

REIS EXPOSURE DRAFT

Revised Proposed Chapter 4: Fund Reporting Standards

Issued by the Real Estate Information Standards Council in Conjunction
With the National Council of Real Estate Investment Fiduciaries and the Real
Estate Information Standards Board

March 1, 2008

Comment Deadline: April 30, 2008

Interested parties wishing to comment on this Exposure Draft must do so in writing by April 30, 2008. Interested parties should submit their comments by e-mail to Marybeth Kronenwetter, REIS Administrator (Marybeth@ncreif.org).

An electronic copy of this document will remain on the NCREIF web site until NCREIF issues the final Adopting Release relating to this project. In addition, upon expiration of the public comment period (April 30, 2008), all comments received will be posted to the NCREIF web site (www.ncreif.org) and remain on the web site until the Adopting Release is issued.

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1. Executive Summary

Purpose

- .01 On August 1, 2007, the Real Estate Information Standards Council (“REIS Council”) issued an Exposure Draft entitled [Proposed Chapter 4: Investor Reporting Standards](#) (“Version 1”). Version 1 was exposed to the public through September 30, 2007. The comments received generated significant discussion within the REIS Council and Board. Based on the comment letters and ensuing discussion at the REIS Council and Board, it became apparent that certain practices that were required in Version 1 should either be recommended only or removed from the proposed Chapter 4 altogether. In addition, the Board and Council have determined that the Investor Reporting Standards should be revised to focus solely on Fund/Account reporting. These proposed standards are applicable to all commingled Funds and single investor investment accounts (hereinafter referred to as “Funds”). In addition, these proposed standards are to be applied to the periodic client report package which may include: summary of performance, attribution analyses, management commentary and discussion, financial statements and such other information that describes the activities of the Fund.
- .02 On February 14, 2008, the Financial Accounting Standards Board (“FASB”) issued [SOP 07-1-1](#) which indefinitely defers the effective date of Statement of Position (“SOP”) 07-1, [Clarification of the Scope of the Audit and Accounting Guide *Investment Companies*](#) (“IC Guide”) and [Accounting by Parent Companies and Equity Method Investors for Investments in *Investment Companies*](#). One objective of SOP 07-1 was to reduce the number of potential accounting models utilized by U.S. private tax-exempt institutional real estate investment funds/accounts. The REIS Council and Board are aware that different accounting models are currently utilized within the Industry. These differences have resulted in a lack of consistency and comparability in reporting in the Industry.
- .03 Accordingly, as a result of the changes which focus on required and recommended practices for Fund reporting and the continued existence of multiple accounting models utilized in the Industry, and in order to be consistent with the objective to promote relevant, consistent and transparent information to our constituency, the Board and Council have determined that a new [Proposed Chapter 4: Fund Reporting Standards](#) (“Version 2”) should be exposed to the public for comment. Version 2 of the Exposure Draft proposes to establish minimum standards for Fund reporting within REIS that are relevant to investors and comparable within the private, tax-exempt institutional real estate investment asset class. Version 2 of Chapter 4 will be applicable to all Funds (i.e., commingled funds and single investor investment accounts).

Accounting Guidance

- .04 FSP SOP 07-1-1 indefinitely defers the effective date of SOP 07-1, because the FASB determined that a number of significant issues relating to the implementation of the IC Guide for real estate funds and the applicability of SOP 07-1 to certain funds remain. FSP SOP 07-1-1 contains a provision which allows (but does not require) entities which have early adopted SOP 07-1 to continue to apply SOP 07-1, but does not allow entities outside the scope of SOP 07-1 to apply the IC Guide by analogy.
- .05 Although FSP SOP 07-1-1 indefinitely defers the effective date of SOP 07-1, the Real Estate Funds Task Force of the AICPA continues its efforts to provide guidance to the Industry with respect to consistent interpretation of the IC Guide. This guidance is expected to take the form of an AICPA Technical Practice Aid (“TPA”). As of this writing, the guidance is not available and as such the deferral of SOP 07-1 was critical to the Industry.
- .06 In addition to interpretive guidance for IC Guide issues which are to be provided within the anticipated TPA, other issues remain with respect to the applicability of SOP 07-1 to certain entities within our Industry. The REIS Council and Board have made a request to the FASB to provide appropriate guidance for issues relating to the applicability of SOP 07-1¹.
- .07 It is anticipated that appropriate levels of guidance from the FASB and the AICPA will serve to reduce, but may not eliminate, the number of accounting models utilized within our Industry. Accordingly and as consistent with the objective of REIS to disclose reliable information for investor decision making processes and provide policies and practices to facilitate analysis and foster comparability and transparency, the REIS Council and Board have proposed an additional chapter within REIS entitled: Chapter 4: Fund Reporting Standards.

Fund Reporting Standards

- .08 This Exposure Draft proposes to add a fourth chapter to REIS entitled “Chapter 4 – Fund Reporting Standards”. Chapter 4 establishes Reporting Standards for all Funds. The provisions of Chapter 4 are to be applied as described herein.
- .09 Section 2 of this Exposure Draft details questions for consideration by the respondents. Section 3 details background information, the Council’s Basis for Conclusions and the alternatives considered in arriving at this proposal. Chapter 4 is included in Section 4.
- .10 The purpose of Chapter 4 is to establish minimum standards for Fund reporting within REIS that are relevant to investors, comparable within the private, tax-exempt institutional real estate investment asset class, and verifiable by independent means. Establishing Fund Level standards that are verifiable by independent means is a step toward and consistent with our overall objective of promoting compliance with REIS by allowing for account-by-account compliance.

¹ As described in NCREIF October 12, 2007 [letter to FASB](#) re: Deferral of SOP 07-1.

- .11 The proposed effective date to apply the provisions of Chapter 4 is for fiscal years beginning after December 15, 2008, with earlier adoption encouraged.

