NCREIF Spring Conference 2025

Accounting Committee

DAY 1 AGENDA

- Introductions
- Tax Update
- NCREIF PREA Reporting Standards and Chart of Accounts Update
- Hot Topics

DAY 2 AGENDA

- Task Force Updates:
  - Fair Value Accounting Manual Update
  - NCREIF Academy Course
  - Valuation Manual Update
  - Looking ahead
- Deep Dive on Debt Fund Manual
- Additional Hot Topics
- Joint Session – Accounting & Valuation
  - Valuation Manual

ATTENDANCE

- Session check-in with the conference app for committee attendance.
- Check-in code: Accounting1
- Paper sign in sheets are at the registration desk.

CHAIR INTRODUCTIONS

Chairs:

Mark Wojteczko
Deloitte

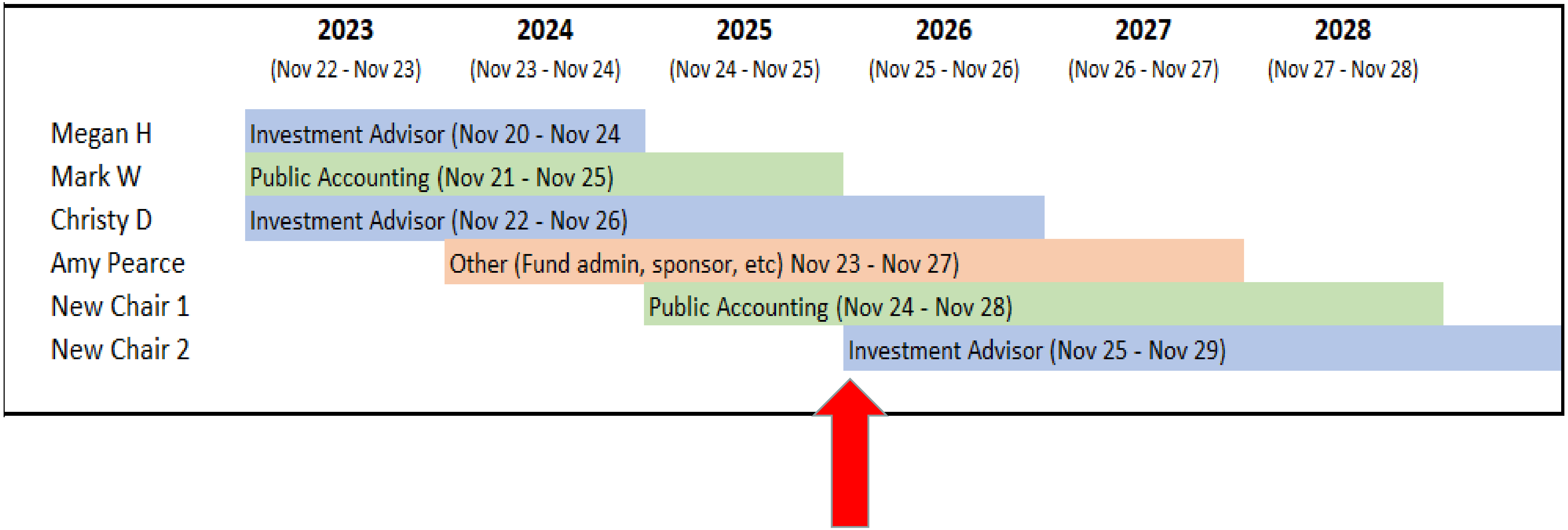
Christy Daniels
Principal

Vice Chairs:

Amy Pearce
SS&C Technologies

John Confrey
Forvis Mazars LLP

FUTURE CHAIRS - STRUCTURE



ABOUT US

- NCREIF is a Not - For - Profit Premier Industry Association
- Membership is comprised of Real Estate Investment Managers, Industry Consultants and Service Providers, Investors and Academicians.
- Leading source of institutional real estate performance data and information.

ACCOUNTING COMMITTEE - MISSION STATEMENT

- To enhance the consistency, transparency, and verifiability of accounting and reporting for institutional real estate assets held in a fiduciary setting.
- Reviews, develops, documents and promotes standards for accounting and reporting with the intention to supplement and in some cases, clarify, but not replace other established standards from authorized bodies, including but not limited to US GAAP.
- Monitors the actions of applicable standard-setting and supervisory agencies and works with the Reporting Standards Council to ensure the entire organization is aware of these agencies' activities and as appropriate assists the Reporting Standards Council in communication with these agencies.
- Provides members with tools and/or resources created through the collective efforts of the membership, and supports the activities of other NCREIF committees by supplying information and research when appropriate.

WHO IS IN THE ROOM?

Who is at NCREIF for the first time?

What discipline do you work in?

