



SPRING CONFERENCE 2024

Accounting Committee
March 26



DAY 1 AGENDA

Introductions

Upcoming Projects

NCREIF PREA Reporting Standards Project Updates

Hot Topics

Networking



DAY 2 AGENDA

Joint Sessions – Accounting & Performance

- AI Panel Discussion
- SEC Private Funds Rule



ATTENDANCE

- There is a session check-in with the conference app for committee attendance.
- Today's accounting committee check in code is:

accounting0326

CHAIR INTRODUCTIONS

Megan Hess, DWS

Mark Wojteczko, Deloitte

Christy Daniels, Principal

Amy Pearce, SS&C

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.

ABOUT US

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?

Raise Your Hands!

Who is at NCREIF for the First Time?

- First Time
- Not First Time

What industry do you work in?

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



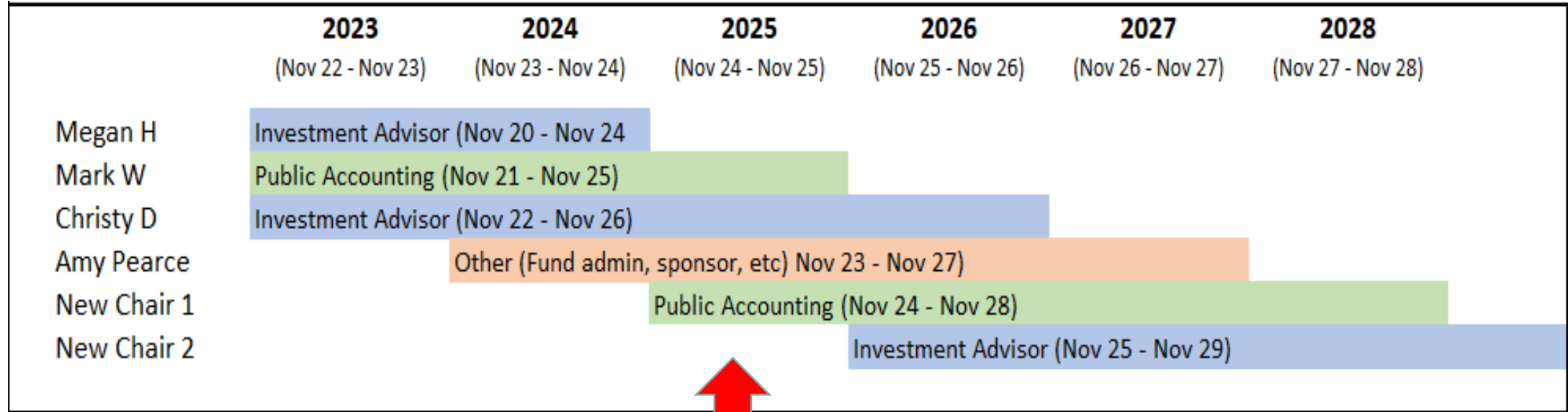
UPCOMING PROJECTS



FUTURE CHAIRS - STRUCTURE

- Structure: 2 Chairs and 2 Vice-Chairs (4 total)
- Term: 4 Year Term
- Rotation: One new member rotates onto committee each year
- Ideal committee representation:
 - 1 Public Accounting Lead
 - 1 Investment Advisor Lead
 - 1 Other (Fund Admin, Consultant, Etc.) Lead
 - 1 Member from one of the three above
- One carryover year with overlap of who is rolling off
- **Next Rotation: Looking for some from the "Public Accounting" group to join in November 2024**
 - **Please email us if interested**

FUTURE CHAIRS - STRUCTURE



UPCOMING ACTIVITIES

- NCREIF PREA Reporting Manual Update
 - Annual update of the fair value manual
 - Goal to promote consistency between operating and non-operating model
 - PwC to serve as primary lead/coordination
 - Interested? Email: mwojteczko@deloitte.com

