



NCREIF

National Council of Real Estate Investment Fiduciaries



LETTER OF COMMENT NO. 35

April 13, 2007

Mr. Lawrence W. Smith
Director of Technical Applications and Implementation Activities
Financial Accounting and Standards Board
401 Merrit 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference 1520-100 Invitation to Comment ~ Valuation Guidance for Financial Reporting

Dear Mr. Smith:

We appreciate the invitation to comment on the issues surrounding valuation guidance for financial reporting. As the reporting models move more towards a fair value reporting methodology, we strongly believe input on this issue should be received from all relevant parties.

Responding Organization

The National Council of Real Estate Investment Fiduciaries ("NCREIF") was formed in 1982. It is an association of institutional real estate professionals including appraisers, investment management companies, pension plan sponsors, certified public accountants, consultants, academics and other institutional real estate service providers who share a common interest in achieving consistency and comparability in measuring the performance of real estate investments held in the private market. Its goals have been and continue to be the collection and dissemination of standardized real estate financial and performance metrics for use by industry and academia to better understand the risk/return characteristics of private real estate and to improve market transparency. The NCREIF Property Index (NPI), a quarterly publication, is the most widely used and recognized measure of U. S. private real estate performance. As of December 31, 2006, the NPI consisted of performance records and other relevant information on approximately 5,300 property assets with a fair market value of approximately \$247 billion. The NPI starting date is December 31, 1977. It is the longest time series of private real estate returns in the world. In addition, since mid-2005, NCREIF has been publishing the NCREIF Fund Index - Open End Diversified Core Equity Index (NFI-ODCE). The NFI-ODCE universe consists of 14 open-end funds with diversified core investment portfolios. As of December 31, 2006, the net asset value of the NFI-ODCE was approximately \$68 billion. We have recently announced agreements with four leading investment banks to license the NCREIF Property Index for financial derivative transactions.

NCREIF's current practice is to focus on the most meaningful information which can be provided to the primary users of financial reports. We consider ourselves to be one of the significant organizations you reference in your Invitation to Comment that support valuation standards through our development of Real Estate Information Standards ("REIS"). These standards, initially established in 1993 through a joint effort of NCREIF, the National Association of Real Estate Investment Managers (NAREIM) and the Pension Real Estate Association (PREA) have been developed in an effort to codify a single set of desired industry practices and to improve standardization of valuation procedures, financial accounting, and reporting of performance return information. REIS plays an important role in the overall efficiency of the real estate investment industry as consistency, comparability, and transparency are critical for investors to make efficient and sound investment decisions regarding their investments, investment managers, and the asset class. REIS has been dependent on, and has intended to supplement and in

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some cases, clarify, but not replace other established standards from authorized bodies including, but not limited to, valuation standards established through Uniform Standards of Professional Appraisal Practice (“USPAP”), accounting standards established by Generally Accepted Accounting Principles (“GAAP”) and the performance measurement and reporting standards promulgated by the CFA Institute known as the Global Investment Performance Standards (“GIPS”).

Question 1 – Is there a Need for Valuation Guidance Specifically for Financial Reporting?

SFAS 157 outlines acceptable valuation techniques, discusses how to apply them, and establishes a fair value hierarchy that prioritizes inputs to valuation techniques into three levels. We believe, as it is expected, that this will increase consistency and comparability of fair value measurements and related disclosures. The hierarchy focuses on inputs and not valuation techniques, thus requiring judgment in the selection and application of those techniques. We believe that allowing for judgment in this area is appropriate and necessary. Important to consider is the recognition that all fair value measurements are fundamentally market-derived; i.e. the methodology, assumptions, and rationale used should mimic observed market behavior in current transactions. In this regard, absent highly liquid circumstances, it is critical to recognize that valuation methods can never be formulaic, as market behavior at times considers such a wide range of variables that considerable judgment would always be required as part of any value conclusion. In terms of principles to be applied in the valuation process, various approaches for value should be considered with an overall reconciliation process applied as part of the value conclusion. The final value conclusion will require significant judgment and will need to carefully consider all facts and circumstances and relative weight of the most applicable analyses, and most importantly it must meet the “exchange price” principle of SFAS 157. Therefore we believe the current valuation guidance provides an adequate conceptual framework for an entity to determine the price or value for a particular asset or liability, and no additional guidance specifically for financial reporting is necessary. *Within the conceptual framework outlined by the FASB, REIS has been established for our industry to codify a single set of desired industry practices and improve standardization of valuation procedures and financial reporting.*

Question 1(a) – Should Valuation Guidance Include Conceptual Valuation Guidance, Detailed Implementation Guidance, or a Combination of Both?