- Real Estate Investment Advisor
- Public Accounting
- Fund Administration
- Other

TAX UPDATE

Ryan Taylor

US Tax Leader Building, Construction & Real Estate

KPMG

NCREIF PREA REPORTING STANDARDS UPDATES

Benay Kirk - Alter Domus

Lauren DeMartini – MetLife

ASSET LEVEL REPORTING

- Exposure Draft was sent in November 2024
- Comments were due by January 31, 2025
- The taskforce worked through the comments and made updates to be approved
- Currently there are 7 required disclosures for asset/investment level reporting:
    - Investment Name; Property Type; Investment Structure; Acquisition Date; Location; Fair Value; Size
- Exposure draft proposed new 'recommended' data points and frequency:

	Annual Frequency	Quarterly Frequency	Revised Annual Frequency	Revised Quarterly Frequency
All Equity/SMAs	17 new	10 new	8 new	7 new
All Debt	16 new	-	-	-
Open-End Equity/Debt/SMAs	1 new	-	-	1 new
Closed-End Equity/Debt/SMAs	4 new	-	2 new	2 new

NEGATIVE NAV

- Performance team is working on updating the white paper from 2011.
- Plan is to share the updated white paper with Accounting and Valuation Committee for their input on the topic.
- Issues to be vetted from an accounting perspective:
    - How handle working capital:
        - Cash at property
        - Interest expense
        - Other assets & liabilities
    - How handle if fair value asset but don't elect to fair value debt?
    - Do we discuss questions for funds that are not Fair Value Investment Companies?

DEBT MANUAL

- Deep dive on status and content of manual will occur tomorrow.

ILPA REPORTING & PERFORMANCE TEMPLATES

Reporting Template

Current version of the ILPA Reporting Template was updated and released in 2025

- Intended to replace the 2016 ILPA Reporting Template for Funds still in their investment period during Q1 2026 or for Funds commencing operations on or after January 1, 2026
- Legacy Funds - For Funds no longer in their investment period as of January 1, 2026, optionality to continue to provide the 2016 Reporting Template – with mechanisms in place to support providing the updated Reporting Template without the need to reclassify historical and current period fees and expenses). The updated Reporting Template is not expected to be provided for Funds already out of their investment period as of Q1 2026; however, ILPA supports GPs that may wish to adopt the updated Reporting Template. See III. Application to Legacy Funds in link below
- First reporting period Q1 2026
- GPs are encouraged to talk to their LPs, Fund Administrators, etc. prior to Q1 2026
- https://ilpa.org/wp-content/uploads/2025/01/ILPA-Reporting-Template-v.-2.0-Suggested-Guidance.pdf

ILPA REPORTING & PERFORMANCE TEMPLATES

Reporting Template Updated Areas

- Added more details to the Cash / Non-Cash Flows section to capture Offering/Syndication Costs, Placement Fees and Partner Transfers
- Broke out Internal Chargebacks (i.e., Internal Staff/Related Persons) from the external Partnership Expenses to isolate Expenses Allocated/Paid to the GP or Related Persons
- Introduced more granular external Partnership Expenses in key areas
- Consolidated the Reconciliation for Accrued/Earned/Paid Carried Interest (formerly referred to as Accrued Incentive Allocation) within the Capital Accounts Statement section
- Clearer definitions across fields
- Enhanced guidance on the standardized treatment of different line items (with allowances for reasonable optionality

ILPA REPORTING & PERFORMANCE TEMPLATES

Performance Template

- Required for Funds commending operations on or after January 1, 2026
  - First delivery will occur four fiscal quarters after commencement of operations. So if a fund commences operations on in Q1 2026, the first Performance template would be for the four quarters ending March 31, 2027
- **Legacy Funds** - N/A should only be provided on a go-forward basis for Funds commencing operations on or after January 1, 2026
- Best suited for **closed-ended Funds and Funds that utilize the IRR**
- First reporting period Q1 2026
- GPs are encouraged to talk to their LPs, Fund Administrators, etc., prior to Q1 2026