- NCREIF Academy - Accounting Training Curriculum
 - Accounting 101
 - Tax 101
 - Want to volunteer to support any preparation or delivery of content?
 - Interested? Email: megan.hess@dws.com

UPCOMING ACTIVITIES (CONTINUED)

- NCREIF PREA DEBT MANUAL TASK FORCE
 - The first version of the Debt Fund Manual will include guidance and instruction on:
 - Complying with the Reporting Standards for Debt Funds published in April 2023 ([click here for RS for Debt Funds Checklist](#))
 - Aligning with the NCREIF Debt Fund Aggregate product launched in August 2023.
 - Goal to promote consistency in accounting, performance and valuation considerations for debt investments
 - Looking for accounting committee members interested to support our efforts
 - Interested? Email: mwojteczko@deloitte.com
- FUND STRUCTURES AND RELATED NCREIF SUBMISSIONS
 - Task force designed to walk through various real estate fund structures
 - Outline NCREIF data submissions with a goal to promote consistency and comparability across these different fund structures
 - Interested? Email: megan.hess@dws.com

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 NCREIF 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.



NCREIF PREA REPORTING STANDARDS PROJECT UPDATES



SEC PRIVATE FUND RULES

Collaboration with other industry organizations will be key to the success of this project. Questions will arise throughout this project regarding scope, clarification, and definitions of terms contained within the final rules and the Reporting Standards recognizes its limited direct connection to the SEC. The following individuals have been consulted thus far and have agreed to work alongside the Reporting Standards:

Lou DeFalco, RS Council Member, PwC

Mark Wojteczko, Accounting Committee Chair, Deloitte

Clinton John, EY

Peter Bloomfield, KPMG

Neal Prunier, ILPA

Ken Robinson, CFA Institute

OVERSIGHT TASK FORCE

- Jamie Kingsley, RS Director
- Sally Ann Flood, RS Board Chair, Deloitte
- Jim Allen, RS Board, Starwood
- Kathryn Gernert, RS Board, Texas Permanent School Fund
- Jim Strezewski, RS Board, Blue Vista Capital
- John Kjelstrom, RS Council Chair, Chatham Financial
- Diane Wild, RS Council, LaSalle
- John Caruso, past RS Council Chair, RCG



COLLABORATIVE CONTRIBUTORS

- Ken Robinson, CFA Institute
- Neal Prunier, ILPA
- Lindsey Simon, Simon Compliance
- Lou DeFalco, RS Council, PWC
- Mark Wojteczko, Deloitte
- Peter Bloomfield, KPMG
- Clinton John, EY



QUARTERLY STATEMENT RULE TASK FORCES

Fee and Expense Disclosure

- Jamie Kingsley, RS Director
- Joe D'Alessandro, NCREIF
- Ken Robinson, CFA Institute
- Benay Kirk, RS Council, AlterDomus
- Christy Daniels, Acctg Comm Chair, Principal
- Michelle Clements, Citco
- Lauren DeMartini, MetLife
- Susan Kelly, GID
- Matt Racketta, Townsend Group
- Tracy Green, Hillwood
- Jan Johnson, L&B Realty
- Marilyn Ramirez, Vistra

Performance Disclosure

- Jamie Kingsley, RS Director
- Joe D'Alessandro, NCREIF
- Maritza Matlosz, NCREIF Board, MetLife
- Ken Robinson, CFA Institute
- Benay Kirk, RS Council, AlterDomus
- David DiPaolo, RS Council, Clarion Partners
- Diane Wild, RS Council, LaSalle
- Paul D'Elisa, RS Council, Sentinel Corporation
- Rosellen Bounds, Performance Comm Chair, ACA Group
- Kim Everaerts, Performance Vice Chair, Walton Street
- Brienna Mancuso, JP Morgan
- Karol Vogel, Principal
- Christina Metcalf, GID
- Bob Redican, Nuveen
- Julian Worthington, QuadReal Property Group
- Brenden Fullum, Rockpoint

