



Real Estate Information Standards (REIS)

Via e-mail only

GIPS Executive Committee

standards@cfainstitute.org

June 17, 2009

RE: Comments on Global Investment Performance Standards (GIPS) 2010 Exposure Draft

To the GIPS Executive Committee:

Thank you for the opportunity to comment on the GIPS 2010 exposure draft. We applaud the efforts of the working committees and the CFA Institute's commitment to the development of comprehensive global performance measurement and presentation standards.

Responding Organization

The Real Estate Information Standards Board is the official governing body of the Real Estate Information Standards (REIS). The REIS Standards were first published in 1995 in collaboration with the National Council of Real Estate Investment Fiduciaries (NCREIF) and the Pension Real Estate Association (PREA). The REIS Board is responsible for establishing information standards for private, institutional equity real estate in the United States, an industry estimated at \$750 billion. The underlying principle guiding the REIS Standards is the disclosure of reliable, consistent, comparable and independently verifiable information which is relevant to the investor decision making process. The REIS Standards are interdisciplinary and include standards for performance measurement, valuation, reporting and fair value accounting. The REIS Standards are dependent on, and are intended to supplement but not replace, other established standards from its "Foundational Standards Bodies". Within the REIS performance measurement standards, the Foundational Standards Body is GIPS.

Recently, the REIS Board and Council have welcomed the opportunity to consult with members of the CFA Institute as we prepared REIS [Guidance for Determining](#)

[Investment Discretion for Real Estate Investment Accounts.](#) This document illustrates the REIS Board and Council's commitment to supplement standards established within the GIPS standards which are of particular interest to the institutional real estate investment community which we serve.

Summary Response

Although our principal focus is Chapter 6, Real Estate, we have reviewed the entire document and have provided answers to each question posed. We believe the content of the proposed standards is appreciative of the need to develop a set of standards for all investable asset classes which are transparent and comparable yet also provide for unique measures and disclosures for alternative investments including real estate and private equity. This approach facilitates the prospective investor's understanding of these alternative asset classes and their place within the capital markets universe.

We would like to commend the working group and executive committee for proposing changes to the GIPS Standards which help bring greater clarity, transparency and comparability within GIPS compliant presentations. We have provided specific reasons in areas where we did not agree with the proposed changes. Of particular note, we do not agree with the proposed change for annual external appraisals beginning on or after January 1, 2012. As explained in detail within the answers to the questions below, this requirement does not enhance the credibility of valuations. Market pressures should drive the frequency of external appraisals if needed more frequently than once every 36 months, not additional performance requirements.

Our answer to each question is provided below.

Questions and Answers

Sections 0 - 8

0. A.7 Do you agree with including disclosure of the firm's verification status in the claim of compliance? Do you agree with the classification of a current verification being within the last 24 months?

We agree with including disclosure of a firm's verification status in the claim of compliance. We do not support the classification of a current verification being within the last 24 months as it does not add value to the claim of compliance. The disclosure should include the dates (month and year) covered by the verification. Our recommended verification statements are as follows:

For verified Firms

"[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of FIRM] has been independently verified for the periods [insert dates – month and year]."

For non-verified Firms

"[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of FIRM] has not been independently verified."

1. A.2 Do you agree with the change from market value to fair value?

We agree with the change from market value to fair value.

3. A.1 Do you agree with the inclusion of non-fee paying discretionary portfolios in composites?

All discretionary portfolios should be included in a composite regardless of fee payment. We recommend the percentage of non-fee paying portfolios be disclosed since the net of fees return may be distorted if the non-fee paying portfolios represent a significant portion of the composite.

3. A.9 Do you agree with changing the following from a recommendation to a requirement? "Firms must not present a composite to a prospective client known to have a portfolio with assets less than the composite's minimum asset level."

We disagree with changing this recommendation to a requirement. Regardless of the composite's minimum asset-level threshold, prospective clients could gain valuable insight by evaluating the firm's performance in strategies similar to those they are interested in investing in. A firm should have the discretion to determine who receives performance presentations. Moving to a standard requirement could hinder a firm's marketing ability to prospective clients.

4. A Should firms be allowed to remove certain disclosures after a defined period of time? If so, which disclosures would be eligible for removal and after what period of time?

Over time, disclosures may become stale and thus, less useful or relevant. We believe disclosures that affect the current presentation should be included. We would like clarification on procedures if a decision is made to remove certain disclosures.

4. A.5 Do you agree with the inclusion of short positions in provision 4.A.5?

We support the disclosure of short positions.

4. A.20 Do you agree with requiring the disclosure of key characteristics and risks in the composite description?

We support the disclosure of information that would help a prospective client understand the key characteristics of a composite strategy. However, additional guidance and clarification on the meaning of “sufficient” information is needed. This provision should not be required if a clear definition of the requirement cannot be provided. We also suggest adding additional language stating past performance may not be indicative of future performance.

4. A.29 Do you agree with the inclusion of a standard deviation disclosure?

We generally support the inclusion of a standard deviation disclosure. While we recognize this provision is not a requirement for real estate, we want to clarify that real estate is not prohibited from disclosing the standard deviation as supplemental information.

5. A.5 Is it appropriate to discontinue disclosure 5.A.5 for periods after January 2011? Percentage of composite assets that is composed of carve outs.

It is appropriate to discontinue this disclosure only if a firm no longer maintains carve outs. Otherwise, a firm should continue this disclosure.