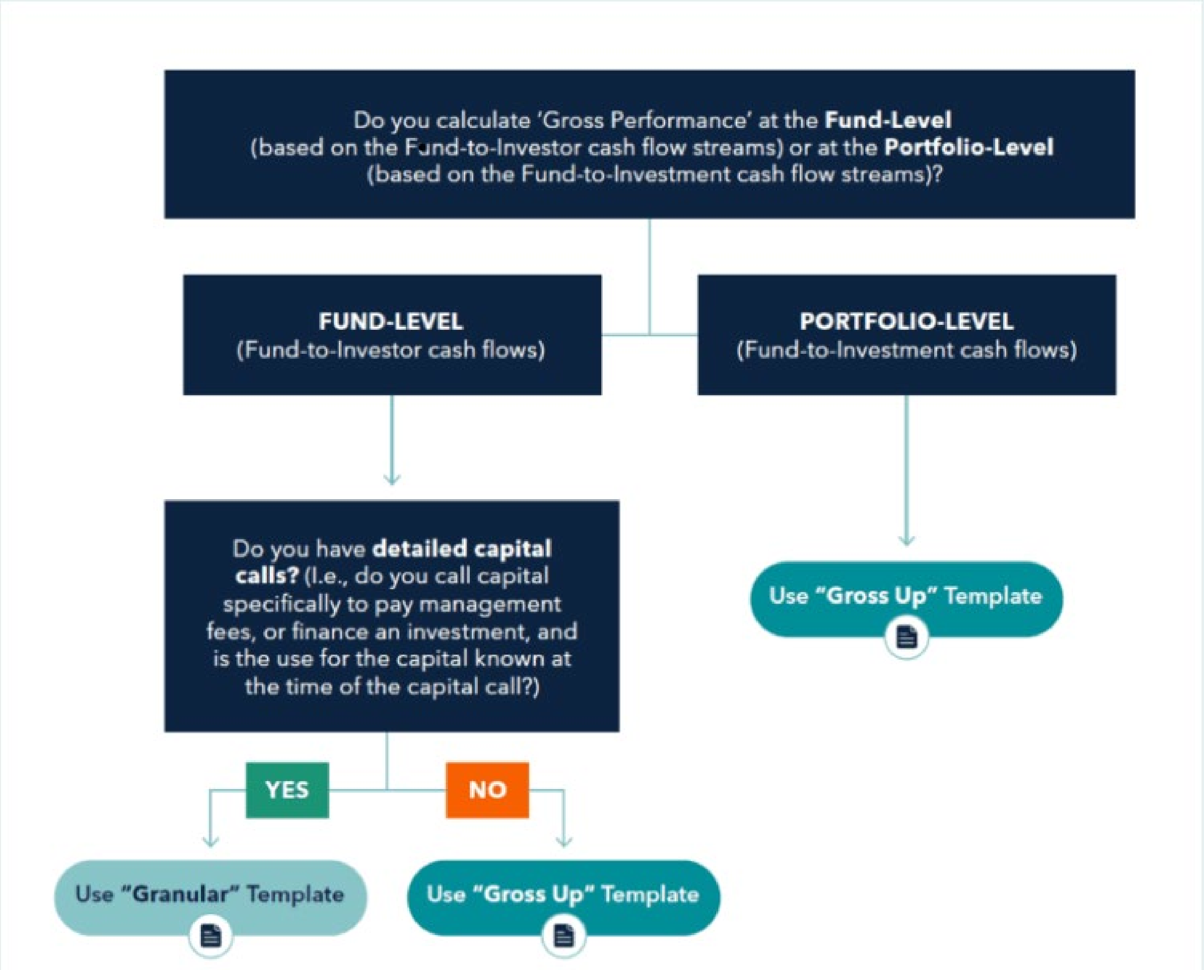
ILPA REPORTING & PERFORMANCE TEMPLATES

Performance Template

- Two versions:
    - Granular Method – **Fund-to-investor cash flows** for gross fund-level performance and itemize each capital call
    - Gross Up Method – **Fund-to-investment** and/or do not itemize capital calls (gross up cash flows)
    - See Decision Tree to help select the appropriate template
    - https://ilpa.org/industry-guidance/templates-standards-model-documents/performance-template/

ILPA REPORTING & PERFORMANCE TEMPLATES

Performance Template Decision Tree



ILPA REPORTING & PERFORMANCE TEMPLATES

Performance Template – Key Features

- Cash flows between **Fund and Investors**:
  - Net IRR and TVPI both with and without the impact of fund-level subscription facilities
  - The gross IRR and MOIC both with and without the impact of fund-level subscription facilities (Optional metric)
- Cash flows **between Fund and Investments**:
  - The gross and net IRR and MOIC for the Realized Portfolio (Optional for Fund of Funds)
  - The gross and net IRR and MOIC for the Unrealized Portfolio (Optional for Fund of Funds)
  - The gross and net IRR and MOIC for the Total Portfolio
- See templates for definitions

IPLA is not defining "realized" or "unrealized." Funds need to be consistent in their definitions and provide appropriate disclosures.

ILPA may remove the requirement for Net IRR and MOIC for the Realized and Unrealized.

CHART OF ACCOUNTS

Background

- Task force reviewed the COA used for the NCREIF NPI submissions in 2020 in anticipation of the new submission and added additional definitions and clarification
- Document was posted to NCREIF's Committee Initiatives page
- Information Management Committee is determining if an industry COA is beneficial and it was suggested that the IMC leverage the work completed in 2020

DIVIDEND YIELD

- **Goal:** Develop a standard calculation and include in Performance Manual
- Task force consensus:
    - the dividend yield a one-year metric and that it should be defined as such which is in alignment with the Global Definition Database:

      Distribution-dividend yield

      The amount of income (or shareholder loan interest payments) the vehicle distributes to investors on a rolling 12 months basis as a percentage of the average **NAV** over the same period.

      Source: INREV | Date: 23 March 2020 | ID: D0148 | Version: 4
    - There should be a clearer distinction between dividend yield and dividend or distribution return and that that these terms are sometimes erroneously interchanged.