SEC PRIVATE FUND RULES

Litigation Update

Oral arguments were made by the SEC and the Plaintiffs on February 5, 2024

The 5th Circuit Court will determine the SEC Rules fate in late May 2024

SEC PRIVATE FUND RULES

Private Fund Rules:

- Quarterly Statement Rule 211(h)(1)-2
- Mandatory Private Fund Advisor Audits 206(4)-10
- Advisor-Led Secondaries 211(h)(2)-2
- Restricted Activities 211(h)(2)-1
- Preferential Treatment 211(h)(2)-3

PROJECT SCOPE

This Reporting Standards project is focused on the **Quarterly Statement Rule** requirement of the SEC's Private Fund Adviser's Rule published August 23, 2023.

[Click here for the SEC Private Fund Advisers Rule](#)

[Click here for the Reporting Standards Project Prospectus](#)

WHAT'S NEXT?

Reporting Standards to host two webinars this summer in May and August.

Check the Reporting Standards website for dates/times still TBD

SEC PRIVATE FUND RULES

Quarterly Statement Rule 211(h)(1)-2

Who It Applies To: Registered Investment Advisors (“RIA”)

Purpose: To provide investors with increased transparency around certain fund expenses, compensation, and performance

What: Requires SEC-registered advisers to provide investors with additional information on a quarterly basis that details private fund adviser compensation, fund fees and expenses, and performance.

When:

- Quarterly - due 45 days (75 days for Fund of Funds)
- Annually - due 90 days (120 days for Fund of Funds)

Compliance Deadline: March 2025

SEC PRIVATE FUND RULES

Mandatory Private Fund Advisor Audits - Rule 206(4)-10

Who it Applies To: Registered Investment Advisors (“RIA”)

Purpose: To address investor concerns around the valuation process of fund assets.

What: Requires RIAs to cause

- each private fund they advise to undergo an annual audit as set forth in the custody rule (Advisers Act rule 206(4)-2), and
- audited financial statements to be delivered to investors

When: 120 days after fiscal year, as currently required under the SEC custody rule

Compliance Deadline: March 2025

SEC PRIVATE FUND RULES

Advisor-Led Secondaries 211(h)(2)-2

Who it Applies To: Registered Investment Advisors (“RIAs”)

Purpose: To prevent investors from being defrauded, manipulated and deceived when the adviser is on both sides of a transaction that affects the funds’ assets.

What: Requires SEC-registered advisers that engage in adviser-led secondary transactions:

- to obtain and distribute a fairness or valuation opinion; and
- to provide a summary of any material business relationships between the adviser or its related persons and the independent opinion provider.

Compliance Deadline:

- RIAs with \$1.5B or more in AUM – 12 months
- RIAs with less than \$1.5B in AUM – 18 months

SEC PRIVATE FUND RULES

Restricted Activities – Rule 211(h)(2)-1

Who its Applies To: All Private Fund Advisors

Purpose: To prohibit certain activities that involve conflicts of interest and compensation schemes that are contrary to the public interest and the protection of investors unless such activities are disclosed to, and in some cases consented to, by investors

What: Restricts advisers from engaging in certain activities unless satisfying certain appropriate specified disclosure requirements and, in some cases, obtaining investor consent.

Compliance Deadline:

- Advisors with \$1.5B or more in AUM – 12 months
- Advisors with less than \$1.5B in AUM – 18 months

SEC PRIVATE FUND RULES

Preferential Treatment 211(h)(2)-3

Who it Applies To: All Private Fund Advisors

Purpose: Investors will benefit from increased transparency regarding the terms granted to certain investors in the same fund

What: It prohibits advisers from granting preferential redemption or information rights about portfolio holdings that would have a material or negative effect on other investors in the private fund or a similar pool of assets. Legacy status and limited exemptions are available.

For all types of preferential treatment, advisers must:

- provide advance written notice to prospective investors of preferential treatment related to any material economic terms; and
- provide timely after-the-fact and annual written notices to current investors of all preferential treatment.