Proposed Changes to Required Elements of REIS

- .12 The following summarizes the additions and clarification to **required** elements of REIS with respect to the accounting and performance measurement contemplated in this Exposure Draft.

REQUIRED PRACTICES

	Existing: March 2007 REIS	Proposal: REIS Chapter 4
<i>ACCOUNTING:</i>		<i>ALL FUNDS (UNLESS OTHERWISE NOTED)</i>
Reporting	Quarterly and annual financial statement reporting	<u>Clarification:</u> Quarterly: At a minimum, Condensed, U.S. Fair Value, GAAP based, financial reporting. Annually: U.S. Fair Value, GAAP based financial statements and footnotes including a valuation policy statement and a schedule of investments.
<i>PERFORMANCE MEASUREMENT:</i>		
Time-Weighted Returns (TWR)		
Total	Firm-level composite reporting	<u>Addition:</u> Quarterly: Fund-level reporting
Gross and Net of Fees	Firm-level composite reporting	<u>Addition:</u> Quarterly: Fund-level total return
Internal Rate of Return (IRR)		
Level	Recommended for firm-level composite reporting	<u>Addition:</u> Quarterly: SI-IRR for all closed-end funds (required)
Gross and Net of Fees	Required for firm-level composite reporting	<u>Addition:</u> Quarterly: All closed-end funds
Benchmark Reporting	Not addressed	<u>Addition:</u> Annually; if stipulated by Fund

- .13 Condensed U.S. Fair Value GAAP based financial statements are commonly prepared quarterly and comprehensive statements are prepared annually. The Condensed statements will contain, at a minimum, a Statement of Assets and Liabilities (which separates key components of assets and liabilities), a Statement of Operations, and disclosure of Net Asset Value, Contributions, Distributions, and Redemptions for the period reported.
- .14 REIS Chapter 1, Property Valuation Standards, requires a written valuation policy which must be disclosed to clients and others as appropriate. This Proposed Chapter 4 provides a mechanism for that communication. The Schedule of Investments may be required for GAAP reporting and for purposes of this proposed Chapter 4 will include (at a minimum), for the 20 largest investments and every investment greater than 5% of Net Asset Value, the following: Investment Name; Property Type; Investment Structure; Acquisition Date; Location; Size; Current Year Cost and Current Year Fair Value.
- .15 Benchmarks are frequently utilized as a way to measure the effectiveness of the Fund's investment strategy. Chapter 4 requires those Funds which measure performance compared to a specified benchmark to disclose such benchmark comparisons no less frequently than annually.
- .16 In addition to the required information described above, this proposed Chapter 4 will require each Fund to report the following additional overview information on a quarterly or annual basis:
- Quarterly: Fund Name, Contact, and Inception Date
 - Annually: Fund Structure, and Style/Strategy
 - Annually for Closed-End Funds Only: Final Fund Closing Date and Fund Scheduled Termination Date

Recommended Fund Reporting Elements

- .17 In addition to the required elements noted above, this Proposed Chapter 4 **recommends** that the following elements are included in periodic Fund reports:
- All Funds Quarterly: Management Discussion of Performance Relative to Objective; Leverage Percentage; Portfolio characteristics including, Investment/Property Type; Region/Location; Nature of Investment (life cycle); and Investment Structure.
 - All Funds Annually: Independent, third party verification either as part of an annual audit opinion or a separate agreed upon procedures report that the allocation of capital accounts between each class of investors has been performed in accordance with the Subscription/Partnership Agreement.

- Closed-End Funds Quarterly: Aggregate Capital Received to Date; Aggregate Capital Commitments; Unfunded commitments; Distributions since inception; Paid-in Capital Multiple; Investment Multiple; Realization Multiple and Residual Multiple.
- Open-End Funds Quarterly: Fund level component time-weighted returns, gross and net of fees calculated using March 2007 REIS; Redemptions during Quarter; Commitment queue; and Redemption queue.

Request for Feedback

.18 The feedback received on Version 1 of this Exposure Draft evidenced support for the development of Fund Reporting Standards as contrasted with Investor Reporting Standards. In addition, the feedback received on Version 1 evidenced the need for some standards, which had previously been required, to be recommended and some standards which were previously required quarterly to be disclosed on an annual basis. Lastly, a few new elements were mentioned which the REIS Council deemed appropriate for consideration through this public comment period. Accordingly, the REIS Council is requesting feedback on these matters as well as whether the specific Fund Reporting Required and Recommended Standards proposed are appropriate as to content, classification and frequency. In addition, through the questions posed in Section 2 of this Exposure Draft, the Council is requesting specific feedback with respect to:

- Requirement for quarterly condensed, U.S Fair Value GAAP based financial statements, at a minimum.
- Requirement for Benchmark comparisons, no less frequently than annually, (if a benchmark is specified by the Fund manager).
- Recommendation to provide a management discussion of performance relative to Fund objectives on a quarterly basis.
- Recommendation through independent, third party verification either as part of an annual audit opinion or separate agreed upon procedures report, that the allocation of capital accounts between each class of investors has been performed in accordance within the subscription/partnership agreements.
- For open-end funds only, recommendation to provide redemption queue information quarterly.

2. Questions for Consideration by Respondents

General Information for Respondents

- .01 Members of NCREIF, PREA, NAREIM and other interested parties are encouraged to send written comments on all matters proposed in this Exposure Draft. Comments are requested from those who agree with the proposed Chapter 4 (included here as Section 4, beginning on Page 19), as well as those who do not agree. Comments are most helpful if the section and paragraph numbers are referenced within the response (e.g., 2.01 for this paragraph). Respondents who disagree with provisions of the Exposure Draft should suggest alternatives that are supported by specific reasoning.

The following questions, which reference specific paragraphs within Chapter 4, are to be considered in your firm's response to the Exposure Draft:

Paragraph 4.01: Establishment of new REIS Chapter

- .02 Issue: The Exposure Draft recommends an additional chapter for REIS entitled Chapter 4, Fund Reporting Standards. As used herein, Funds include commingled funds and single investor separate accounts. In Version 1, the Council recommended the development of Investor Reporting Standards which would encompass communications to clients beyond those contained in a Fund's quarterly report.

