



NCREIF

National Council of Real Estate Investment Fiduciaries

**Via E-mail only to: [director@fasb.org](mailto:director@fasb.org)**

December 14, 2007

Mr. Russell G. Golden  
Director of Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

RE: File Reference: Proposed FSP SOP 07-1-a

Dear Mr. Golden,

The Real Estate Information Standards (REIS) Board and REIS Council are writing to you to express our support of the proposed FASB Staff Position (FSP) SOP 07-1-a which would delay the effective date of AICPA Statement of Position 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* (SOP 07-1). As discussed in the October 12, 2007 letter to Mr. Robert Herz (see copy attached), we believe that deferral of SOP 07-1 is critical in order to avoid a resulting lack of consistency and comparability in reporting in our industry and to prevent the introduction of unnecessary confusion among institutional investors. However, we also believe that discontinuance of the SOP would not be in the best interests of investors in our industry and request that deferral be limited to the amount of time necessary to address critical implementation issues.

One of the concerns we have pertains to the proper application of investment company accounting to real estate funds that are required to apply the AICPA Audit and Accounting Guide *Investment Companies* (the IC Guide) as we understand that diversity in views exists in this area among audit firms serving our industry (as well as other participants in our industry). With regard to this concern, we understand that efforts are underway through the Real Estate Funds Project at the AICPA to provide much needed guidance and expect that such guidance, which may take the form of an AICPA Technical Practice Aid, will result in consistency in interpretation among audit firms and others in our industry with respect to reasonable application of investment company accounting to real estate funds. However, because the TPA is not available at this time we consider deferral of SOP 07-1 to be critical for our industry until such time as the TPA becomes available.

A second concern relates to the apparent difficulty in the interpretation of SOP 07-1 as it pertains to the determination of which entities in the real estate industry are required to apply the IC Guide. In this regard, we understand that at present there remains notable diversity in views among audit firms serving our industry (as well as other participants in our industry) with regard to the aspects of SOP 07-1 that pertain to the scope of the IC Guide and the related application to real estate entities. We also understand that this diversity in views may involve circumstances where related parties and affiliates of an entity are conducting a de minimis, more than de minimis, or a majority of non-investment activities for property investments of an entity (i.e. property management, leasing, developmental activities, etc.) Accordingly, in addition to a reasonable deferral period, we request that sufficient interpretive guidance be provided to audit firms as well as others in our industry (perhaps through an AICPA Technical Practice Aid) in order to achieve reasonable consistency in the application of the SOP within our industry.

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The existence of notable diversity in views on such matters as described above has left the institutional real estate investment industry without a clear path to properly implement SOP 07-1. Such an implementation effort is a substantial undertaking for our industry and can only be accomplished after such time as consistency in interpretation is achieved among audit firms and preparers. In this regard, we request that the length of the proposed deferral of the SOP consider the length of time required to provide our industry with the requisite application guidance described above. Once this guidance is available, we request that the Financial Accounting Standards Board end the deferral of SOP 07-1.

We would like to thank you for affording us the opportunity to comment upon the proposed deferral of SOP 07-1 as outlined in FSP SOP 07-1-a and are grateful for your consideration of the matters discussed above.

Yours truly,

Douglas Poutasse  
Executive Director, NCREIF  
Chairman, Real Estate Information Standards Board

Attachment – Letter to Mr. Herz, FASB, October 12

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*The National Council of Real Estate Investment Fiduciaries*

October 12, 2007

Mr. Robert H. Herz  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Herz:

The Real Estate Information Standards Council is writing to you to request that the Board defer the required effective dates of FAS 157, 159 and SOP 07-1. The Real Estate Information Standards Council is a body formed in collaboration with the National Council of Real Estate Investment Fiduciaries, the Pension Real Estate Association, and the National Association of Real Estate Investment Managers to assist in establishing standards for calculating, presenting and reporting investment results to the institutional real estate investment industry. Our industry investors consist primarily of tax-exempt pension funds that own interests in the estimated \$750 billion of commercial real estate and real estate related investments held by real estate investment vehicles.

Real Estate Information Standards, known as REIS, were initially published in 1995 and represent an effort to codify a single set of desired industry practices and to improve standardization of valuation procedures, financial reporting, and reporting of investment performance return information. REIS plays an important part in the overall efficiency of the real estate investment industry as consistency, comparability and transparency are critical for institutional investors to make efficient and sound investment decisions regarding their investments, investment managers, and the asset class. REIS depends upon, and is intended to supplement and in 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 known as the Global Investment Performance Standards (GIPS).

