NCREIF PREA
Reporting Standards

Via Email: rule-comments@sec.gov
Subject: File Number S7-03-22

April 25, 2022

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Ms. Countryman,

This letter represents the NCREIF PREA Reporting Standards Board's and Council's comments to the proposed rules for private fund advisers issued on February 9, 2022 (Proposed Rules.) We commend the Securities and Exchange Commission for its goal of protecting those that directly or indirectly invest in private funds and appreciate the opportunity to comment on these Proposed Rules.

The NCREIF PREA Reporting Standards (Reporting Standards) (www.reportingstandards.info) is an institutional private real estate investment industry initiative co-sponsored by the National Council of Real Estate Investment Fiduciaries (NCREIF) and the Pension Real Estate Association (PREA) with a mission to establish, manage and promote transparent and consistent reporting standards for the real estate industry to facilitate informed investment decision making.

- NCREIF (www.ncreif.org) is an association of institutional real estate professionals which includes investors, investment managers, academics, consultants, and other service providers who share a common interest in the industry of institutional private real estate investment. NCREIF is a non-profit organization and serves the institutional real estate community as an unbiased collector and disseminator of real estate performance information, most notably the NCREIF Property Index (NPI), NCREIF's flagship index with data dating back to 1978 and the Open-end Diversified Core Equity index (NFI-ODCE), NCREIF's commonly used fund benchmark with an inception date of December 31, 1977, with a combined fair value of approximating $1 trillion in gross assets. NCREIF also focuses on education and industry-wide sharing of intellectual knowledge.

- PREA (www.prea.org) is a non-profit organization founded in 1979 for the global institutional real estate investment industry. PREA's mission is to serve its members through the sponsorship of objective forums for education, research initiatives, membership interaction and the exchange of information. PREA currently lists over 700 corporate members across the United States, Canada, Europe, and Asia.

The Reporting Standards are governed by the Reporting Standards Board and Council. These two groups are comprised of real estate industry professionals that are experts in their respective discipline (i.e., accounting, performance reporting, valuation) and/or role (investor, investment manager, consultant, service provider) that serve in limited rotating terms allowing 2-3 new members annually. The Reporting Standards is an industry led initiative where stakeholders (including investors, investment managers, consultants, and service providers) come to the table to discuss and resolve issues faced in the institutional private real estate industry resulting in collective and collaborative agreement on best practices and required and recommended elements of fund reporting. This collaborative environment continues to provide a necessary forum to address the ever evolving and changing needs of the institutional private real estate industry.

Established standards-setting organizations such as the Financial Accounting Standards Board (FASB) and the CFA Institute (developed and administers the Global Investment Performance Standards (GIPS®)) (collectively, Foundational Standards along with the Uniform Standards of Professional Appraisal Practice (USPAP) developed by the Appraisal Standards Board of the Appraisal Foundation) do not specifically address certain institutional private real estate investment and investor reporting issues. The Reporting Standards utilizes those Foundational Standards to create industry specific standards and increase overall transparency within the industry.

Unique features exist specific in the institutional private real estate industry that we want to ensure are known because they may affect decisions related to the Proposed Rules. These include but not limited to the following:

- Investor Base – Representation from our investor base is predominantly institutional investors including many tax-exempt pension plans.
- Structure – Investments in private real estate contain complex structures and include commingled funds as well as separate investor accounts (also known as separately managed accounts (SMAs.))
- Risk Spectrum – Investments in private real estate span the risk spectrum and include core to opportunistic to debt strategies. This wide range of investment opportunity significantly impacts the availability of information and therefore, the timing of receiving such information.
- Investment Discretion – Investments in private real estate can be comprised of discretionary accounts where the investment manager is given discretion (either full or limited as detailed in the fund's governing documentation) and non-discretionary accounts where the investor is making nearly all the investment and related decisions.
- Valuation – Real estate is not traded on a public exchange where a comparable value is easily obtained. Valuation of real estate includes the use of unobservable inputs and requires much research and analysis thus impacting the timing of fund reporting.

