

INREV Guidelines and NCREIF PREA Reporting Standards: Broad Comparison **2015**



ANREV

INREV

RS NCREIF PREA
Reporting Standards

Contents

Purpose and scope of this report	3
An important stage in producing global standards	3
What are the INREV Guidelines and the NCREIF PREA Reporting Standards?	3
Mapping the differences between the Guidelines and Reporting Standards: 2015 update	4
Method of investigation and documents used in 2015 update.....	4
Broad overview: Deloitte NL analysis.....	6
Definitions	6
Fees and expense ratios	7
Reporting	8
Valuation.....	9
NAV and fair value accounting.....	10
Conclusion	13

Purpose and scope of this report

An important stage in producing global standards

This report marks an important stage in producing global standards for non-listed real estate vehicle reporting. It builds on work begun by INREV, ANREV, NCREIF and PREA to bring ever greater transparency and convergence in reporting standards globally. This collaboration was confirmed by a Memorandum of Understanding (MoU) signed by the four organisations in 2014, which established a Global Standards Steering Committee to take the convergence process forward.

The report compares the two most recent sets of standards produced by INREV and NCREIF PREA Reporting Standards: the INREV Guidelines 2014 and the NCREIF PREA Reporting Standards Handbook Volumes I (2014) and II. It highlights the most important differences between the standards and proposes steps that might be taken to bring them into closer alignment.

The report aims:

- To set clear priorities for ongoing discussions during the convergence process. Much of this report is therefore devoted to comments and recommendations for moving towards global standardisation, to establish a detailed agenda and identify where resources are most likely to be needed.
- To provide a framework for comparing the latest versions of the INREV Guidelines and the NCREIF PREA Reporting Standards. This will assist users to easily move from using one set of standards to the other.

What are the INREV Guidelines and the NCREIF PREA Reporting Standards?

INREV Guidelines

The INREV Guidelines (hereafter Guidelines) aim to improve the accessibility of non-listed real estate funds and to ensure that investors obtain consistent, understandable, easily accessible and reliable information.

When the Guidelines were originally published in 2008, they represented a major step for the European non-listed property vehicle industry. The Guidelines brought together a series of earlier documents on professional standards in areas such as corporate governance, fund reporting and fee metrics, integrating them in a more workable format to allow for easier adoption by fund managers and investors. The most recent version of the Guidelines was published in 2014 and is the result of a full scale review.

NCREIF PREA Reporting Standards

The NCREIF PREA Reporting Standards Volumes I and II (hereafter Reporting Standards) are the US counterparts of the Guidelines. The Reporting Standards were previously known as the Real Estate Information Standards (REIS) and were initially established in 1993, identifying standards for calculating, presenting and reporting real estate investment results for the industry, in order to foster consistency, comparability and transparency. The Reporting Standards are sponsored by the National Council of Real Estate Investment Fiduciaries (NCREIF) and the Pension Real Estate Association (PREA).

In 2009, the Reporting Standards were substantially revised into a two-volume Handbook designed to facilitate understanding of the NCREIF PREA Reporting Standards initiative and compliance with its standards, which promote capital formation by providing investors with financial information needed to support informed decision making to harmonize reporting to investors. The Standards are currently compiled in two volumes: Volume 1 establishes a hierarchical framework of required and recommended standards and Volume II contains associated reference materials. The Reporting Standards address critical areas for reporting, including portfolio management, performance measurement, asset management, financial reporting and valuation. In 2011, the Reporting

Standards were updated to include additional performance measures and risk measurement.

Mapping the differences between the Guidelines and Reporting Standards: 2015 update

In 2013, INREV commissioned Deloitte Netherlands (hereafter: Deloitte NL) to map the 2008 INREV Guidelines against the 2009 NCREIF PREA Reporting Standards, to provide input for revising the Guidelines. This report identified potential gaps in the Guidelines and considered whether more information needed to be provided in these areas. For further background on the Deloitte NL report, together with its detailed findings and recommendations, please refer to the full version available upon request.

In 2014, INREV, ANREV, NCREIF and PREA executed a Memorandum of Understanding (MoU) to jointly collaborate with the goal of increasing the convergence of reporting standards globally. Accordingly, since the Guidelines and Reporting Standards had been updated, the parties agreed to commission Deloitte NL to update the gap analysis. This report shows how much closer together the two standards have come. In addition, as agreed in the MoU, a Global Standards Steering Committee was formed to establish priorities for convergence using the gap analysis.