CHART OF ACCOUNTS

Discovery in 2025 – 3 discrepancies in 2020 document proposed additions:

PrincipalPaymentScheduled	Principal Balance - at Acquisition
OtherPrincipalPayment	New Principal Proceeds/Drawdowns
NewLoanProceed	Principal Payment

Proposed edits:

PrincipalPaymentScheduled – Principal Payment

OtherPrincipalPayment – Early/Other Principal payments

NewLoanProceed – New Principal Proceeds/Drawdowns

CHART OF ACCOUNTS- NPI SUBMISSION GUIDANCE

PrincipalPaymentScheduled

Regular (scheduled) loan principal amortization payments as paid in accordance with the loan documents. Balloon payments, whether scheduled or not, are included in the other principal payments **(OtherPrincipalPayment)** column. Generally, if a payment does not occur each month, it will usually be included in the other principal payments field.

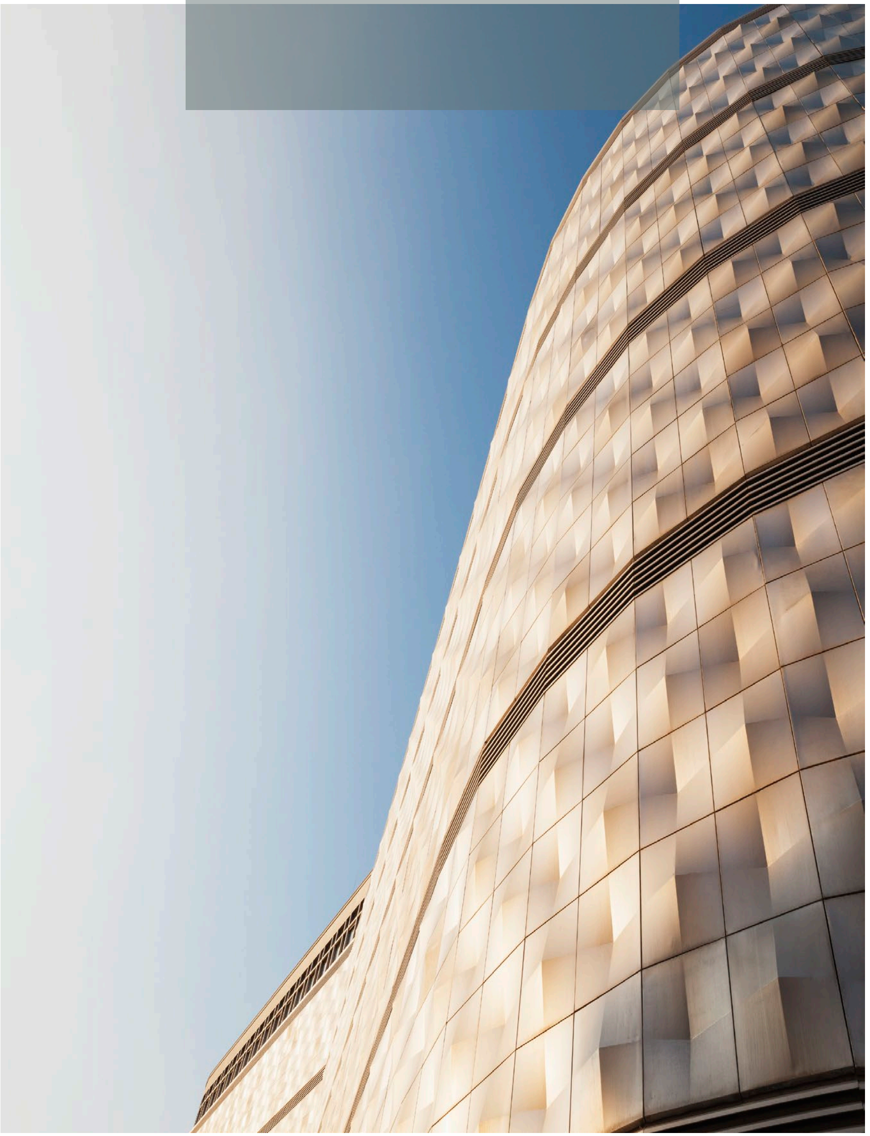
OtherPrincipalPayment

Early principal payments and any other principal payments not included in the scheduled principal payment column. All reductions of outstanding debt balances are recorded either here or in the principal payment **(PrincipalPaymentScheduled)** column.

NewLoanProceed

Proceeds from new borrowing or additional borrowings under existing loan agreements.

Example: Additional borrowings under an existing loan agreement would be a secured line of credit arrangement, where funds are drawn from the lender as needed. All increases in outstanding debt balances should be recorded in this category.



Standardized DDQ – Global Initiative with INREV/ANREV

- Initiative was delayed but we picked it back up in Summer 2024
- Mapping exercise completed with major consultant DDQ
- Template under final review and to be sent to ILPA for comments.
- Reviewing mapping to INREV to understand alignment/differences

GLOBAL DEFINITIONS DATABASE

https://reportingstandards.info/global-standards/

CALL FOR VOLUNTEERS

Email jkingsley@ncreif.org or

administrator@reportingstandards.info if interested!