The Reporting Standards has made great strides in recent years with respect to transparency and consistency in fund reporting, performance, and specifically fees and expenses (with the

release of the Total Global Fees and Expense Ratio (TGER) in 2020.) The American Institute of Certified Public Accountants (AICPA) recognized the Reporting Standards as a contributor to the AICPA Accounting and Valuation Guide focused on measuring fair value of private equity funds, venture capital funds, and other investment companies. Therefore, we think it is appropriate to highlight these industry standards and how compliance with the Reporting Standards can satisfy the SEC requirements specific to Quarterly Reporting and Audits.

While we recognize that all the questions posed in the proposal are important, we can only comment to those questions within our purview of reporting. The absence of comment on other questions does not indicate agreement or disagreement, but more so, is simply out of scope for the Reporting Standards. Our responses to the appropriate sections are attached as Exhibit A.

Finally, having a history of producing reporting standards for the institutional private real estate industry for over twenty years, we are concerned that the limited timeframe for responses and as well as pending effective date, if adopted will create unintended consequences such as those related to implementation cost and resources. We recommend an opportunity for rule review and six-month public comment period to give investors and investment managers ample time to research, vet, fully understand, and respond to potential issues.

We would be pleased to discuss our comments and suggestions with you at your convenience and if helpful, clarify the industry perspective as it relates to these Reporting Standards and general institutional private real estate fund reporting. I can be reached at jamie.kingsley@reportingstandards.info or 512-785-8474.

Yours truly,

Jamie Kingsley
Director
NCREIF PREA Reporting Standards

EXHIBIT A

Quarterly Statements

We applaud your efforts to ensure investors receive regular, recurring investment reporting and appreciate your acknowledgement that most private fund advisers provide their investors with quarterly reporting.

The Reporting Standards apply to the information included in the collective reporting prepared periodically (e.g. quarterly and annually) for all private institutional equity real estate investors in Commingled Funds (e.g., Open-end and Closed-end) (collectively, Funds) and Separately Managed Accounts (SMAs) (also known as Separate Accounts or Single-client Accounts). The reporting may take many forms and may be available through written or electronic communications such as web portals. We recommend clarification be added to the rule that states if required information is provided elsewhere then a separate statement or template is not needed. We agree that quarterly is an appropriate time frame for reporting but recommend adding clarification that some reporting such as an audit of the financial statements is performed annually.

The Reporting Standards are principles-based. A prescriptive approach to quarterly statements presents challenges because fees, expenses and performance metrics are not homogenous across all private funds thus making it difficult to apply a "one size fits all" solution to all private funds. We support requiring disclosures specific to fees and expenses (including related party transactions) and performance to ensure transparency for informed decision-making. Our response specific to performance reporting is included in its own section below.

With respect to delivery timing, we recommend that delivery timing agreed to by the investor and investment manager and documented in the fund's governing documents prevail. In the event no delivery timing is specified, we recommend that delivery timing should be "when reasonably practicable." While a 45-day delivery timeframe may be reasonable for certain real estate investment strategies and structures, as you move up the risk spectrum, invest globally or utilize other structures, the needs of the investors as well as the availability of underlying information change and thus the report timing needs to be adjusted. Additionally, real estate fund reporting is dependent on property financial reporting provided by local managers, valuations provided by third-party appraisers and other sources of information that may not be readily available to support 45-day reporting. In some cases, contractual agreements with administrators, appraisal companies and property managers would need to be amended to comply with a 45-day rule. Additionally, enforcing a 45-day rule on all private fund advisers may

introduce estimates being used more significantly and therefore, decreasing the value of the report to the investors, and potentially creating confusion for the investor.

Fee and Expense Disclosure

We applaud and commend your efforts to increase transparency and comparability of fees and expenses across various funds. We too have seen significant increase in investors seeking transparency regarding fees and expenses. Additionally, real estate offers an attractive alternative investment across the globe. This compounded the challenges for investors seeking to monitor performance not only domestically but also internationally.

In 2015, the Reporting Standards began a joint consultation with INREV (European Association for Investors in Non-listed Real Estate Vehicles) and ANREV (Asian Association for Investors in Non-listed Real Estate Vehicles.) The result of that work is the Total Global Expense Ratio (TGER). TGER is the first global metric that bridges the gap in terminology and definitions for the most widely used categories of real estate investment vehicle fees and expenses (charged directly or indirectly) by investment managers and service providers. TGER focuses on the substance of the fees and expenses over form and was developed to reflect the nature of the expenses regardless of where they may be booked (inside or outside of the fund or where the expense sits within the investment structure) for financial reporting purposes.