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We are writing to you at this time because we understand you may be considering a deferral of FAS 157 in an upcoming Board meeting and because we believe participants in the institutional real estate investment industry recognize they are not adequately prepared to effectuate such a substantial change in the reporting for institutional real estate investments by January 1, 2008. Our industry participants are not adequately prepared due in large part to the continued widespread diversity in views as to the proper application of FAS 157, 159 and SOP 07-1 to the industry. This diversity in views remains in spite of substantial efforts in recent years to actively prepare our industry for the adoption of FAS 157, 159 and SOP 07-1, efforts which include formation of various industry working groups, implementation analysis as well as initiating a project with the AICPA to provide guidance in order to maintain the level of consistency we have achieved through REIS. We believe that deferral is critical in order to avoid a resulting lack of consistency and comparability in reporting and to prevent the introduction of unnecessary confusion among institutional investors.

One of the most significant challenges faced by the industry results from the application of SOP 07-1, which is expected to require many real estate funds to apply the AICPA Audit and Accounting Guide *Investment Companies* (the IC Guide) for the first time. While significant challenges appear to remain at this time with respect to reasonable consistency in determining which entities are required to apply the IC Guide, for those that it is clear they are required to apply the IC Guide, such as the open-ended real estate funds that are formed as separate accounts of insurance companies, there appears to be widespread diversity in views as to its proper application. We appreciate the willingness of the AICPA to accept our request for additional guidance for those funds applying the IC Guide for the first time, and recognize the significant effort put forth by the AICPA to allow us to achieve our objective of a consistent implementation of the IC Guide within our industry. Unfortunately, at this time the guidance is not yet available and we continue to hear substantial diversity in views among real estate investment advisors and their audit firms with respect to the fundamental accounting and reporting matters faced by investment vehicles in connection with their first-time adoption of the IC Guide in approximately 75 days.

While adoption of the IC Guide as a result of SOP 07-1 would appear at this time to present the greatest challenge to the industry, other challenges exist with respect to the application of FAS 157 and 159. In light of the significant amount of mortgage financing borrowed by real estate investment vehicles, the fair value measurement principles of FAS 157 that pertain to the valuation of liabilities are a critical matter in the industry. Through REIS, our industry has made a firm commitment to require industry participants to elect the FAS 159 fair value option for all mortgage liabilities. In recent years the REIS Council, in consultation with valuation experts, academics, and others in our industry, has explored prudent fair value principles and their application to a borrower's mortgage liabilities (See REIS Adopting Release dated June 15, 2006 at

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<http://www.ncreif.org/reis/>). Because our analysis concluded that the exit notion is a fundamental principle contained within all fair value measurements, industry participants did not understand the basis for an apparent change to FAS 157 which indicated, in its application to liabilities, that a fair value measurement should assume that the liability is transferred to a market participant. Because non-transferable rights exist within both assets and liabilities, we believe the liability measurement which assumes transferability is inconsistent with our understanding of fair value principles. Accordingly, we continue to struggle with the apparent inconsistency of the application of FAS 157 to assets vs. liabilities and continue to have notable unanswered questions which directly impact the measurement of net asset value in our investment vehicles. Many of our investment vehicles trade on net asset value, so consistent application of these principles is of paramount importance to our industry.

At this time, without the ability to have established a clear path for the implementation of the IC Guide as well as specific FAS 157 and 159 matters, the preparer community in our industry has been unable to effectively execute upon the required information systems conversions, internal control modifications, and transitional efforts required to adopt SOP 07-1, FAS 157 and 159 on January 1, 2008. Such an implementation effort is a substantial undertaking for our industry and can only be prudently accomplished after such time as reasonable consistency has been achieved among preparers and their audit firms in terms of the application issues. Accordingly, we respectfully request that the Board delay the required effective dates of the standards to give an appropriate amount of time for industry participants and their audit firms to work through the application issues and to allow the AICPA sufficient time to provide the much needed guidance and assistance involving the first-time adoption of the IC Guide by real estate funds.

We thank the Board in advance for your consideration of the matters discussed above and would welcome the opportunity to discuss any related matters at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Doug Poutasse" followed by a stylized flourish.

Douglas Poutasse  
Executive Director  
National Council of Real Estate  
Investment Fiduciaries

cc: Benjamin S. Neuhausen, Chair, Accounting Standards Executive Committee

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