February 15, 2012

Financial Accounting Standards Board
Technical Director - File Reference No. 2011-210
Financial Accounting Standards Board
401 Merritt 7 - PO Box 5116
Norwalk, CT 06856-5116


Dear Board Members:

This letter represents RREEF Real Estate’s (“RREEF”) comments 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 draft on the proposed amendments to Financial Services – Investment Companies (Topic 946) and our comment letter associated with it. In our opinion, it is imperative that the FASB and IASB align their thinking on a consistent basis globally regarding 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 throughout this process to engage in ongoing dialogue with representatives of the Real Estate Information Standards (“REIS”) and the National Council of Real Estate Investment Fiduciaries (“NCREIF”), industry organizations supported by RREEF and in which it is an active participant. RREEF is in agreement with REIS’s comments throughout the process which have been directed toward achieving comparable fund net asset values calculated on a fair value basis that are presented in a meaningful manner. Anything short of that goal for RREEF and our industry would result 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

RREEF is a global real estate investment management company. During the past 40 years, RREEF has built a leading real estate investing business, with nearly 600 professionals located in 22 cities around the world and US$58.5 billion in assets under management as of September 30, 2011. RREEF employs a disciplined investment approach and offers a diverse range of strategies and solutions across the risk/return and geographic spectrums, including core and value-added real estate, real estate and infrastructure securities, real estate debt, and opportunistic real estate. RREEF aims to deliver superior long-term risk adjusted returns, preservation of capital and diversification to its investors, which include governments, corporations, insurance companies, endowments, and retirement plans worldwide.
Summary of our Position

The REIS Board, on behalf of the members of NCREIF and the Pension Real Estate Association ("PREA"), has submitted a response to the exposure draft. RREEF participated on the REIS task force that assisted with the preparation of that response. Our views are in agreement and our comments are consistent with those of REIS as stated in their response also dated February 15, 2012.

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 including private REITs, 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 strategy or various legal structure 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 prepared and audited 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 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 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 investors
- 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 enabling the investor to evaluate and compare the performance of potential investment managers

In response to the needs of the investor community, RREEF has been applying fair value accounting to our real estate funds and separate accounts for more than 30 years. The premise for fair value is based on existing GAAP identified in Accounting Standards Codification ("ASC") Topic 860, 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 980 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 have become increasingly complex and it has become apparent that many of our 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.

Although two fair value reporting models (generally a gross operating model for pension plans and a net basis under investment company) are utilized, we 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.

RREEF recognizes and appreciates the overall objectives of the FASB, which is aimed at reducing 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 objective of creating consistent and comparable Fund net asset value determined on a fair value basis is not achieved. It is this objective that is of paramount importance to RREEF, our industry, and the users of its financial statements. Therefore, with all due respect for your efforts, RREEF is compelled to reject the proposed accounting in the exposure draft.

Our fundamental objective is to provide investors with audited financial statements accounted for on a full fair value basis (including the resulting FVNAV), 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. The real estate industry does not limit the scope of real estate investments solely to the 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 of the industry and the needs those different investors have in the way they expose themselves to the risks around this liquidity. 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 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: 1) a noncontrolling financial
interest in a special purpose vehicle such as a joint venture, limited partnership or limited liability company that owns 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 Fund, 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). Our views in that letter are also consistent with those of REIS.

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 Neal Armstrong at 312-278-6430 or Hans DeWitte at 212-280-2546 or at the above address.

Very truly yours,

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