversity in financial reporting and the current as well as proposed disclosures will not cover the missing pieces (e.g. debt within a joint venture is not treated identically as that of wholly-owned investments).

Based on the combined proposed standards and their revisions, it appears that the comparable and consistent FVNAV required by our industry is best achieved under a more globally encompassing Investment Company accounting framework as the nature of the investment activities, business purpose, and fair-value management of the funds in our industry align more closely with those concepts required of an Investment Company. We refer you to our comment letter, also dated February 15, 2012, on the Proposed Accounting Standards Update, Financial Services – Investment Companies (Topic 946) and our comment letter to the IASB, dated January 5, 2012, on its expose draft, Investment Entities.
We would be pleased to discuss our comments with you at your convenience. Should you wish to discuss the contents of this letter with us, please feel free to contact us at the above address or at 978-887-3750.

Very truly yours,

John Baczewski
Chairman of the Board
Real Estate Information Standards
APPENDIX 4 – COMMENT LETTER ON PROPOSED IAS: INVESTMENT ENTITIES
January 5, 2012

International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

(VIA E-MAIL: IFRS.ORG)

Re: Proposed Accounting Standard, Investment Entities, issued August, 2011

Dear Board Members:

This letter represents the Real estate Information Standards (“REIS”) Board’s comments on behalf of the members of the National Council of Real Estate Investment Fiduciaries” (“NCREIF”) and the Pension Real Estate Association (“PREA”) to the International Accounting Standards Board (the “IASB”) regarding the exposure draft, Investment Entities... In our opinion, it is imperative that the IASB and FASB Boards align their thinking on what constitutes Investment Entities and/or Investment Companies and how they should be reported on a consistent basis globally. We urge the development of principles which result in comparable and consistent net asset value calculated on a fair value basis (FVNAV). Secondarily, we propose the development of principles which allow for some flexibility in presentation within the primary financial statements in order to provide information to investors which are most useful to them. Further we request that the issuance and effective dates of the proposed standards be aligned.

We appreciate the opportunity provided by the IASB to comment on the exposure draft. We elected to do so in a format that includes a summarization of our thoughts and concerns, as well as our individual responses to the questions provide in the exposure draft.

The Responding Organization

The REIS initiative is sponsored by NCREIF and PREA to develop, refine and integrate each of the standards within the Foundational Standards and provides guidance concerning their application in the institutional real estate investment industry. NCREIF is an association of institutional real estate professionals which includes investment managers, plan sponsors, academicians, consultants, and other service providers who share a common interest in the industry of private institutional real estate investment. NCREIF serves the institutional real estate community as an unbiased collector and disseminator of real estate performance information, most notably the NCREIF Property Index (NPI). PREA is a nonprofit organization whose members are engaged in the investment of tax-exempt pension and endowment funds into real estate assets. PREA’s mission is to serve its members engaged in institutional real estate investments through the sponsorship of objective forums for education, research initiatives, membership interaction, and information exchange. Collectively the organizations represent the institutional real estate community consisting of over 9,000 investment properties with a fair value of approximately $350 billion.

Within REIS, Foundational Standards include U.S. Generally Accepted Accounting Principles, the Global Investment Performance Standards and the Uniform Standards of Professional Appraisal Practice.
The REIS Board’s Opinion on the Proposed Investment Entities Standard
We support efforts by the IASB to issue guidance for determining whether an entity meets the criteria to qualify as an investment entity. The REIS Board recognizes and appreciates the overall objective of the Board which includes the improvement of financial statement reporting to end users and the alignment of Investment Entity accounting with the FASB’s Investment Companies accounting (Topic 946). The exposure draft effectively adopts many of the same principles currently embedded in FASB Topic 946.

The FASB issued exposure draft, proposed amendments to Financial Services-Investment Companies (Topic 946) proposes changes to existing Topic 946 principles. It appears that some of these changes proposed by the FASB were not included in the IAS Investment Entities exposure draft. Rather, the IAS Investment Entities appears to align closely with existing Topic 946 principles. For example, under the proposed guidance entities that meet the criteria of an investment entity, as defined in the exposure draft, would no longer consolidate controlled entities and instead measure them at fair value through profit and loss. In addition, the exposure draft also proposes to amend the relevant paragraphs of IAS 28, Investment in Associates and Joint Ventures to also require an investment entity to measure its investments in associates and joint ventures at fair value through profit and loss. These principles are very similar to the existing FASB’s Topic 946 which states that consolidation or the use of the equity method of accounting for entities that qualify as Investment Companies is not appropriate. We believe that under this new guidance many of the real estate funds now following the guidance under International Accounting Standards (IAS 40), Investment Property, would meet the criteria as outlined in the exposure draft for an investment entity and change their external reporting presentation. As our industry includes investors and managers who invest globally, we urge the IASB and the FASB develop a consensus treatment. In order to meet the institutional investor’s needs and requirements, our industry has applied a fair value reporting model for investment properties similar to IAS 40 for over 30 years. We are in support of a global converged effort to promote conformity in guidance.