Question:

- a. Should REIS develop Fund Reporting Standards rather than Investor Reporting Standards?
- b. Is it appropriate that these standards be applicable to single investor separate accounts as well as commingled funds?
- c. What are the benefits or disadvantages of such a chapter?

Paragraph 4.02: Required and Recommended Standards

- .03 Issue: The Exposure Draft proposes both required and recommended standards for Fund reporting within REIS. The suggested frequency with which each required or recommended practice is to be applied is based upon feedback from NCREIF constituents and the Council's perspective with respect to relevance to the report user.

Question:

- a. Do you agree with the notion of establishing both required and recommended Fund Reporting Standards within REIS?
- b. Do you agree that the frequency of line item disclosures presented herein is appropriate for every Fund?

Paragraph 4.03 Effective Date

.04 Issue: The effective date of this Exposure Draft is for fiscal years beginning after December 15, 2008 with earlier application encouraged.

Question:

Do you agree with the proposed effective date of this Exposure Draft? If you do not agree, please propose an alternative.

Paragraph 4.10 Benchmark Comparisons (Required)

.05 Issue: A benchmark is an independent rate of return (or hurdle rate) forming an objective test of the effective implementation of an investment strategy. The purpose for requiring a Benchmark is to allow the investor to compare the risk and performance of the Fund. Not all Funds have stipulated benchmarks. For Funds with stipulated benchmarks, Chapter 4 requires benchmark comparisons to be prepared no less frequently than annually. For those Funds where benchmarks have not been stipulated, Chapter 4 requires specific disclosure why benchmarks are not presented.

Question:

- a. Should the standards require annual reporting of a benchmark comparison if a benchmark is stipulated?
- b. Should the standards require specific disclosure why benchmarks are not presented for a Fund?
- c. Should benchmark comparisons be recommended versus required?

Paragraphs 4.12-4.15: Periodic Financial Reporting (Required)

.06 Issue: This Exposure Draft requires each Fund to present, at a minimum, condensed U.S. Fair Value GAAP based financial statements quarterly and to present comprehensive U.S. Fair Value GAAP based financial statements and footnotes (including a schedule of investments and a valuation policy statement) on an annual basis.

Question:

- a. Should all Funds be required to present, at a minimum, condensed U.S. Fair Value GAAP based financial statements quarterly and comprehensive U.S. Fair Value GAAP based financial statements annually in its Fund reports?
- b. Should all Funds be required to present a schedule of investments annually?
- c. Should all Funds be required to report all of the information elements presented on the proposed Schedule of Investments? Are there additional elements which should

also be required? Is the materiality limit of separate disclosure of the 20 largest investments and each investment representing 5% or more of Net Asset Value appropriate?

Paragraph 4.19 Management Discussion of Performance (Recommended)

.07 Issue: Based upon the feedback received from comment letters on Version 1, the Council recommends that the quarterly Fund reports contain a management discussion of performance relative to stated objectives. This discussion will serve to enhance and/or supplement benchmark reporting requirements.

Question:

- a. Should a management discussion of performance relative to objectives be a quarterly recommendation within REIS? Should the management discussion of performance relative to objectives be required vs. recommended?
- b. Should REIS establish specific elements which should be disclosed in the discussion? If so, please describe.

Paragraph 4.22: Verification of Partner/Investor Capital Accounts (Recommended)

.08 Issue: Currently, Fund agreements can provide for capital allocations between investors which may not be pro-rata. Such allocation differences stem from different sources (e.g. capital contribution hurdles; differing fee arrangements; timing of entrance and exit, etc.) and may become complex. Based upon the feedback received from the Plan Sponsor Community on Version 1, the Council thought it was appropriate to recommend that the manager of each Fund sponsor an independent, third party verification (either as part of an annual audit opinion or by separate agreed upon procedures report) of the allocation of capital accounts between each class of investors (including, as in the case with partnerships, the general partner(s) and each class of limited partners) in order to determine that such allocations have been performed in accordance with the Fund documents (e.g. Partnership agreement).

Question:

- a. Do you think that the independent, third party verification of partner/investor capital accounts should be **recommended** within the Fund Reporting Standards? Provide specific comments to support your answer.
- b. Do you think that the independent, third party verification of partner/investor capital accounts should be **required** within the Fund Reporting Standards? Provide specific comments to support your answer.

Paragraph 4.32 and 4.34 Open-end Funds Commitment Queue and Redemption Queue (Recommended)

.09 Issue: Open-end funds are required by GAAP to disclose the amount of redemptions it paid out quarterly. GAAP does not require Funds to disclose the amount of redemptions which have been requested in writing but remain unpaid (i.e., the queue). Similarly, open-end funds are not required by GAAP to disclose the Commitment Queue. Based upon feedback received from Version 1, the Council recommends that all open-end funds disclose the both the commitment and redemption queue as an additional measure of the fund's performance.

Question:

- a. Do you agree that Fund Reporting Standards should include a recommendation to disclose the commitment and redemption queues for open-end funds?
- b. Should the Fund reporting standard *require* (versus recommend) disclosure of the commitment and redemption queue?

Paragraphs 4.01-4.34: Affirmation

.10 Issue: The Council seeks any additional comments on the individual provisions of the proposed Fund Reporting Standards and on the aggregate impact of the proposal.

Question:

- a. Are the definitions and calculations for each required and recommended element reasonable? Are these required elements currently utilized within your Fund reports? Specifically address (using paragraph numbers for reference) any elements which should not be required, recommended, or both and provide reasons to support your answer. Are there any elements which should be required or recommended which are not? Describe reasons to support your answer and provide definitions for any elements you are proposing.
- b. Would any of the proposed minimum **required** standards presented (either individually or in aggregate) cause you to forego compliance with REIS for a given Fund's quarterly report? If so, please specify which standards and why.