Compliance Deadline:

- Advisors with \$1.5B or more in AUM – 12 months
- Advisors with less than \$1.5B in AUM – 18 months

SEC PRIVATE FUND RULES

Legacy Status

Restricted Activities – Rule 211(h)(2)-1 and Preferential Treatment 211(h)(2)-3

Apply to governing agreements that were entered into prior to the compliance date with respect to private funds that had commenced operations as of the compliance date.

The commencement of operations includes investing, fundraising, capital calls, setting up a subscription facility, initial fund closing, conducting due diligence or operational activity.

This does not permit advisors to charge for fees or expenses related to an investigation that results or has resulted in a court or governmental authority imposing a sanction for a violation of the Act.

SEC is not applying legacy status to the disclosure portions of the preferential treatment rule because we believe that transparency of these terms is important and will not harm investors in the private fund. As a result, information in side letters that existed before the compliance date will be disclosed to other investors that invest in the fund post compliance date.

FEE AND EXPENSE DISCLOSURE RULE REQUIREMENTS

- **Adviser Compensation**
 - Includes Compensation, Fees & Other Amounts Allocated or Paid to the Adviser or any of its Related Persons
- **Fund Expenses**
 - Include Fees and Expenses Allocated to or paid by the Private Fund not included in Adviser Compensation
- **Offsets, Rebates, and Waivers**
 - Adviser Compensation and Fund Expenses must be shown before and after the application of any offsets, rebates, or waivers
- **Carry Forward**
 - The amount of any offsets, rebates or waivers carried forward to subsequent periods to reduce future payments
- **Portfolio Investment Table**
 - Separate table containing detailed accounting of compensation allocated or paid to the advisor by the private fund's covered portfolio investments (i.e., compensation only, not other expenses)

All at Fund Level – no miscellaneous or de minimus categories

Must include calculation methodology and cross reference organizational and offering documents

TASK FORCE APPROACH AND ASSUMPTIONS

FEES AND EXPENSES

Leverage work done for TGER

- **Incentive fees/Promote** - include accrued vs. paid. Report would include the accrued amount including amounts realized and unrealized
- **Fees/expenses – Accrued or paid?**
Report the accrued amount including amounts paid
- **Fees paid outside of the fund** – To be included

Assumptions Made

First Reporting Period – Reporting Standards agreed Q1 2025

Delivery method - Can be delivered at the advisor’s discretion as long as delivery is tracked and delivered by the due date.

What if fees/expenses are not final? True-up next quarter

What does Allocated mean? “Allocated” is equivalent to Accrued

Include QTD/YTD/Rolling 12 months? Include QTD at a minimum

Capitalized Fees – should be included

Approach

Categories within the example are illustrative and not meant to be exhaustive. Registered Investment Advisors should customize the report based on their types of fees/expenses. Line items may be expanded, added, modified and deleted as needed.

PERFORMANCE DISCLOSURE TASK FORCE AGENDA

- Illiquid and Liquid Fund Determination
- Liquid Fund Performance Disclosure Requirements
- Illiquid Fund Performance Disclosure Requirements
 - IRR Discussion and Examples
 - Rule definitions of Gross and Net IRR
 - Applicable Reporting Standards guidance
 - Example Net IRR With and Without Fund-level Subscription Facilities
 - Unrealized and Realized Portions
 - Statement of Contributions and Distributions
 - Work in Progress or Yet to be Done
- Frequently Asked Questions (to date)

REPORTING STANDARDS PROJECTS

- Ground Lease Impact – provide sample calculations showing the impacts on ratios using the Operating Model Sample Financial Statements included in the RS Accounting Manual
- Asset Level Reporting:
 - Provide enhanced reporting on investments
 - Amend and expand FR.04 Schedule of Investments
 - Next round of feedback request will go to committees
 - Plan is to update standards at year end 2024
- Debt Funds Phase II – Debt Manual to include in Handbook Volume II year end 2024