NCREIF PREA Reporting Standards

LinkedIn

THANK YOU

Questions?

HOT TOPICS

HOT TOPICS – REFI IN EXCESS OF COST BASIS

- If you have an underlying investment (under operating or non-operating) that refinances debt and lets say upsizes the debt given appreciation on that asset. They then distribute money back to the Fund, resulting in negative cost basis because the cash is greater than your initial cost, how do you treat for: (1) SOI and (2) is there realized income here?

HOT TOPICS – WINDDOWN/LIQUIDATION

- How do GP's/Manager handle audits with low materiality and if the funds and obligations are transferred to the GP instead. Any best practices for funds in winddown/liquidation?

HOT TOPICS – TAXES/INTANGIBLES

- In Chicago, real estate taxes are paid one year in arrears. The 2023 taxes are due in two installments: March 1 and August 1.
- For institutional properties (we need to confirm which property types), buyers and sellers pro-rate "as if" the taxes are not paid in arrears. For example:
- A property is purchased on January 31, 2024.
    - The actual accrued property tax liability is 13 months.
    - Buyer and seller agree the proration is only 1 month.
    - Brokers and other market participants confirm this is the market standard.
    - The accountants book accrued taxes correctly based on 13 months.

HOT TOPICS – TAXES/INTANGIBLES (CONTINUED)

- Can we record an intangible asset for the 12-months of taxes that would be assumed (with no compensation) by a new buyer? Or do should we ask if appraisers would confirm this market standard and effectively provide a value for the intangible (or add it to the value).

HOT TOPICS – SEC CASH CUSTODY

- Background - advisors who rely on the pooled investment vehicle audit exemption for their separate accounts

1. Does anyone rely on the audit exemption for separate accounts regardless of structure?
2. If so, any specifics on the audit report to ensure compliance?
3. Have they been through an SEC exam and did they get any feedback on this?

HOT TOPICS – SWITCHING OPERATING TO NONOPERATING

- Can real estate funds switch from operating to non-operating model (or visa versa) and if so, what needs to be documented, what are the triggering events, etc.?

- What implications are there for an entity to convert from historical cost to reporting as investment company?

HOT TOPICS – FIHI’S WITH NEGATIVE NAV

- How do Fund present FiHi’s with negative net assets or first year of operations?

HOT TOPICS – GLOBAL FUNDS UNDER U.S. GAAP

- How to Fund’s handle reporting implications of funds that invest globally but report under US GAAP?

HOT TOPICS – ALTERNATIVE INVESTMENT SPACE

- Implications of real estate in the Alternative investment space:
    - 1031 exchanges and opportunity zones
    - NTR/REITs
    - Data center as RE type or infrastructure

DAY 2 AGENDA

- Task Force Updates:
  - Fair Value Accounting Manual Update
  - NCREIF Academy Course
  - Valuation Manual Update
  - Looking ahead
- Additional Hot Topics
- Deep Dive on Debt Fund Manual
- Joint Session – Accounting & Valuation
  - Valuation Manual

TASK FORCE UPDATES

FAIR VALUE MANUAL UPDATE

- Update completed over fall
- Key Updates
- Looking for volunteers for 2025
    - If interested please contact John Confrey (John.Confrey@us.forvismazars.com)

FAIR VALUE MANUAL UPDATE

- Emily Halpin – RSM
- Veronica Bulman – RSM
- Kyle Matthiesen – Standish
- Greg Bonitatibus – Standish
- David Swerling – PWC
- Stephen Crisafulli – PWC
- Charles Company – PWC
- Michael Bartman – PWC
- Thomas James – PGIM
- Richard Ziobro – PGIM
- Daniel Kalish – Aztec Group
- Michael Valenza – KPMG
- Peter Bloomfield – KPMG
- Emilie Vermoesen – Deloitte

NCREIF ACADEMY COURSE

- Currently no offering within the curriculum
- Evaluate the need and best mode of delivery
- Meet 3-4 times between conferences
- Looking for volunteers, if interested please contact Christy Daniels (Daniels.Christy@Principal.com)

LOOKING AHEAD – FALL CONFERENCE 2025

- Brainstorm future topics:
  - Real estate structures
    - Global funds
    - Operational considerations
    - Accounting considerations
    - Tax Considerations
  - What other topics do you want to hear about?

ADDITIONAL HOT TOPICS

HOT TOPICS – REIT

- REIT #1 - For a non-traded REIT with an agreement to strike a NAV year 2 (OP Units), can we prepare the AFS under Fair Value starting in year 1 if not SEC registered? If there is a plan to list in the future and present under cost, how does FV on OP Units tie to REIT FS?
- REIT #2 - For a Fund entity (using ICA) who owns a REIT 100%, can the Fund entity consolidate the REIT? If the REIT is a borrower of a mortgage, have you seen where banks accept the consolidated AFS of the fund that includes the REIT or would we need to present a separate REIT Cost AFS?