Our responses to the specific questions that are included in the proposed exposure draft are presented below.

**Question 1**
Do you agree that there is a class of entities, commonly thought of as an investment entity in nature that should not consolidate controlled entities and instead measure them at fair value through profit and loss?

**Response:**
Yes. We agree that there is a class of entities, commonly thought of as an investment entity in nature that should not consolidate controlled entities and instead measure them at fair value through profit and loss. When considering the criteria for determining when an entity is an investment entity, paragraphs 2 and B1-B17 of the exposure draft, we think that many real estate funds have been organized for that explicit purpose and would meet the criteria as expressed in the exposure draft. Many US real estate funds already follow the accounting guidance provided by ASC Topic 946 because they meet the definition of an investment company and as such apply that accounting which is similar to what is being proposed by the exposure draft.

**Question 2**
Do you agree that the criteria in this exposure draft are appropriate to identify entities that should be required to measure their investments in controlled entities at fair value through profit and loss? If not, what alternative criteria would you propose and why are those criteria more appropriate?

**Response:**
Yes. We agree that the criteria in the exposure draft, paragraphs 29a and B1-B6, are appropriate to identify entities that should be required to measure their investments in controlled entities at fair value through profit and loss.
Question 3
Should an entity still be eligible to qualify as an investment entity if it provides (or holds an investment in an entity that provides) service that relate to:

(a) Its own investment activities?

Response:
Yes. We agree that an entity should still be able to qualify as an investment entity if it provides (or holds an investment in an entity that provides) services that relate to its own investment activities. By allowing an entity to perform activities that support its investing activities, it would allow a real estate fund or REIT to qualify as an investment company if the fund (directly or indirectly through an agent) advises or manages only properties that it owns. This seems appropriate as investors typically view these types of funds as another investment vehicle in the same fashion as their typical investment entities such as a mutual funds, fund of funds, or securities fund. The underlying principle of investing in multiple investments for capital appreciation, investment income, or both continue to hold true in this situation. This is also consistent with the guidance within the FASB’s recently released exposure draft on the proposed changes to Financial Services – Investment Companies (Topic 946). We think the guidance in these two documents should be consistent.

(b) The investment activities of entities other than the reporting entity?

Response:
No. We do not agree that an entity should still be able to qualify as an investment entity if it provides (or holds an investment in an entity that provides) services that relate to investment activities of entities other than the reporting entity. An entity that does so does not meet the requirement of investing in multiple investments for capital appreciation, investment income, or both. When the services are for an entity’s own investment activities the principle of this requirement is still met. However once an entity is providing such a service for other entities, and most likely generating a fee, the underlying principle of the requirement is no longer met.

Question 4
(a) Should an entity with a single investor unrelated to the fund manager be eligible to qualify as an investment entity?

Response:
Yes

(b) If yes, please describe any structures/examples that in your view should meet this criterion and how you would propose to address the concerns raised by the Board in paragraph BC16.

Response:
A subsidiary entity whose parent entity accounts for its investments at fair value should be permitted to report the information in the stand alone financial statements at fair value. An example of this in US GAAP is a pension plan that represents multiple unrelated investors and is required under the Employee Retirement Income Security Act of 1974 (ERISA) or other similar legislation to report on a fair value basis. We believe that the IASB should adopt a similar position in this exposure draft.

Question 5
Do you agree that investment entities that hold investment properties should be required to apply the fair value model in IAS 40 and do you agree that the measurement guidance otherwise proposed in the exposure draft need apply only to financial assets, as defined in IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement?

Response:
We believe that entities that hold investment properties should be required to apply the fair value model in IAS 40. There should be no optionality. We further feel that an entity that qualifies as an investment entity...
under this guidance should measure all assets and liabilities at fair value with the measurement recognized through profit and loss. We believe that this is a more consistent presentation and necessary for investors to understand the net asset value of the entity especially when compared with other potential investments of a similar class.