5. A.8 Do you agree with the requirement to present the percentage of the composite assets composed of proprietary assets?

We agree with this requirement subject to the addition of a threshold. Calculating the percentage of proprietary assets (particularly for funds with employee-owned REIT shares) could be quite cumbersome and should be required only for those that materially affect the composite.

6.A.2 Do you agree that real estate investments must be valued by an independent external appraiser every 12 months beginning January 1, 2012?

We do not agree that real estate investments must be valued by an independent external appraiser every 12 months beginning January 1, 2012. The current requirement of at least once every 36 months is sufficient.

Firms who own real estate assets and are required to fair value them every quarter know their real estate assets and the current market dynamics and operational risks that impact the values. Firms have valuation policies and procedures in place to determine reasonable pricing. This process is multi-dimensional and involves input from Portfolio Managers, Research, Acquisitions, Leasing, Property Management and Accounting. The involvement by management in the review of external and internal appraisals has been critical in arriving at fair value conclusions on an asset by asset basis whereby a consistent approach is applied across all assets and all portfolios.

Some have responded to the suggestion of annual appraisals with the position that it would have an enormous impact on cost and would be cost-prohibitive, especially for

smaller firms. While this should be taken as a consideration, it should not be the primary consideration. The primary consideration should be what standards provide the most accurate, consistent and transparent reporting to the investors. External appraisals may provide the perception of meeting those goals while not actually providing greater accuracy, consistency and transparency.

We agree that firms must disclose when valuations used for performance return purposes differ from valuations used for financial reporting. If a threshold is applied, the threshold amount should also be disclosed.

We would like additional guidance addressing whether external appraisals are required if a client's investment agreement stipulates other timing or no requirement at all as this could create a conflict and reporting dilemma for firms who want to be GIPS compliant.

In conclusion, the requirement of external valuations once every 12 months does not enhance the reliability of the valuations and could conflict with client mandates. Market pressures should drive the frequency of external valuations if needed more frequently than once every 36 months, not additional performance requirements.

6. A.6 Do you agree with the additional requirements and recommendations for closed-end real estate funds as defined?

We support the inclusion of a since inception internal rate of return as a requirement but strongly suggest the use of quarterly cash flows (instead of daily cash flows) for real estate. For benchmarking purposes, there is no index available using daily cash flows for real estate. We also support the inclusion of multiples as a requirement.

We agree that closed-end fund composites should be defined by investment strategy. However, to define a composite by vintage year may dilute the relevance of performance composites by making comparison to benchmarks less meaningful. The focus of composites should be on risk and not the timing of capital commitments or contributions. Due to the additional requirements for closed-end real estate funds, an example presentation or format guidance would be extremely beneficial. We are happy to offer our assistance in the development of this example or guidance.

6.A.15 Do you agree that component returns must be disclosed, and that the method described in provision 6.A.9.b will no longer be acceptable for periods beginning after January 2011?

We do not support the component return disclosure requirement. The use of various accounting models produces component returns that lack comparability. The development of additional metrics comparable to other asset classes should be explored. We agree that provision 6.A.9.b will no longer be acceptable if component returns are disclosed.

8. A.6 Is it appropriate and/or necessary to include this provision, which addresses presenting performance to existing clients, in the GIPS standards? Should firms be allowed to present a “sponsor-specific composite” as opposed to a “style-specific composite”?

The GIPS standards are geared toward presenting a firm’s investment performance to prospective clients as opposed to existing clients. It is not appropriate or necessary to include this provision in the GIPS standards. Composites, by definition, are based upon a similar investment mandate, objective or strategy. Allowing presentation of sponsor-specific composites in the GIPS standards violates the intent and spirit of the composite definition.

Verification

Should special verification procedures be included for GIPS provisions 0.A.16 and 0.A.17?

We do not feel there is a need for the inclusion of special verification procedures.

Appendix D – Valuation Principles

Do you agree with the requirements and recommendations in the GIPS Valuation Principles?

We support the hierarchy concept which will enable a firm to determine fair value in any type of environment and understand the need to establish standards for the absence of market trading activity. The proposed hierarchy is similar to, but stricter than Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* which defines fair value, establishes a framework for measuring fair value and expands disclosures for fair value measurement. As currently written, the GIPS proposed hierarchy requires a firm to follow the hierarchy in sequential order and does not allow the firm to exercise judgment on the appropriateness of a particular step. We recommend adding language which allows a firm to move to a lower step in the hierarchy if a situation warrants such decision. For example, fire sale or distressed pricing may be observable but may not represent a fair or appropriate value. As currently written, a firm would be required to use the observable input and not move to a lower step in the hierarchy. We agree that firms should disclose the key assumptions and inputs used to value investments.

Please see our comments above specific to real estate external valuation requirement.

Additional clarification on the classification of real estate versus private equity is needed. The valuation provisions are different, yet in some cases the attributes of these types of investments are the same. It would be beneficial to understand the classification differences.

Appendix E – Glossary

Do you agree with the definition of prospective client? If not, how should it be defined?

We recommend changing the first sentence in the definition to read “Any person or entity that has expressed interest in one of the firm’s strategies”.

Conclusion

Thank you for the opportunity to respond to this exposure draft. Should you have any questions or require clarification of our responses, please do not hesitate to contact [Doug Poutasse](#), REIS Board Chair, or [Marybeth Kronenwetter](#), REIS Administrator.

We look forward to collaborating on future initiatives.
Yours truly,

Doug Poutasse
REIS Board Chair