NCREIF
National Council of Real Estate Investment Fiduciaries

April 10, 2006

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 1250-001 Exposure Draft Proposed Statement of Financial Accounting Standard, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115*

Dear Mr. Smith:

We appreciate the opportunity to comment on the Exposure Draft of the Proposed Statement of Financial Accounting Standards, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115.

Responding Organization

The National Council of Real Estate Investment Fiduciaries (NCREIF) was formed in 1982. It is an association of institutional real estate professionals who share a common interest in setting standards for 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.

Membership is comprised of investment management companies, pension plan sponsors, academics, consultants, appraisers, certified public accountants, and other institutional real estate service providers with a vested interest in the industry. The NCREIF Property Index, a quarterly publication, is the most widely used and recognized measure of US private real estate performance. We support the development of accounting and reporting standards that improve the quality of financial reporting and consistency across organizations.

This letter provides our response to the Exposure Draft along with comments related to the need for accounting standards to provide investors with the transparency and consistency they require in financial reporting and performance measurement.

Scope

We support the proposal to fair value financial assets and financial liabilities, and in particular, the applicability of the Exposure Draft to notes and mortgage liabilities as reported by investment companies scoped within the AICPA Investment Company Guide.

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Initial Measurement

Fundamental to investor reporting is a consistent methodology for determining net asset value. The objective of fair value reporting is to record assets and liabilities at the amount at which such assets and liabilities could be sold, settled or exchanged in a current transaction. We believe it is imperative that investors be provided with consistent and reliable financial statement information that provides transparency concerning their investments.

The option to choose a fair value or historical cost valuation methodology is particularly troubling since, in our experience, accounting guidance that allows the ability to select a particular accounting treatment generally reduces consistency and transparency. Paragraph 6 of the Exposure Draft permits financial statement preparers to elect fair value vs. historical cost reporting on a *contract-by-contract* basis which would further reduce consistency and transparency.

Therefore, we recommend that all financial assets and financial liabilities be required to be reported at fair value. If this is not practical we propose that consideration be made to require applying the fair value option at an entity level rather than on a contract-by-contract basis, eliminating confusion within one entity's financial statements. At a minimum we recommend that if an election is made it must apply for all contracts with the same characteristics, this would provide consistency within a reporting entity.

To illustrate the reduced consistency and transparency we believe will occur if the Exposure Draft is implemented in its current form, if you had two entities with identical balance sheets and entity A elected to fair value its financial assets and liabilities while entity B elected to carry its financial assets and liabilities at cost, the net asset value of the entity that fair values its favorable debt position will differ, possibly materially, from the entity with the same debt that has elected not to fair value debt. This divergent reporting clearly does not meet the goals of providing investors with consistent and reliable information about their investments.

If the Exposure Draft is adopted without modification, we will require all members of NCREIF to report financial assets and financial liabilities at fair value and this will meet our goal of providing consistent information and transparency as to the performance of the related investments.

Subsequent Measurement

Various practices are currently employed in the valuation of financial liabilities and we believe it is important the Exposure Draft provide guidance on acceptable valuation methodologies or to provide examples as a component of the fair value measurement project. Currently this guidance is not available and leads to inconsistencies in producing financial information.

For example, costs incurred in connection with obtaining financing (professional fees, commissions, points, interest rate buy downs, etc) are capitalized under current authoritative literature. However we believe the valuation of such financing costs should be considered as part of the valuation of the related debt. While the Fair Value Measurements Working Draft currently indicates that such costs should not be included in fair value computations, we believe clarification is required as to how such transactions costs should be accounted for as there are situations where such costs have no value.

Nonfinancial assets and nonfinancial liabilities

Paragraph A4 of the Exposure Draft requests input about the use of fair value in accounting for nonfinancial assets and nonfinancial liabilities. NCREIF shares the FASB's concern regarding mixed-attribute accounting and, as stated elsewhere in this response, we believe that mixed-attribute accounting results in financial reporting information which is difficult for financial statement users to analyze and therefore hinders, rather than supports, the stated goal of consistent and transparent financial reporting to support rational investment and credit decisions. To reiterate, we believe financial statements should be prepared on single-attribute accounting basis. This view suggests, among other things, that nonfinancial assets and nonfinancial liabilities must be included in a fair value accounting framework.

Our industry has been working with an evolving fair value framework over the past thirty years. During that time, it has become clear that certain historical cost based concepts do not translate effectively to a fair value environment. Depreciation is a key illustration of this circumstance. Computing and reporting depreciation on real property held for investment (a nonfinancial asset) resulted in financial reporting which distorted both operating results and the reported impact of the fair valuation measurement process. Accordingly, industry financial statement users have embraced the broad concept of eliminating historical cost accounting conventions, whenever doing so provides relevant and understandable information, which supports investor decision making processes. We would urge the FASB to identify other elements of the historical cost accounting framework which are of limited value in a fair value accounting environment and formally eliminate the need to prepare such information.

We appreciate the opportunity to comment on the Exposure Draft and if you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Jeffrey Kiley at 617/530-7318.

Very truly yours,

James O'Keefe
NCREIF President, 2006

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