3. Background Information, Basis for Conclusions, and Alternatives Considered

Background Information

Summary

- .01 On August 1, 2007, the REIS Council issued an Exposure Draft entitled Proposed Chapter 4: Investor Reporting Standards (“Version 1”). Version 1 was exposed to the public through September 30, 2007. Twenty-eight firms, representing a cross section of investment managers, consultants and plan sponsors responded to Version 1. (Version 1 and related comments are available on the NCREIF web site at www.ncreif.org/reis.) The REIS Council considered each response and concluded that Version 1 as written could not be incorporated into REIS. Significant changes were deemed necessary and therefore the REIS Council concluded that a re-exposure of Chapter 4 was warranted (“Version 2”).
- .02 During the comment review process the REIS Council concluded that certain suggestions should be incorporated into this Version 2 of Chapter 4. These suggestions included: a narrowing of the scope of Chapter 4; reclassifying standards into required and recommended practices (all practices in Version 1 had been required); eliminating certain elements; and adding recommendations suggested by the plan sponsor and consulting community.
- .03 On February 14, 2008, the FASB issued FASB Staff Position (“FSP”) SOP 07-1-1 which indefinitely defers the effective date of Statement of Position (“SOP”) 07-1, Clarification of the Scope of the Audit and Accounting Guide *Investment Companies* (“IC Guide”) and Accounting by Parent Companies and Equity Method Investors for Investments in *Investment Companies*. Respondents to the March 2007 NCREIF-sponsored REIS Reporting Survey indicated that over 70% of their Funds would be “scoped” into the IC Guide and would therefore be required to use the IC Guide for primary U.S. Fair Value GAAP based financial statement reporting. The requirement to use the IC Guide would significantly reduce (but not eliminate) accounting model differences in the private U.S. tax-exempt real estate industry and thereby foster more widespread comparability and consistency of reporting across these Funds.
- .04 The REIS Council determined that the deferral of SOP 07-1 further supports the immediate need to establish the required and recommended Fund Reporting Standards described herein.

Changes Resulting From Version 1 Comments

- .05 Comments received from Version 1 resulted in the following changes to the proposed standards which have been incorporated into Version 2.
 - Investor reporting can encompass other types of communication to investors in addition to the periodic Fund reports. The requirements in Version 1 principally

focused on Fund reporting requirements and as such, the chapter should be renamed. Focusing on Fund reports is an important step towards achieving consistency, comparability, transparency and verifiability within REIS. Therefore, this proposed Chapter 4 has been renamed “Fund Reporting Standards”. It should be noted that REIS compliance is at an Account/Fund level basis versus a Firm level basis.

- Certain required standards described in Version 1 were deemed to be useful to Fund report users but not necessarily critical. As a significant first step towards the REIS goals of account compliance and verifiability only essential minimum elements should be required at this time and the other useful elements should be recommended. In time, some of these recommendations may become requirements. This proposed Chapter 4 contains required and recommended standards.
- Certain required standards described in Version 1 needed further vetting and definition refinement within the NCREIF standing committees and the REIS Council before being incorporated into REIS. In addition, certain standards described in Version 1 were deemed relevant to some Fund strategies but not across all strategies. Accordingly, such elements have been deferred or deleted as appropriate.
- Response from the plan sponsor community suggested that the REIS Council consider a standard to recommend independent, third party verification of investor capital accounts by audit or other independent means. This has been proposed as a recommendation within this Chapter 4.
- Response from the consulting community suggested that the REIS Council consider a standard for Open-end Funds which will provide information in the Fund reports with respect to redemption requests which have not been satisfied (“redemption queue”) as well as commitment request which have not been satisfied (“commitment queue”). These have been proposed as recommendations within Chapter 4.

Deferral of SOP 07-1

- .06 The FASB concluded that the deferral of SOP 07-1 was necessary because a number of significant issues relating to the implementation of the IC Guide and the applicability of SOP 07-1 remain. One such issue pertains to the proper application of Investment Company accounting to real estate funds that are required to apply the IC Guide. Diversity in views exists in this area among Industry participants.
- .07 A Real Estate Funds Project is underway at the AICPA which is expected to provide guidance with respect to the implementation of the IC Guide. The guidance is expected to take the form of an AICPA Technical Practice Aid (“TPA”) and is expected to result in consistency in interpretation of the IC Guide for real estate funds which are required to follow its provisions. The AICPA has published questions and proposed answers relating to IC Guide interpretation for real estate funds which are expected to form the basis for the TPA. Respondents to this Exposure Draft are encouraged to refer to the following materials:

- [http://www.aicpa.org/download/members/Div/acctstd/general/0108_acsec_agenda_materials/Real_Estate_Funds - IC to REFunds - clean.pdf](http://www.aicpa.org/download/members/Div/acctstd/general/0108_acsec_agenda_materials/Real_Estate_Funds_-_IC_to_REFunds_-_clean.pdf)

- .08 The REIS Council and Board further support the deferral of SOP 07-1 because of the apparent difficulty in the interpretation of SOP 07-1 as it pertains to which entities in the real estate industry are required to apply the IC Guide. In its response to the FSP, the REIS Council and Board have suggested that the FASB provide additional interpretative guidance for SOP 07-1.
- .09 As U.S. Fair Value GAAP is a foundational standard within REIS for accounting, the REIS Council and Board have supported the notion of a deferral of SOP 07-1 until such time that the implementation issues have been adequately addressed by a Technical Practice Aid or other authoritative guidance. The REIS Council and Board think that any discontinuance of SOP 07-1 would not be in the best interests of the investors in our industry. SOP 07-1 would require a substantial portion of the Funds in our Industry to apply the IC Guide, thereby reducing, but not eliminating, the differences in accounting models utilized in our Industry. Models utilized include, but are not limited to: different interpretations of the IC Guide; Financial Accounting Standard 35, *Accounting and Reporting by Defined Benefit Plans*; Government Accounting Standard 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*; accounting described in REIS Chapter 2, Accounting; and historical cost. Multiple accounting models foster inconsistency and lack of comparability across Funds which may otherwise be comparable. Members of the REIS Council remain actively involved in the process to interpret current guidance and establish guidance where GAAP is silent.

