

Exposure Draft comments

Comment Deadline: April 30, 2008

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?

Fund reporting standards are appropriate.

- b. Is it appropriate that these standards be applicable to single investor separate accounts as well as commingled funds?

Standards for single or separate accounts are not necessary. Separate account contracts are individual to the investor and will vary. It is up to the investor and service provider to come up with what is needed.

- c. What are the benefits or disadvantages of such a chapter?

Paragraph 4.02: Required and Recommended Standards

Benefits are transparency and comparability

- .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?

Yes, I agree with required and recommended.

- b. Do you agree that the frequency of line item disclosures presented herein is appropriate for every Fund?

Yes, I agree with frequency.

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.

I agree with the effective date.

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?

I feel benchmarks should be recommended. It is up to the investors to benchmark returns of all of their investments. I would hesitate to rely on a fund's reporting of the benchmark numbers.

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?

Yes

b. Should all Funds be required to present a schedule of investments annually?

Yes

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?

Yes, funds should follow Schedule and the separate disclosure is 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?

It should be recommended. It is up to the investor to track whether fund is performing as state objectives.

b. Should REIS establish specific elements which should be disclosed in the discussion? If so, please describe.

It may be hard to come up with elements as every fund has different objectives.

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.

Yes, very important.

- 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.

Yes, but is this something that should be required from the plan sponsor investors when they look for investments?

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?

Yes, absolutely

- b. Should the Fund reporting standard require (versus recommend) disclosure of the commitment and redemption queue?

Yes, absolutely

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.

In 4.08, the section on the attempt to define real estate style definitions, I would be very cautious of being too specific. The reality is everyone has their own definition and they change the definition to suit their needs. A good definition won't exist until better objective measures of risk are developed. I would prefer this section either be watered down or eliminated.

- c. 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.

I am representing a plan sponsor. This does not apply.