The two key principles of TGER are transparency and comparability which align well with your fee and expense disclosure goals. TGER is a ratio by which the numerator is fees and expenses, and the denominator is gross asset value. TGER is a required element of the Reporting Standards and is required to be reported at least annually and over a 12-month rolling period but may be reported quarterly.

Components of TGER:

Numerator:

• **Ongoing Management Fees** – Fund and asset management fees charged by investment managers for their services regarding the everyday running of the vehicle and its portfolio. Management fee adjustments such as fee reductions, fee waivers, and transaction offsets should be disclosed and included in TGER.

• **Performance Fees/Compensation** – Fees charged by investment managers after a predetermined investment performance hurdle has been attained including amounts realized and unrealized.

• **Transaction Fees** – Fees charged by investment managers for their services regarding the acquisition/disposition of real estate.

• **Vehicle Costs** – Third party costs incurred predominantly at fund level to maintain and grow its operations.

Denominator:

• **Weighted Gross Asset Value ("GAV")** – Total assets derived from the vehicle accounting standards, e.g., US GAAP, IFRS, and adjusted for specific elements to arrive at a market-relevant gross asset value in accordance with NCREIF PREA Reporting Standards/INREV Guidelines. Daily weighting of cash flows is recommended. If not feasible, at a minimum the average quarterly amounts should be used to calculate the average GAV. See example of presentation and disclosure of TGER below.

Below is an example of required TGER presentation and a description of required disclosures:

Total Global Expense Ratio
For the Rolling Four Quarters Period Ended MM/DD/CY and MM/DD/PY

	MM/DD/CY	MM/DD/PY
Asset/Fund management fees [1]	$xxx,xxx	$xxx,xxx
Performance fees/compensation	xxx,xxx	xxx,xxx
Transaction-based management fees [1]	xxx,xxx	xxx,xxx
Total Fees Earned by Investment Advisor	**$xxx,xxx**	**$xxx,xxx**
Total Vehicle-related costs charged by third parties [2]	**$xxx,xxx**	**$xxx,xxx**
Average Gross Asset Value [3]	**$xxx,xxx,xxx**	**$xxx,xxx,xxx**
Gross Asset Value TGER	**x.x%**	**x.x%**

1. TGER disclosures must indicate the types of fees included in TGER and whether management fee adjustments including, rebates, fee reduction, fee waivers, and transaction costs are utilized by the Fund (and are therefore included in TGER as a reduction of fees).

2. TGER disclosures must indicate the types of costs included in TGER.

3. Gross asset value is the average of the quarterly assets as of mm/dd/yy through mm/dd/yy (i.e. 12/31/2019 through 12/31/2020) and mm/dd/py through mm/dd/py (i.e. 12/31/2018 through 12/31/19), respectively. Assets are calculated as follows: Total Balance Sheet assets less Joint Venture partner's economic share of total assets plus Fund's economic share of non-consolidated liabilities. *Note to Managers: The attempt to calculate a time-weighted GAV may outweigh the benefits, therefore, manager may use a simple quarterly average.*

TGER is a required reporting element of the Reporting Standards for open-end funds effective December 31, 2020, and for closed-end funds that were formed in 2020 and beyond.

We recommend that the rule be clarified to state that if the required information is provided in the existing fund reporting to investors that it will be sufficient to meet the Proposed Rule and the adviser does not need to complete a separate statement or template. We also recommend

that a ratio along with detailed categories and disclosures (as demonstrated above) be presented to provide context as to the fund size related to such fees and expenses.

Performance Disclosure

As noted in the introduction, the Global Investment Performance Standards (GIPS®) serve as a Foundational Standard to the Reporting Standards. Where applicable, alignment with the GIPS® standards is applied in the same spirit of transparency and consistency to offer current investors the same fair representation as required for prospective investors under GIPS® standards. However, GIPS® standards applies to all assets classes and requires a firm-wide basis of adoption. The Reporting Standards applies specifically to the institutional private real estate industry and is account or fund specific based upon certain characteristics (i.e., open-end fund, closed-end fund, or SMAs.)