Basis for Conclusions and Alternatives Considered

- .10 The REIS Council has proposed these Fund Reporting Standards to become an integral part of REIS for the following reasons:
- Fund reporting represents a substantial portion of the periodic communication to investors and service providers and therefore establishing standards for Fund reporting represents significant progress towards the REIS mission to provide clear, concise, comparable, consistent and transparent information to the institutional real estate investment community.
 - REIS provides guidance when foundational standards are silent or subject to interpretation.
 - Multiple fair value accounting models are used in our Industry making comparisons of significant Fund performance and attributes difficult.
 - The proposed *required* standards are most relevant to investors and users of Fund reports. The proposed *recommended* standards provide useful additional information to Fund report users.

- The proposed *required and recommended* standards are verifiable by independent means.

Periodicity

- .11 Each reporting element contained in Version 1 was required quarterly. Respondents to the Version 1 Exposure Draft pointed out that certain elements were static in nature and annual disclosure would be sufficient. In addition, certain elements generally provided for within the annual financial statements and footnotes would not generally be disclosed when quarterly condensed financial statements are prepared. The REIS Council concluded that the following disclosures must be presented no less frequently than annually, in the year-end Fund report: Fund Structure; Fund Style/Strategy; Total Time-weighted returns (TWR) both gross and net of fees; Benchmarks (if specified); Comprehensive U.S. Fair Value GAAP based financial statements and footnotes; Schedule of Investments; Valuation Policy Statement; and, for Closed-end Funds only, the Final Fund Closing Date and Fund Scheduled Termination Date.

Total Time-weighted return for quarter – gross and net of fees (required)

- .12 TWR is a calculation that computes period-by-period returns on an investment and removes the effects of external cash flows. The TWR reflects the firm's ability to manage assets according to a specified strategy or objective. For the NCREIF Indices (NPI and Fund Indices) TWRs are frequently used for benchmarking real estate performance.
- .13 Based upon comments received on Version 1, the disclosure of quarterly time-weighted total returns (Total TWR) gross and net of fees should be required. The quarterly interval was selected because time periods in excess of one quarter may not be appropriate for all Funds. In addition, although different from the GIPS requirement to disclose either gross or net time-weighted returns, the Council determined that Fund reporting standards should include both in order to provide relevant and transparent information to Fund investors.
- .14 As described herein, Net returns are after all compensation to general partners and investment advisors including general partner priority distributions, investment advisory fees and incentive fees. Respondents noted that in some cases Funds have different fee schedules for individual Fund investors. For example, different fees may be charged based upon the size of the investor's commitment. In addition, in some cases fees are billed separately and are not reflected in the Fund financial statements. The Council concluded that the net of fees returns should be presented for all classes of investors. In situations where fees are billed separately (outside of the Fund) and/or when different fee arrangements exist for investors within a Fund, the Fund report must include disclosure of the impact of these fees on total TWR, expressed, at a minimum as a basis points range. This disclosure will foster comparability between similar funds with respect to the impact of fees.

- .15 The Council concluded that component returns are most relevant for open-end funds. March 2007 REIS Chapter 2, Accounting describes the method of accounting currently promulgated by REIS and therefore component returns calculated using March 2007 REIS are recommended.

Benchmark Comparisons (required)

- .16 This proposed Chapter 4 requires disclosures of benchmark comparisons no less frequently than annually if benchmarks are stipulated by the Fund. Version 1 required benchmark disclosures quarterly. The purpose of requiring a benchmark comparison is to allow the investor to compare the risk and performance of a Fund. Respondents to Version 1 indicated that benchmarks may not be identified for all Funds. In some cases, benchmarks may not be available or established. The REIS Council has concluded that in those cases where benchmarks are specified they are required to be disclosed no less frequently than annually. In cases where benchmarks are not specified or utilized, the Fund must disclose that fact.

Financial Statements (required)

- .17 A Fund is required to prepare annual comprehensive financial statements with appropriate footnote disclosures based on U. S. Fair Value GAAP. On a quarterly basis, condensed financial statements are allowed. Condensed financial statements include at a minimum a Statement of Assets and Liabilities (which separates key components of assets and liabilities), a Statement of Operations, Net Asset Value, and the amounts of Contributions and Distributions, but may not include certain footnote disclosures which principally relate to static Fund information. As Comprehensive financial statements are frequently not prepared on a quarterly basis this Version 2 requires, at a minimum, condensed financial statement reporting quarterly and comprehensive financial statement reporting annually.

Valuation Policy (required)

- .18 U.S. Fair Value GAAP requires annual disclosure of the Fund's valuation policy. REIS Chapter 1, Property Valuation Standards requires a written valuation policy to be maintained and disclosed as appropriate. In addition, Chapter 1 requires quarterly valuations. (See www.ncreif.org/reis for further information.) This proposed Chapter 4 provides a mechanism to communicate sufficiently detailed information relating to valuations on an annual basis.

Schedule of Investments (required)

- .19 This proposed Chapter 4 requires the annual reporting of a Schedule of Investments. This information is to be reported on the 20 largest investments and every investment which value is in excess of 5% of the Fund's Net Asset Value. The elements include:
- Investment Name
 - Property Type

- Investment Structure
 - Acquisition Date
 - Location
 - Size
 - Current Year Cost
 - Current Year Fair Value
- .20 The IC Guide requires a Schedule of Investments, but specific guidance for real estate investments is not currently available. In addition, Funds which do not follow the IC Guide may not be required to prepare a Schedule of Investments in order to be in compliance with GAAP. In an effort to provide prudent disclosure requirements which promote comparability of meaningful information for analysis within REIS, the REIS Council has concluded that these minimum elements are to be required.