HOT TOPICS – NEGATIVE NAV!

- With properties with underwater values / how to present if recourse vs non-recourse.

- Are there any additional disclosures?

- What about properties which trying to give back the keys to lenders but 'negotiating'?

ACCOUNTING CONSIDERATIONS – FV OF PROPERTY < DEBT

- Recourse - is an enforceable obligation under which a default by the borrower entitles the lender to pursue recovery from the borrower beyond the direct collateral

- Non-Recourse - is an enforceable obligation under which a default by the borrower entitles the lender to pursue recovery from the borrower up to the collateral

ACCOUNTING CONSIDERATIONS – FV OF PROPERTY < DEBT

- Question – To extent the fair value of the property falls below the value of the debt instrument what should the value of the property be reported at?

    - Non-operating
    - Operating

DEBT FUND MANUAL - UPDATE

DEBT FUND AGGREGATE - BACKGROUND

- Designed to enhance investors' interest & understanding of the rewards and risk of private real estate debt funds
- Contains funds with various strategies and styles ranging from core to value-add, as reported by the managers.
- Is NOT a BENCHMARK, yet, but is a major step toward the goal of creating a more focused index/benchmark of funds that meet certain investment inclusion criteria, which are to be determined.
- Is anticipated to be published quarterly. Results will never reveal individual fund performance.
- Is a project by the industry for the industry that has been in the works for a few years with input from the data contributing managers, investors, consultants and CREFC, the Commercial Real Estate Finance Council, an industry organization that is working closely with NCRIEF to help promote the product.

DEBT FUND AGGREGATE – FUND INCLUSION

- Investment Managers must:
  - offer an open-end fund product to institutional investors that does debt lending for predominantly private U.S. commercial real estate.
  - calculate quarterly net asset values and returns on a market value basis.
  - agree to submit all requested data and do so within the time frame required.
  - be a NCREIF data contributing member once this becomes an official product.

- Funds included have different:
  - structures, strategies, liquidity provisions, dividend, accounting, and valuation policies, all of which affect performance and comparability. As a result, this product is not a benchmark.

DEBT FUND MANUAL

What's the purpose of the manual?

- Provide guidance and instruction on complying with the Reporting Standards for Debt Funds published in April 2023.
- Align with the NCREIF Debt Fund Aggregate product launched in August 2023.
- Promote consistency, transparency, and comparability in accounting, valuation, and performance reporting for debt funds.
- Supplement existing accounting, valuation, and performance measurement manuals.
- Educate users on key accounting, valuation, and performance measurement topics specific to debt funds.

NCREIF PREA Reporting Standards	Debt Fund Manual	NCREIF CREFC Debt Fund Aggregate

• Volume I
  • Required elements to claim compliance with the Reporting Standards
  • Recommended elements represent industry best practices
  • Checklists summarizing required and recommended elements
 	
• Volume II
  • Manuals
    • Fair Value Accounting
    • Valuation
    • Performance & Risk Measurement
    • Debt Fund
	• Debt Fund Manual
	  • Guidance to comply with Volume I
	  • Support NCREIF / CREFC debt products
	  • Promote consistency, transparency, and comparability
	  • Industry best practices
		• Aggregate - Not an Index
		  • Must be >=60% in debt, no other significant criteria.
		  • Will continue in addition to three potential future indices
		
		• Indices
		  • Core-Plus Debt
		  This will be the first debt fund index. **In the future, funds may be required or recommended to comply with Reporting Standards.**
		  • Core Debt & Non-Core Debt
		  Not enough funds currently to create theses indices.

DEBT FUND MANUAL TIMELINE

2024Q4

Draft 2 circulated to NCREIF and CREFC for review & feedback

2025Q1

Task force considers feedback received & makes needed changes

APRIL 2025

Draft 3 review by task force, NCREIF data contributors, & CREFC

MAY 2025

RS Council Final Draft review and vote to include in Vol II

JUNE 2025

Publication and promotion of Debt Fund Manual

Debt Fund Manual Outline

ACCOUNTING – FUND LEVEL

- Overall introduction
- Overview of operating vs. non-operating model
- Fund level costs
  - Org costs
  - Syndication costs
- Other matters
  - Taxes
  - Equity transactions

ACCOUNTING - INVESTMENT LEVEL

- Non-participating and participating mortgage loans receivable
- Preferred equity investments
- Real estate owned (REO)
- Debt securities

MORTGAGE LOANS RECEIVABLE

- Non-participating mortgage loan - an investment that generally entitles the lender to payments of contractual principal and interest that do not increase based on the underlying operating results of a property.
- Participating mortgage loan - an investment that generally consists of four parts: (1) principal; (2) ”base interest” payments at contractually stated fixed or floating rates; (3) ”contingent interest” payments where the lender is paid a percentage of property net operating income or cash flow after debt service; and (4) ”additional contingent interest,” which is in the form of lender participation in the appreciation in value of the underlying property.