We appreciate your efforts to bifurcate funds into two categories: liquid and illiquid. Real estate funds are often assumed to be illiquid due to the nature of real estate itself. However, open-end real estate funds have characteristics of liquid funds such as a perpetual life and the ability of investors to enter or exit the fund at their discretion and in accordance with governing fund documents. These open-end real estate funds value the real estate investments held by the fund on a quarterly basis at a minimum. However, your statement that liquid funds primarily invest in market traded securities does not capture these open-end real estate funds. We also understand, and you have noted, the subjective nature of determining if a fund is liquid or illiquid along with the challenges presented when funds are deemed as a hybrid. The Reporting Standards categorize reporting into three groups based on investment structure: open-end funds (like your defined liquid fund), closed-end funds (like your defined illiquid fund) and SMAs (likely a hybrid.) We recommend you take a similar approach, mitigating the subjectivity in determining which performance reporting method is most applicable. For funds with hybrid characteristics, we recommend documenting the characteristics of the investment structure and agreement between the investor and investment manager as to the desire level of reporting would satisfy the Proposed Rule.

The Reporting Standards also require gross and net performance return reporting for all fund types. For clarity, we have added the words “before fees” and “after fees” to the Reporting Standards requirement to alleviate potential confusion. Even so, diversity in practice may exist. Therefore, we recommend that you change gross to “gross (before fee)” and net to “net (after fee)”. The Reporting Standards also require disclosure of the fees deducted from the gross to arrive at the net. We recommend that you require such disclosure as well.

Typically, the difference between gross and net performance returns represents fees and performance compensation paid to the investment manager. GIPS® standards also defines gross and net this way. We recommend that you adjust your definition to coincide with GIPS® standards. Total measure of fund load (fees AND expenses) is captured in TGER as noted in the fee and expense section above.

Given that we require gross and net performance reporting for all fund types, we recommend you require gross performance return reporting for liquid funds especially with your focus on transparency of fees. We recommend gross and net performance reporting for all fund types.

A time-weighted return is the appropriate performance return measure for open-end (like your defined liquid fund) funds. As for periodicity within the Reporting Standards, performance returns for open-end funds (like your defined liquid fund) are calculated on a quarterly basis to coincide with financial statement preparation and quarterly fund reporting. All other cumulative period results are built upon this single period and annualized. Cumulative performance returns are shown on a rolling quarter basis at each report date (i.e., quarter end.) In addition, cumulative performance returns are not the result of averaging the return for the single periods. Instead, geometric linking of the single period return is used. The geometric linked calculation results in a compounded rate of return where each quarterly return in the measurement period has equal weighting. We recommend that you consider this approach and add clarification that this long-time practice for institutional private real estate funds would satisfy the proposed rule. We agree that cumulative time periods should be presented. The Reporting Standards require current quarter as well as cumulative periods for 1, 3, 5, 10 year and since inception (as time periods are available) at each reporting date. This requirement aligns with the cumulative performance return goals you have stated for liquid funds.

We agree that the internal rate of return (IRR) is the appropriate performance return measure for closed-end (like your defined illiquid fund) funds. The IRR periodicity is since inception as of the report date. Other cumulative time frames similar to liquid funds are unnecessary due to the nature of the IRR. We agree that a multiple or group of multiples must be presented alongside an IRR to give a more complete picture of performance.

Determining realized and unrealized components of an IRR can be subjective. For example, the point of realization may be considered the sale date of an asset to a third party, the date of distribution to investors, or the date which a distribution is no longer recallable for further investment. We recommend that if such rule is included that it be accompanied by detailed calculation methodology and illustration.

The Reporting Standards require since inception IRR reporting, gross and net of fees along with disclosure of fees and/or expenses deducted from gross to arrive net. We determined through research and analysis that diversity in practice existed with respect to fees and expenses included or not included in the IRR reporting. As such, the Reporting Standards created a hierarchical system to identify exactly what was being included or excluded when reporting gross & net IRRs and requires disclosure of the type/level of IRR reporting. The result of that work can be found here: *Gross and Net IRR - Adding transparency and consistency to closed-end fund performance and investor specific reporting*.

We recommend clarification be added that performance reporting in compliance with the Reporting Standards will satisfy the Proposed Rule.