**Question 6**

*Do you agree that the parent of an investment entity that is not itself an investment entity should be required to consolidate all of its controlled entities including those it holds through subsidiaries that are investment entities?*

**Response:**

No, we do not agree that the parent of an investment entity that is not itself an investment entity should be required to consolidate all of its controlled entities including those it holds through subsidiaries that are investment entities. First, we believe that the Board is misinformed; in most cases, investment entities do not have noninvestment entity parents. In fact, there are numerous examples in practice where an investment entity has a corporate parent that is a noninvestment entity. Secondly, the investment entity generally keeps its books on a fair value basis and if the parent were required to consolidate the investment entity including its underlying controlled entities, the investment entity would need to develop the information needed to adjust its books to comply with the parent's historical cost basis of accounting which would be cost prohibitive. Thirdly, we note that US GAAP has not historically required the parent of an investment company/entity to consolidate the investment company/entity and this accounting treatment has served the capital markets well because the markets are only interested in the fair value of an investment entity's net investments, not in seeing the consolidated results of any particular investment. Lastly, in our experience, it is rare that a non-investment entity parent issues its equity instruments to an investee of its investment entity subsidiary. If this were to occur it is likely that the investment entity subsidiary would no longer qualify for the measurement exemption.

**Question 7**

(a) *Do you agree it is appropriate to use this disclosure objective for investment entities rather than including additional specific disclosure requirements?*

**Response:**

We agree with the disclosure requirements regarding a change in the entities’ status as described in paragraph 10(a) of the Exposure Draft. We generally agree with the disclosure requirements regarding a change in the entities’ status as described in paragraph 10(b) (i), 10(b) (ii), and 10(c) of the Exposure Draft. However, we would ask that the Board clarify whether or not funding to and from investment entity to its controlled investment (e.g., real estate funds), in the ordinary course of business, would require this type of disclosure. It is typical for some investments to periodically distribute cash to investors as well as require a periodic contribution. Providing detail analyses of the cash movement may only serve to confuse users of the financial statements as this is not representative of what is available for distribution to them. We agree with the disclosure requirements regarding a change in the entities’ status as described in paragraph 10(d) of the Exposure Draft

(b) *Do you agree with the proposed application guidance on information that could satisfy the disclosure objectives?*

**Response:**

In general, we agree with the proposed application guidance regarding controlled investments in paragraph B18 of the Exposure Draft, but we suggest the Board consider revising the language in B18(c) from “voting rights” to “interests held”. In general, we agree with the proposed application guidance regarding controlled investments in paragraph B19 of the Exposure Draft, but we suggest the Board consider revising B19 (a) (viii) to also reference certain industry standards with respect to calculations of this number (e.g., INREV NAV) especially where the Board seeks consistency across investment classes.
We agree with the proposed application guidance regarding duplicate disclosures in paragraph B20 of the Exposure Draft.

**Question 8**
Do you agree with applying the proposals prospectively and the related proposed transition requirements?

**Response:**
We agree with prospective application only. Any other application methodology would distort otherwise comparable investment products and make the financial statements uninformative and potentially misleading to users. We would also suggest that the Board consider an application effective date that coincides with the FASB’s effective dates for ASC Topic 946 and the proposed ASC Topic 973.

**Question 9**
(a) Do you agree that IAS 28 should be amended so that the mandatory measurement exemptions would apply only to investment entities as defined in the exposure draft?

**Response:**
We do not agree that this exemption should apply only to investment entities. It would appear that entities that went through an evaluation to determine if fair value accounting or equity method accounting provided information that was more useful in the decision making process. The focus should be on what provides transparent information about the performance of the underlying investment to the users of the financial statements. A move away from fair value accounting to equity method accounting would not consistently provide such transparency or useful information to investors.

(b) As an alternative, would you agree with an amendment to IAS 28 that would make the measurement exception mandatory for investment entities as defined in the exposure draft and voluntary for other venture capital organizations, mutual funds, unit trusts and similar entities, including investment-linked insurance funds?

**Response:**
Yes, we agree that the proposal should be mandatory for investment entities as defined, and voluntary for other venture capital organizations, mutual funds, unit trusts and similar entities, including investment-linked insurance funds. It would be challenging to make one decision fit all types of organizations. Since such entities focus on the fair value of their portfolio and report their performance based on fair value accounting, moving to an equity method of accounting would not seem in line with the expectations of their investors. We would envision such organizations having to maintain such fair value information and provide it to investors through disclosure, which defeats the purpose of meeting the expectations of investors to have transparent information about the performance of all aspects of the organization in which they have invested. We would be pleased to discuss our comments above or the answers to the specific questions with you at your convenience. Should you wish to discuss the contents of this letter with us, please feel free to contact us at the above address or at 978-887-3750.

Very truly yours,

John Baczewski
REIS Board Chair