LOAN ORIGINATION COSTS (EXPENSE)

Loan origination costs, as defined by ASC 310-20-20, represent costs associated with originating a loan.

There are two methodologies that may be applied for the subsequent treatment of loan origination costs within the statement of operations:

- Mortgages held at fair value: For mortgages held at fair value or that have elected the fair value option, loan origination costs shall generally be expensed as incurred in accordance with ASC 825-10-25-3.
- Mortgages held at cost: For mortgages held at cost, direct loan costs and loan origination fees should be offset and only the net amount is deferred and amortized over the life of the related loan using the interest method described in ASC 835. The objective of the interest method is to arrive at periodic interest income, net of fees and costs that reflects a constant effective yield on the net investment in the mortgage loan receivable.

LOAN ORIGINATION FEES (INCOME)

Origination fees represent fees generally collected up-front from borrowers that generally are determined based on a percentage of the total loan commitment, in accordance with the loan agreement terms.

ASC 946 does not provide specific guidance pertaining to fee income associated with loan originations. As a result, there are two methodologies that could be considered when determining the appropriate accounting for such fees.

- Recognized as income when received - It is common practice and recommended that fair value funds to recognize origination fees when collected, typically at investment inception, in accordance with the terms of the related investment agreements. This is consistent with guidance per ASC 825-10-25-3 (as outlined above) for investments held at fair value.

- Capitalized and deferred, net of origination costs – As outlined on the prior slide, for loans held at cost, the origination fees are net with origination costs and deferred over the life of the related loan under the effective interest method.

INTEREST INCOME

Interest income: Interest income associated with any non-participating mortgage loan receivable is reported in net investment income.

- The recognition of base interest income should be on an accrual basis in accordance with the contractual terms of the loan unless the loan is considered non-performing under GAAP.

For non-performing loans (e.g., the borrower is unable to fulfill its payment obligations), the accrual of interest income is generally suspended when the collection of interest is less than probable or the collection of any portion of the loan's principal is doubtful.

Although GAAP does not directly address how a creditor should recognize, measure or display interest income on a non-performing loan, ASC 310-10-35-53 allows a creditor to use existing methods of recognizing interest income. This may include:

- Cash-basis method: Interest income is recognized under a cash method whereby cash payments of interest received are recorded as income.
- Cost recovery method: Any interest or principal received is recorded as a direct reduction of the recorded investment in the loan.

PREFERRED EQUITY INVESTMENTS

Preferred equity: A preferred equity investment is often facilitated through the fund acquiring an ownership interest in an underlying joint venture with a third-party owner or operator. The terms of the joint venture agreement will dictate the fund's underlying investment and related accounting treatment.

- In certain instances, the investment may be reported as an investment in an underlying joint venture, in which the fund's investment represents a preferred return on contributed equity. The income or preferred return on investment would be recorded on an accrual basis in accordance with the terms of the preferred equity agreement (i.e., monthly/quarterly).
- In some cases, the preferred equity investment may be structured as a debt investment based on the terms of the legal agreement. In these scenarios, income would be recognized in accordance with the terms of the investment and corresponding interest rate

Consolidation: Need to consider based on preferred equity structure and basis of presentation

REAL ESTATE OWNED (REO)

A fund is considered to have received physical possession (resulting from an in-substance repossession, deed-in-lieu or foreclosure) of real estate property collateralizing a mortgage loan only upon the occurrence of either of the following:

- The fund obtains legal title to the real estate property upon completion of a foreclosure. A fund may obtain legal title to the real estate property even if the borrower has redemption rights that provide the borrower with a legal right for a period of time after a foreclosure to reclaim the real estate property by paying certain amounts specified by law.
- The borrower conveys all interest in the real estate property to the fund to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The deed in lieu of foreclosure or similar legal agreement is completed when agreed-upon terms and conditions have been satisfied by both the borrower and the fund.

REAL ESTATE OWNED (REO)

Accounting guidance for REO transactions is primarily driven by ASC 310-40. When a creditor receives physical possession of real estate property that collateralized the mortgage loan, it should derecognize the loan receivable and recognize the real estate property at its fair value in accordance with ASC 310-20-40-2.

For investment companies, ASC 946 does not provide specific guidance on how to record any difference between the mortgage loan investments carrying value (representative of fair value, which is often reflective of the fair value of the underlying collateral in cases where the borrower has defaulted or is otherwise exhibiting signs they are unable to repay the loan) and the fair value of the REO asset.

REAL ESTATE OWNED (REO)

There are two methodologies that could be considered when determining the appropriate accounting for such differences in the real estate property recognized at fair value at the point of physical possession by the lender and fair value of the mortgage loan investment.

- In one methodology, the associated difference between the fair value of the mortgage loan and the REO asset is recorded as an <u>unrealized event</u> within the statement of operations. Under this methodology, there has been no realization event as the investment still exists, however the investment has taken the form of an equity interest rather than a mortgage loan. The cost basis in the mortgage loan would be the outstanding principal balance of the mortgage plus any accrued interest that was owed but not paid at time of foreclosure.