Management Discussion of Performance (recommended)

- .21 Respondents to Version 1 noted that Fund quarterly reports generally contain a management discussion of performance relative to the Fund's stated objective. The Council agreed that this element was worthy of additional consideration. Accordingly, this element is included as a recommended quarterly disclosure. After review of the feedback received from this proposed Chapter 4 and further discussion within the REIS Council and NCREIF standing committees to more clearly define parameters for this element, consideration will be given to making this disclosure required.

Verification of Capital Account Allocations (recommended)

- .22 Plan Sponsor respondents to Version 1 proposed that the REIS Council consider a requirement for an annual independent third party verification of investor capital accounts. Currently, Fund agreements can provide for capital allocations between investors which may not be pro-rata. Such allocation differences stem from different sources (e.g. Priority allocations to partners; Capital contribution hurdles; differing fee arrangements; timing of entrance and exit, etc.) and may become complex. It was suggested that independent third party verification be incorporated into the annual audit opinion or by a separate agreed upon procedures report. This verification would ensure that the allocation of capital accounts between investors (including, as in the case with partnerships, between the general and each class of limited partners) have been performed in accordance with the Fund documents (e.g., Partnership agreement). At this time the standard is being proposed as a recommendation only.
- .23 The Council agreed that this element should be given further consideration through this proposed Chapter 4 and is therefore included as a recommendation. This proposed element will also be subjected to discussions within the REIS Council and the NCREIF Standing Committees.

Redemption Queue and Commitment Queue (recommended: open-end funds quarterly)

- .24 Consultant respondents to Version 1 indicated that an attribute of performance which should be disclosed for Open-end Funds is the amount of redemption requests made which have not been satisfied and on the flip side, the amount of commitment requests which have been requested but not contributed. This information is generally not disclosed in the periodic financial statements and footnotes. Combined with other factors, it is a measure of the overall health of a Fund. Although not part of Version 1, the Council agreed that these elements should be included as a quarterly recommendation for Open-end funds within these Fund Reporting Standards.

4. Proposed Real Estate Information Standards

Chapter 4-Fund Reporting Standards

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Proposed Real Estate Information Standards

Chapter 4-Fund Reporting Standards

Introduction

.01 In order to promote consistency, comparability, and transparency of information within the private, tax-exempt institutional real estate investment industry in the United States, the development of REIS Fund Reporting Standards resulted from the realization that there should be a requirement to periodically disclose minimum specific information within a fund report that is relevant to the investor’s decision-making process. The Valuation, Accounting and Performance Measurement Standards established within REIS describe the policies and practices required and recommended to facilitate analysis of the reported information. Contrasted with the disclosures referenced in the first three chapters of REIS, the Fund reporting chapter provides a communication conduit which will promote consistency, comparability, and transparency of information as well as compliance and verifiability of these interdisciplinary standards.

Required and Recommended Elements

.02 For all Funds, the information listed below is to be disclosed in the Fund report, no less frequently than indicated. (As used herein, the term “Fund” includes all commingled funds and single investor investment accounts. Note that items in **bold face** are for illustrative purposes only. Numbers reference the paragraphs within Chapter 4.)

Chapter 4: Fund Reporting Standards				
(All Funds Unless Otherwise Noted)				
		Element	Frequency	Definition Reference
Required:				
Fund Overview		Fund Name	Quarterly	4.04
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Closed-End Funds: Additional Disclosures		Aggregate Capital Commitments	Quarterly	4.23
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		Distributions Since Inception	Quarterly	4.26
		Paid-In Capital Multiple	Quarterly	4.27
		Investment Multiple	Quarterly	4.28
		Realization Multiple	Quarterly	4.29
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Open-End Funds:		Fund level component TWR, gross and net of fees, current quarter calculated using March 2007 REIS	Quarterly	4.31
Additional Disclosures		Commitment queue	Quarterly	4.32
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Effective Date

.03 The effective date for implementation of this Chapter 4, Fund Reporting Standards is for fiscal years beginning after December 15, 2008, with earlier adoption encouraged.

Required Elements:

Fund Overview

.04 Fund Name: The legal name of the Fund. As used herein, the term “Fund” refers to all commingled funds and single investor investment accounts.

.05 Fund Contact: The name of the person responsible for issues relating to Fund reporting matters. Frequently, this is the Fund’s Portfolio Manager.

.06 Fund Inception Date: The date of the initial capital contribution into the Fund.

.07 Fund Structure¹:

a. Commingled fund: A term applied to all open-end and closed-end pooled investment vehicles. A commingled fund may be organized as a group trust, partnership, corporation, insurance company separate account, or other multiple ownership entity.

i. Open-end: A commingled fund with an infinite life, which allows periodic entry and exit of investors, and typically engages in ongoing investment purchase and sale activities.

ii. Closed-end: A commingled fund with a stated maturity (termination) date, with few or no additional investors after the final initial closing of the fund. Closed-end funds typically purchase a portfolio of properties to hold for the duration of the fund and, as sales occur, typically do not reinvest the sales proceeds.

b. Single Investor Investment Account: Any investment account managed for the benefit of one investor. Single investor investment accounts may include either pools

of assets owned by a single entity or individual assets owned by separate legal entities.