We believe no additional valuation guidance specifically for financial reporting is needed at this time. However, we believe that determining a value for a specific asset or liability largely depends on the facts of a particular transaction and if any guidance was issued, it should be flexible to allow for a reasoned evaluation of a particular situation, and therefore if guidance were to be issued it should be conceptual in nature.

Question 1(b) – What Should Be the Duration of Any Valuation-Guidance-Setting Activities?

While we do not believe additional valuation guidance specifically for financial reporting is currently needed, with the increased focus on Fair Value from the FASB’s perspective and the recent steps toward convergence with the International Community, we believe it important to have a process in place in which new issues that arise can be addressed in a timely manner. It appears this would best be served with a process in place when such time has passed that all significant implementation issues associated with SFAS 157 and SFAS 159 have been identified and addressed.

Question 2 - What Level of Participation Should Existing Appraisal Organizations Have in Establishing Valuation Guidance for Financial Reporting

In addition to our comments above, we do not believe there is a current need for additional valuation guidance from the FASB for financial reporting given the existence of The Appraisal Foundation, a not-for-profit educational organization authorized by Congress that is dedicated to the advancement of professional valuation practice. In this regard, they publish the Uniform

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Standards of Professional Appraisal Practice (USPAP), the generally accepted appraisal practice standards in North America promulgated by the Appraisal Standards Board (ASB) of The Appraisal Foundation. USPAP contains Standards for all types of appraisal services, including real estate, personal property, business and mass appraisal. We believe that conceptually-based valuation standards should be contained within this well-recognized and reliable regulated valuation source, and not fragmented within the accounting literature.

As a supplement to USPAP, NCREIF publishes REIS which contains valuation guidance on specific issues that arise as a result of financial reporting. Valuation guidance within REIS is obtained through a diligent process with input from members of NCREIF who are experts in their respective fields through designation, memberships, licenses, etc. of the prominent organizations including, but not limited to, the Appraisal Institute (MAI), Counselors of Real Estate (CRE), The American Society of Appraisals (ASA), Certified Public Accountants (CPA) and the CFA Institute (Chartered Financial Analysts). Throughout their history of fostering the evolution of valuation methodologies and procedures, these organizations have also guided their constituents on matters of ethical conduct, and have procedures in place to address improprieties.

Should the FASB ultimately choose a need for further valuation guidance for financial reporting, we believe they should work within the recognized and well-regarded structure that is already in-place, rather than creating a new one. These organizations have very significant subject matter expertise that provides a broader understanding of the issues, challenges, and realities of establishing the value of assets and liabilities. Existing appraisal organizations can provide the conceptual and practical guidance necessary to support the need for fair and consistent reporting.

Question 3 - What Process Should be Used for Issuing Valuation Guidance for Financial Reporting

We would support the process suggested by option "c" in paragraph 16 of the Invitation to Comment which calls for an organization similar to the current structure and operation of the EITF. We feel it is imperative that such an organization include members of the valuation profession from both large organizations and small organizations and from a multitude of industries in order to ensure each industry is fully represented.

We believe a nominating process should be used to select such members and have a fixed term to ensure fresh ideas are brought into the process as new concepts are developed. Any standards that are developed as result of this process should be subject to the existing process of producing exposure documents for public review that would allow for sufficient discussion of key issues and final approval by the FASB.

Question 4 -- Should the Process of Valuation Guidance be on an International or National Level?

We believe the process of developing valuation guidance should be on an international level. However, international standards are also going through significant changes, therefore an attempt to have consistency with international valuation standards should not come at the sacrifice of quality and reliable valuations today. All attempts should be made to have valuation guidance that is not in direct conflict with that sufficiently established in the international community. We would recommend that a member of an international valuation standard setting body be a member of the organization referenced in Question 3 above.

We appreciate the invitation to comment on such a significant issue and if you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact the Real Estate Information Standards Council Chairman, Jeffrey Kiley, at 617/530-7318.

Very truly yours,

Douglas M. Poutasse
Executive Director, NCREIF

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