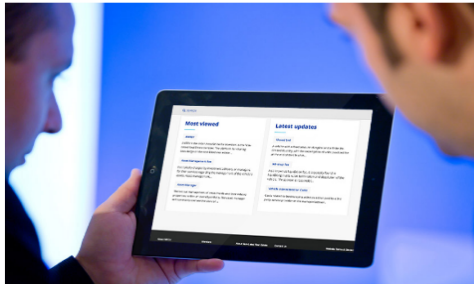
STANDARDIZED DDQ – GLOBAL INITIATIVE WITH INREV/ANREV

- Initiative has been delayed but we will pick back up in Summer 2024
- Mapping exercise with major consultant DDQs has been completed with 100 common elements identified.
- Template under final review and to be sent to ILPA for comments.
- Scheduling discussions with consultants.
- Reviewing mapping to INREV to understand alignment/differences.

GLOBAL DEFINITIONS DATABASE

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

Global Definitions Database



The Global Definitions Database (GDD) is the leading global source of definitions for the non-listed real estate sector.

Global definitions are an important step towards producing global standards and aligning the INREV Guidelines with the NCREIF PREA Reporting Standards. The GDD provides a common glossary of non-listed real estate terms. Many terms have been agreed to globally, while others are specific to Asian, European and North American standards, guidelines and data products.

A common set of terms is a critical component of the global standardisation initiative and our interactive online tool makes them easily accessible. This provides the industry with one unique depository of definitions that will help increase transparency and align the industry globally.



[SHOW ALL DEFINITIONS](#)

CALL FOR VOLUNTEERS

Email jkingsley@ncreif.org or
administrator@reportingstandards.info if interested!





HOT TOPICS



INVESTMENT COMPANY ACCOUNTING

2023 AICPA & CIMA Conference

At the 2023 AICPA & CIMA Conference, the SEC discussed a recent consultation addressing the application of ASC 946

Background

- ASC 946 is specialized industry guidance for investment companies under which assets & liabilities are recorded at fair value
 - This differs from real estate entities that do not qualify as investment companies, who typically record their assets under the historical cost basis
- To meet characteristics of an investment company, entities must make a commitment to its investors that its business purpose and only substantive activities are:
 - investing the funds solely for returns from capital appreciation and/or
 - Investing the funds solely for investment income

Consultation

- The SEC objected to classification of a real estate fund as an investment company based on the guidance in ASC 946
- Certain activities of the fund were objectionable to the SEC Staff, including:
 - Development, construction, and project management activities that were indistinguishable from the activities of the fund
 - Investment adviser guarantees of the third-party limited partner's return

INVESTMENT COMPANY ACCOUNTING

- Definition of investment company (ASC 946–10–15):
 - An entity that has the following **fundamental** characteristics:
 - Obtains funds from an investor or investors and provides them with professional investment management services
 - Commits to its investor(s) that its business purpose and only substantive activities are investing the funds for returns from capital appreciation, investment income, or both.
- An investment company and its affiliates do not obtain or have the objective of obtaining returns or benefits from their investments that are either of the following:
 - Other than capital appreciation or investment income
 - Not available to noninvestors or are not normally attributable to ownership interests.
- An entity also should assess the following **typical** characteristics:
 - Multiple investments
 - Multiple investors
 - Investors that are not related to the parent entity or the investment manager
 - Ownership interests in the form of equity or partnership interests
 - Fair value management of investments.

INVESTMENT COMPANY ACCOUNTING (CONTINUED)

In this consultation, the development, construction, and project management activities provided by subsidiaries of the investment adviser for investment properties held by the real estate fund were indistinguishable from the activities performed by the investment adviser as part of its core activities for the real estate fund.