In general, the SEC's proposal recognizes performance reporting in the same manner as established for institutional private real estate. We take exception to the proposed requirement to report an IRR calculated as if, hypothetically, the subscription line was not utilized. This proposed requirement is presented as a one-size-fits-all solution for all private equity asset classes to expand transparency. During the comment period for GIPS 2020, we performed extensive industry outreach. We discovered that as lines of credit come in many forms, disclosures surrounding terms, activity, and intent of use was important for an investor to fully understand the performance impact. We also found this understanding is most beneficial and informative during the capital raise period before an investor commits to a given investment, thus more appropriately included in the SEC's advertising rule. Beyond the commitment period, ongoing disclosures for current investor reporting avoids reporting hypothetical, inconsistent information across managers. The Reporting Standards required that if a fund commences operations prior to the initial cash contribution by the investors, the name of such activity and the impact on performance must be disclosed. We recommend that the Proposed Rules require disclosure of such activity instead of detailed calculation with and without the use of subscription lines due to the complexities involved in such calculations that may result in an incomparable result.

Mandatory Private Fund Adviser Audits

We agree with the proposed requirement that private fund advisers obtain an annual audit of the financial statements of the private funds they manage. The Reporting Standards require an annual independent financial statement audit of the fair value U.S. GAAP-based financial statements for all funds and SMAs. The Reporting Standards also requires funds and SMAs to distribute fair value U.S. GAAP-based financial statements (to include, at a minimum, a Statement of Assets and Liabilities (e.g., balance sheet), a Statement of Operations (e.g., income statement), a Statement of Cash Flows and a Statement of Changes in Net Asset Value) on a quarterly basis for interim periods (i.e., quarters that are not the audit quarter.)

U.S. GAAP provides a framework under which a fund evaluates whether financial statements should be presented on a consolidated basis and instances where it may be appropriate to present financial statements on a combined basis as well as consideration for reporting as an investment company. We recommend that reliance on the existing frameworks (e.g., U.S. GAAP) prevail.

The Reporting Standards is silent as to the treatment of stub periods (a partial quarter at the beginning of the fund as well as the partial quarter(s) at the end of the fund's life cycle or liquidation.) Several unique circumstances may exist making it difficult to capture all scenarios and be prescriptive. Therefore, the Reporting Standards provide flexibility as to the start and end audit periods thus leaving the decision to the investors, investment managers, and auditors to agree what is appropriate for each fund and set of circumstances. We recommend that the Proposed Rule allow this flexibility with respect to partial quarter(s) at the beginning and end of the fund's life cycle.

The Reporting Standards also allows the investor and investment manager to agree on who will receive the fund's audit report. There are many reasons why this approach is appropriate, not the least of which would be ensuring confidentiality of information which is important to investors and investment managers alike. Therefore, we recommend the audit report not be required to be distributed to the SEC.

Closing

The Reporting Standards mission is to establish, manage and promote transparent and consistent reporting standards for the real estate industry to facilitate informed investment decision-making. Established standard-setting organizations such as the Financial Accounting Standards Board (FASB) and the CFA Institute (developed and administers Global Investment Performance Standards-GIPS®) do not specifically address certain institutional real estate investment and investor reporting issues. Therefore, the Reporting Standards initiative was created-to fill that gap and increase transparency within the industry.

The Reporting Standards initiative is a collaborative group of institutional real estate investment stakeholders (investors, investment managers, consultants, service providers) with multi-disciplinary backgrounds that have come together for over twenty years to execute the mission of the Reporting Standards and answer the ever-evolving needs of the institutional real estate investment industry. Our mission is not dissimilar from the goals you hope to accomplish with these Proposed Rules.

You asked how you could minimize the compliance burden while still achieving the goals of the Proposed Rules. We recommend that you utilize established industry frameworks that already exist, and stakeholders understand with respect to fund reporting and that information reported in accordance with such frameworks (i.e., the Reporting Standards) would meet your Proposed Rules.

The Reporting Standards collaborates with other domestic standard-setting organizations such as the AICPA and ILPA as well as global organizations such as CFA Institute, INREV, and ANREV. We welcome the opportunity to collaborate and discuss the institutional real estate industry and the Reporting Standards with you at any time.

Again, thank you for the opportunity to respond to the Proposed Rules.