- .08 Fund Style and Strategy: In general, a description of Fund strategy includes the Fund's plan for asset allocations taking into consideration goals, risk tolerance and holding period and includes, at a minimum, the investment style. The definitions provided below describe investment styles/strategies commonly used in the Industry. They have been abstracted from the NCREIF White Paper: [Real Estate Styles Whitepaper](#)¹. (This Whitepaper contains much more detailed information on the classification of funds by strategy and should be considered by managers in describing Fund strategy; however the fund strategy designation is the responsibility of the Fund's management.
- a. Core: A portfolio that includes a preponderance of core attributes. As a whole, the portfolio will have low leasing exposure and low leverage. A low percentage of non-core assets is acceptable. As a result, such portfolios should achieve relatively high income returns and exhibit relatively low volatility.
 - b. Value-added: A portfolio that generally includes a mix of core investments and non-core investments that will have less reliable income streams. The portfolio as a whole is likely to have moderate lease exposure and moderate leverage. As a result, such portfolios should achieve a significant portion of the return from appreciation and are expected to exhibit moderate volatility.
 - c. Opportunistic: A portfolio of preponderantly non-core investments that is expected to derive most of its return from appreciation and/or which may exhibit significant volatility in returns. This may be due to a variety of characteristics such as exposure to development, significant leasing risk, high leverage, or a combination of moderate risk factors.

Key Fund Performance Summary

- .09 Fund-level Total Time-weighted return (TWR), gross and net of fees: "Fund-level" is the aggregation of all of the investments made by the entity and the amounts earned or incurred which relate to the entity but are not specifically attributable to a particular investment.

"Time-weighted Return" is a calculation that computes period-by-period returns on an investment and removes the effects of external cash flows, which are generally investor-driven, and best reflects the firm's ability to manage assets according to a specified strategy or objective. A return is calculated for each equal length period, usually on a quarterly basis for real estate. Returns are then linked to calculate a multi-period return. Each return over the period has an equal weighting; therefore, the timing of the return and the amount invested for a period have no impact on the multi-period return².

For a single period, the "Total Time-weighted Return" is the sum of the quarterly net income (loss) return and the realized or unrealized valuation adjustment (appreciation or depreciation) return. For longer periods, it is the geometrically-linked total returns for the individual periods within the longer period².

“Gross returns” are before all investment advisory fees.

“Net returns” are after all compensation to general partners and investment advisors including general partner priority distributions, investment advisory fees and incentive fees. The net of fees returns should be presented for all classes of investors. In situations where fees are billed separately (outside of the Fund) and/or when different fee arrangements exist for investors within a Fund, the Fund report must include disclosure of the impact of these fees on total TWR, expressed, at a minimum as a basis points range.

- .10 Benchmark Comparisons: A benchmark is an Independent rate of return (or hurdle rate) forming an objective test of the effective implementation of an investment strategy³. A benchmark should be verifiable, should be appropriate to the investment portfolio to which it is being compared and should have a similar maturity to the investment portfolio under examination. In certain situations benchmarks may not be stipulated by the Fund’s manager. If an appropriate benchmark is available it should be reported in the Fund report no less frequently than annually and appropriate comparisons of Fund performance the benchmark should be described. If an appropriate benchmark is not available (due, principally to the Fund’s strategy) then the Fund must disclose why benchmarks are not presented.
- .11 Net Asset Value (NAV): The fair value of real estate and all other assets less total liabilities

Financial Statements

- .12 Condensed U.S. Fair Value GAAP Based Financial Statements. In order to be in compliance with REIS, these condensed financial statements must include: a Statement of Assets and Liabilities (which separates key components of assets and liabilities); a Statement of Operations; Net Asset Value; Contributions made to the Fund; and Distributions Paid from the Fund to Investors for each quarter presented.
- .13 U.S. Fair Value (GAAP Based) Financial Statements and Footnotes: The Fund report must contain comprehensive U.S. Fair Value GAAP based financial statements and footnotes that are prepared no less frequently than annually. The Fund report must provide a clear indication of the accounting model used to prepare such information.
- .14 Valuation Policy Statement: The Fund report must contain a statement that the Fund complies with the Property Valuation Standards described within Chapter 1 of REIS.
- .15 Schedule of Investments: For REIS compliance the Schedule of Investments must separately disclose the following information on the Fund’s 20 largest investments and for all investments representing 5% or greater of the Fund’s total NAV.
 - Investment Name: The Fund’s Identifier
 - Property Type: See Portfolio Characteristics (4.21)

- Investment Structure: See Portfolio Characteristics (4. 21)
- Acquisition Date The date acquired by the Fund
- Location: If practical, use City/State, or Country if outside of the U.S. If the investment represents a diversified portfolio use Country/Region where the most significant portion of the investment is located.
- Size: Use square footage or other appropriate measure based upon the nature of the investment (ex. Number of rooms for hotels; acres for land)
- Current Year Cost: The Fund's share of cost of the investment as accounted for using historical cost GAAP.
- Current Year Fair Value: The Fund's share of the fair market value of the investment as reported in the Fund's financial statements.

Additional Required Elements for Closed-End Funds:

- .16 Since-Inception IRR: The IRR is the annualized implied discount rate (effective compounded rate) that equates the present value of all of the appropriate cash inflows associated with an investment with the sum of the present value of all of the appropriate cash outflows accruing from it and the present value of the unrealized residual portfolio.

The fund report must disclose (a) the time period for the calculation, and (b) the frequency of the cash flows used in the calculation.

- .17 Final Fund Closing Date: The date of admittance of final investor(s) into the Fund.
- .18 Fund Scheduled Termination Date: The date the Fund is scheduled to liquidate, per the Fund's legal documents.

Recommended Elements

Additional Performance Elements

- .19 Management discussion of performance relative to Fund objective: A summary discussion of the Fund's performance for the quarter including comparisons to established fund objectives and stated investment strategy and parameters.
- .20 Leverage Percentage⁴: Also known as the Debt to Assets Ratio, the Leverage Percentage indicates what proportion of debt an entity has relative to its assets. Used in conjunction with other measures of financial health, the leverage percentage can be one measure of an entity's level of risk. A leverage percentage greater than 100% indicates that an entity has more debt than assets. A leverage percentage of less than 100% indicates that an entity has more assets than debt.