Since these collective activities were indistinguishable from the activities of the real estate fund (the investment advisory services), the investment adviser received returns that were incremental to capital appreciation or investment income. Finally, the investment adviser guaranteed the third-party limited partner's return, shielding the limited partner from development activity risk that would be expected to arise from its respective investment in the fund.

The SEC staff's view was that development, construction, and property management activities are not investment activities and that the real estate fund did not satisfy the requirements of ASC 946-10-15-6(a)(2) since the fund's purpose included activities beyond capital appreciation and investment income.

As a result, the investment adviser was not eligible to apply ASC 946 to its investment in the real estate fund. Mr. Hiranandani indicated that no single factor in the analysis was determinative in the staff's conclusion. In addition, the SEC staff reminded registrants that when determining the applicability of ASC 946 to a legal entity, they should perform a robust analysis that takes into account all facts and circumstances.

RECEIVERSHIP



Revenue recognition criteria needs to be met prior to derecognizing real estate



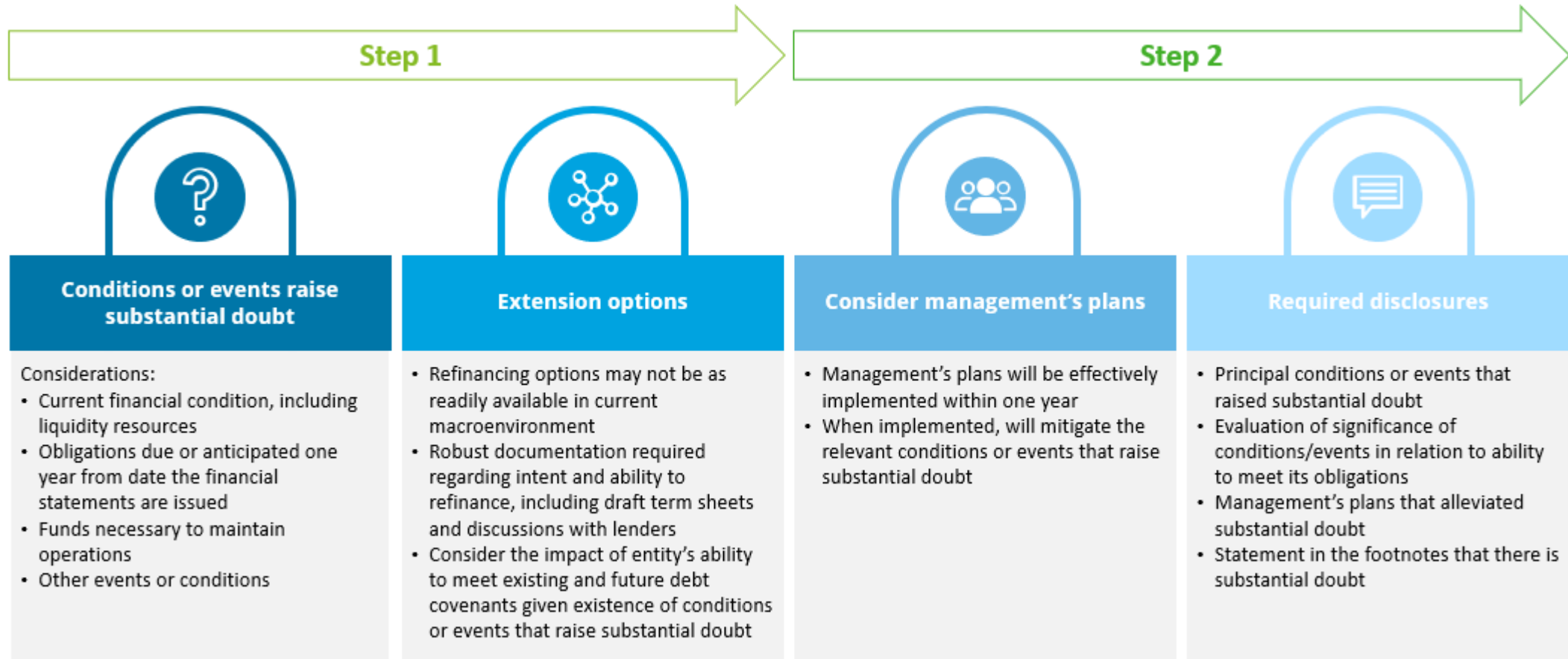
Under real estate revenue recognition criteria, a sale isn't recognized until control is transferred



Although a borrower may lose "day-to-day" decision making rights when asset enters receivership, a borrower typically maintains a cure right (debt repayment right) whereby they can regain control of the asset.