- The other methodology would be to treat the receipt of real estate property in exchange for the mortgage loan investment as a <u>realization event</u> in the statement of operations. Under this approach, the new cost basis of the real estate property would be the fair market value of the real estate property at the time of foreclosure.

REAL ESTATE OWNED (REO)

- Relevant details of the foreclosure should be included in the notes to provide for an understanding of the nature of the investment.
- Foreclosed or repossessed real estate should be presented on the balance sheet as a separate financial statement line item with disclosure of the change in the form of the investment disclosed in the notes to the financial statements. ASC 310-10-50 also requires a fund to disclose (1) the carrying amount of foreclosed real estate property held by the fund and (2) the recorded investment in consumer mortgage loans collateralized by real estate property that are in the process of foreclosure.
- Statement of Operations: Consider impact of accounting basis on statement of operations presentation:
    - Operating – gross accrual basis
    - Non-operating – cash dividend income recognition

FINANCING ALTERNATIVES (LIABILITIES)

Funds most often utilize a variety of forms of leverage, both financial and structural, to enhance the returns of the fund. Financial leverage alternatives include:

- Note on note financing
- Loan participation
- Repurchase facilities (warehousing facilities)
- Securitization via the commercial real estate collateralized loan obligation (CLO) market.

NOTE-ON-NOTE FINANCING

Note-on-note financing: The fund may finance the acquisition of mortgage loans using note-on-note transactions in which the note-on-note lender provides an advance (calculated as a percentage) against the loan asset originated or acquired by the fund. In return, the fund assigns the underlying loan as collateral to the note-on-note lender.

- Note-on-note financings may be either partially recourse or non-recourse to the fund.
- The fund maintains the levered asset in its statement of net assets and the proceeds from the transaction are recorded as a liability in the fund's statement of net assets. The note-on-note accrues interest expense based on contractually defined rates at time of issuance.
- The fund is required to continue paying interest to the note-on-note holder even if the original borrower defaults. If the fund defaults on its obligations, the note-on-note lender can take ownership of the underlying loan (collateral) without going through foreclosure proceedings

LOAN PARTICIPATION

Loan participation: In this structure the fund originates a loan, and either concurrently or subsequently, transfers an interest in that loan to one or more lenders in exchange for proceeds equaling the transferred interest. Participations may be either (a) pari passu (of equal priority) or (b) senior / subordinate.

- The former does not create structural leverage; it only reduces the fund's exposure. If the fund transfers a senior position (either a senior mortgage or A-note) whereby the fund retains a subordinate position, this transaction creates structural leverage. Loan sales and participations are usually non-recourse to the fund.

- If the transfer does not meet the requirements for sale accounting under ASC 860, the fund continues to recognize the entire asset in its statement of net assets, and the proceeds from the transfer are presented as a liability or secured borrowings within the statement of net assets. The fund continues to maintain effective control of the loan, and the loan continues to be serviced by the loan servicer originally elected by the fund.

REPURCHASE FACILITIES

Repurchase Facilities (Warehouse financing): This type of leverage is typically facilitated through Master Repurchase Agreement (MRA). ASC 860-30 defines an MRA as an agreement under which the transferor (repo obligor or seller) transfers a financial asset to a transferee (repo lender or buyer) in exchange for cash and concurrently agrees to reacquire that financial asset at a future date for an amount equal to the cash exchanged plus interest.

- The fund, as the repo obligor, will sell eligible loans to the lender with a simultaneous agreement by the lender to sell the loans back upon request of the fund on the related repurchase date. The fund can revolve eligible loans on and off the facility in accordance with the MRA. Repurchase facilities are typically partially recourse to the fund.

REPURCHASE FACILITIES (CONTINUED)

The fund (or transferor) shall continue to report the transferred financial asset in its statement of financial position with no change in the asset's measurement (that is, basis of accounting).

In accordance with ASC 860-30, the fund can account for the sale of the loans under the MRA as secured borrowings, and the fund maintains effective control over the transferred loans and investments.

QUESTIONS?

THANK YOU!

- Japhet Lupondo – CBRE
- Lauren Demartini – Metlife
- Ryan DeReus – LaSalle
- Jules Melhado - LaSalle
- Jefrey Gonzales - Ares
- Edgar Carlier – BNY Mellon
- Rebecca Devries – Sundance Bay
- Kara Jenkins – Deloitte
- Zack Smith – Deloitte
- Jason Aguiar - EY
- Kathleen Rosenbaum - EY
- Haley Waldron – Invesco
- Dylan Anderson - PwC
- Dillon White – PwC
- Louis DeFalco – PwC
- Veronica Bulman - RSM

JOINT SESSION – ACCOUNTING AND VALUATION

VALUATION MANUAL REWRITE

MCARTHUR 4-7

2:45 – 3:45

THANK YOU

Session Check-in Code: Accounting1