Calculations:

Equity Method:

$$\text{Debt Percentage} = \frac{\text{Wholly Owned debt (property \& fund) + Economic Share of JV Debt}}{\text{Total Assets + Fund share of Joint Venture Liabilities}}$$

Consolidation:

$$\text{Debt Percentage} = \frac{\text{Wholly Owned debt (property \& fund) + Economic Share of JV Debt}}{\text{Total Assets - Minority Partner Economic Share of RE Partnership Assets}}$$

Characteristics

.21 Portfolio Characteristics: Calculated as a percentage, the value of real estate assets in each category divided by the total value of real estate investments. The basis for the calculation must be disclosed (gross real estate assets or net real estate assets).

- a. By Investment/Property Type⁵: Suggestions include those in the NCREIF Property Index (Office, Industrial, Retail, Apartment, and Hotel) in addition to Timberland and Agriculture, which NCREIF reports as separate indexes.

Other investment/property types might include:

Entertainment (e.g., theaters, golf courses, bowling alleys, restaurants, pubs, casinos)

Healthcare (e.g., hospitals and outpatient clinics)

Land

Manufactured housing (e.g., pre-manufactured housing complexes and mobile home facilities)

Parking

Self-Storage

Senior Living (e.g., Assisted Living, Skilled Nursing, etc.)

Condo conversion

Homebuilding

Infrastructure (e.g. Transport, Regulated Utilities, Communications; Social)

Medical Office

Mixed-use facilities

- b. By Region/location: NCREIF U.S. geographic divisions (Northeast, Mideast, East North Central, West North Central, Southeast, Southwest, Mountain, and Pacific). If a Fund includes non-U.S. investments, include country.

- c. By Nature of Investment (Life Cycle)⁵:
- i. Forward Purchase Commitment: Fund's commitment to purchase at a pre-specified price when all conditions agreed to in the forward commitment agreement have been met (off-balance sheet).
 - ii. Pre-Development: Raw land or land undergoing property site development.
 - iii. Development: Property under construction, including preparation and installation of infrastructure.
 - iv. Initial Leasing: Completed construction that is less than 60% leased and which has been available for occupancy for less than one year.
 - v. Operating/stabilized: Completed construction that has achieved 60% leasing status since the end of construction or has been available for occupancy for more than one year.
 - vi. Repositioning/Redevelopment: A property that is undergoing significant capital intensive activities such as redevelopment or asset repositioning such as Class B to Class A. This classification can also be used for investment companies undergoing a transformation or repositioning.
- d. By Investment Structure: The investment structure is defined as one of the following: wholly-owned investments; joint ventures; bonds; senior debt; subordinated debt; mezzanine debt; participating mortgages; commercial mortgage-backed securities (CMBS); public real estate security; and private real estate operating company.

Investor Capital Accounts

- .22 Verification of Investor Capital Accounts. To be completed as a part of the annual audit opinion or other agreed upon procedures report for independent, third party verification. The verification indicates that individual investor's capital account is reasonably stated so that allocations of the Fund's equity have been made to various classes of investors in accordance with that stipulated in the investor agreement (ex. subscription agreement, limited partnership agreement).

Additional Recommended Elements for Closed-End Funds:

- .23 Aggregate Capital Commitments: The total amount committed to the Fund by the investors.
- .24 Aggregate Capital Received to Date: The total amount of investor capital received by the Fund as of the date of the report.
- .25 Unfunded Commitments: As of the date of the report, Unfunded Commitments represent the difference between Aggregate Capital Commitments and Aggregate Capital

Received to Date, increased by capital returned to investors which can be reinvested, if applicable.

- .26 Distributions Since Inception: The amount of Distributions Paid from the inception date of the Fund through the date of the Fund report.
- .27 Paid-In Capital Multiple: The Paid-In Capital Multiple, also known as the paid-in capital to committed capital multiple (PIC), is computed as the Aggregate Capital Received to Date divided by the Aggregate Capital Commitments.
- .28 Investment Multiple: The Investment Multiple, also known as the Total Value to Paid-In Capital Multiple (TVPI), is computed as the sum of Distributions Paid since inception plus NAV at the measurement date, divided by the Fund's Aggregate Capital Received to Date.
- .29 Realization Multiple: The Realization Multiple, also known as the cumulative Distributions to Paid-In Capital multiple (DPI), is computed as the sum of Distributions Paid since inception divided by the Fund's Aggregate Capital Received to Date.
- .30 Residual Multiple: The Residual Multiple, also known as the Residual Value to Paid-In capital multiple (RVPI), is computed as the Fund's NAV at the measurement date divided by the Fund's Aggregate Capital Received to Date.

Additional Recommended Elements for Open-End Fund

- .31 Fund Level Component TWR (gross and net of fees) calculated using March 2007 REIS: (current quarter): The fund report must provide disclosure of TWR for the applicable periods using data derived from the accounting methodology described in Chapter 2 of March 2007 REIS.
- .32 Commitment Queue: The amount of subscriptions not yet contributed to a Fund as of the reporting date.
- .33 Redemptions for Quarter: The amount paid to investor(s) exiting the Fund during the reporting period.
- .34 Redemption Queue: Written notifications received from investors to redeem out of a Fund but that have not been fulfilled as of the end of the reporting period.

Footnotes to Disclosure Definitions

.35 Footnotes:

¹ NCREIF White Paper: Real Estate Investment Styles Whitepaper (Chicago: National Council of Real Estate Investment Fiduciaries, Oct. 2003).

² Real Estate Information Standards (REIS), Appendix 2, Glossary (Chicago: National Council of Real Estate Investment Fiduciaries, 16 Mar. 2007).

³ “Benchmark”, Global Investment Performance Standards, February, 2005, Appendix E, Glossary of Terms.

⁴ “Debt Ratio,” Investopedia, 18 Jul. 2007 <http://www.investopedia.com/terms/debtratio.rsp>.

⁵ NCREIF Data Contributor Manual (Chicago: National Council of Real Estate Investment Fiduciaries, 2006).