Did the Company satisfy performance obligations by transferring control (and the buyer obtaining control) of the nonfinancial asset that was sold (ASC 606-10-25-30)?

GOING CONCERN



SELLER FINANCING

- Two key considerations to consider when determining if a sale can be recognized:
 - Collectability of financed amount from the buyer (and therefore whether a contract exists such that a gain can be recognized under ASC 610-20)
 - Whether control has been transferred to the buyer.

SELLER FINANCING - COLLECTABILITY

- Assessing collectability in real estate sales
 - The contract existence criteria needs to be met before a sale can be recorded in accordance with ASC 606 or ASC 610
 - Collectability of substantially all of the consideration to which the entity expects to be entitled affects this evaluation.
 - If collection is not probable, then no contract is deemed to exist

ASC 606-10-25-1(e): It is probable that the entity will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer (see paragraphs 606-10-55-3A through 55-3C). In evaluating whether collectibility of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession (see paragraph 606-10-32-7).

SELLER FINANCING - CONTROL

- ASC 606-10-25-30 outlines certain criteria to consider when evaluating a transfer of control, such as:
 - The entity has a present right to payment for the asset
 - The customer has legal title to the asset
 - The entity has transferred physical possession of the asset
 - The customer has the significant risks and rewards of ownership of the asset
 - The customer has accepted the asset
- Be careful – structuring of the seller financing is important
 - Is it a true note receivable
 - Preferred equity in a joint venture – need to demonstrate control has changed

INVESTMENT DISPOSALS – PRESENTATION

- When accounting for the disposition of a real estate investment, and the related “recognition of previously recorded unrealized gain (loss)”, do you:
 - Report the unrealized gain (loss) as of the prior year end (i.e. audited value)
 - Report the unrealized gain (loss) as of the prior quarter to sale
 - It depends:
 - Treated differently for closed end vs. open end fund
 - Treated different based on quarterly investor reporting

FAIR VALUE OPTION

- Discussion around properties that are underwater when the fair value of debt option has NOT been elected

DERIVATIVES

- Should upfront costs (i.e. a premium) to acquire an interest rate cap be capitalized and marked-to-market or expensed upon payment?

4.06(c) The approach used for estimating the fair value of interest rate protection contracts should be consistent with ASC 820. The contract should be carried as an asset or liability, as fair value indicates, and should be adjusted to fair value each reporting period as unrealized appreciation/depreciation. Any transaction costs associated with obtaining the contracts should be recognized in earnings as incurred and not deferred. For cash outlays, consider ASC 815 to determine if the cash outlay represents a financing expense.

CROSS COLLATERALIZED LOAN AGREEMENTS

- Does anyone have experience or thoughts on how to treat Lender Asset Liquidation Agreement (ALA) adjustments and paydowns on cross collateralized loans and their impact to Multiple on Invested Capital (MOIC) and Net Equity Invested calculation?
- Current thought is that there will be a discounted between GAAP accounting and performance reporting on MOIC.



NETWORKING SESSION



NETWORKING

Discussion points:

- Future topics
- Webcasts
- CPE considerations

Locations:

- Public accountants: Casa Grande
- Investment advisors: McArthur 2-3
- Fund administrators and others: McArthur 1

ATTENDANCE

- There is a session check-in with the conference app for committee attendance.
- Today's accounting committee check in code is:

accounting0326



THANK YOU

Questions?