For the duration of the convergence project, which is likely to take some time to complete, this report can be used by members who wish to comply with both sets of guidelines or move from one guideline to the other.

Method of investigation and documents used in 2015 update










The 2015 update employed research to compare the Guidelines with the Reporting Standards (as described above).

The standards were compared in broad terms for each of these key areas, and included Deloitte NL's recommendations for global standardisation to the Global Standards Steering Committee where appropriate.

Focus area and current scope
Number is priority

INREV Guidelines 2014

NCREIF PREA Reporting Standards Handbook I and II Version 2014/15

1	Key definitions	INREV Definitions	Volume I, Glossary of Terms
	Not in scope	Module Corporate Governance	
3	Reporting	Module Reporting	Volumes I and II
4	Valuation	Module Property Valuation	Volume II: Research: Valuation Elements of "Internal Valuation" Policies and Procedures for Fair Value Accounts
5	NAV and fair value accounting	Module INREV NAV	Volume II: Manuals: Fair Value Accounting Policy Manual Volume II: Research: FASB ASC Topic 820, Fair Value Measurement and Disclosure
	Performance Measurement	Module Performance Measurement	Volume II: Manuals: Performance and Risk
2	Fee and expense ratios	Module Fee and expense metrics	Volume II: Manuals: Performance and Risk Volume II: Research: Real Estate Fees and Expenses Ratio (REFER)
	Not in scope	Module INREV Data delivery	
	Not in scope	Module Liquidity	
	Data exchange	INREV SDDS	Volume II: Templates: Executive Summary
	Not in scope	INREV Due diligence Questionnaires	
	Not in scope		Compliance Checklists: Volume II: Templates: Open-end Fund Checklist; Closed-end Fund Checklist; Single Client Account Checklist
	Not in scope		Real Estate Discretion: Volume II: Research: Determining Investment Discretion: Guidance for Determining Investment Discretion for Real Estate Investment Accounts
	Not in scope		Timber Discretion: Volume II: Research: Determining Investment Discretion: Guidance for Timberland Investment and Performance Reporting

Broad overview: Deloitte NL analysis

Deloitte NL was contracted for the review as consultant. Deloitte NL has issued an extensive report (available upon request) with their finding on the comparison and several Recommendations to

the Global Standards Steering Committee.

This overview sets out the main points of the analyses and recommendations from each section.

In addition, a short summary of suggested priority areas for the Global Standards Steering Committee to address. The project areas are presented in the order of prioritisation.

Key focus area	Analysis
Definitions	
Comparison	<p>Deloitte NL identified some differences between key definitions in the Guidelines and the Reporting Standards, including:</p> <ul style="list-style-type: none"> • definition of a fund; • guidance with respect to portfolio diversification; • definition and interpretation of finite life for closed-end funds. <p>The INREV definitions are set out in the separate “Definitions” section of the Guidelines. In the Reporting Standards handbook, Volume II, the definitions terminology is embedded in each discipline specific area. These terms were not compared to the INREV definitions document. In Volume I the terminology defined is marked in bold and the Volume I glossary of terms provides further definition. These definitions were in the scope of the Deloitte NL review.</p>
Recommendations to the Global Standards Steering Committee	<ul style="list-style-type: none"> • The Global Standards Steering Committee could carry out an in depth analysis of all definitions and terms included in both frameworks. Such an analysis would identify differences for the purposes of planning the establishment of global definitions and terms. This step is likely to be critical in setting transparent and comparable global reporting guidelines.
Next step	<ul style="list-style-type: none"> • Detailed analysis of the various definitions in both frameworks, leading to a proposal for Global Definitions. As long as differences in the definitions remain, it will be difficult to produce Global Guidelines.
Sources used	<ul style="list-style-type: none"> • INREV Guidelines • INREV Definitions • NCREIF PREA Reporting Standards

Key focus area	Analysis
Fees and expense ratios	
Comparison	<p>The main differences between the INREV Total Expense Ratio (TER) after performance fees and the Reporting Standards Real Estate Fees and Expenses Ratio (REFER) stem from items that are included in REFER but not in INREV TER. These include taxes on fund and financing structures, placement fees, and subscription fees. In addition, two items included in INREV Vehicle Costs do not appear in REFER: Investment Advice Fees and Vehicle Level Asset Management Fees.</p> <p>INREV does not state precisely which fee sub-categories are included in the Management Fee. The REFER guidance lists the various types of management fee, including performance fees, with their definitions. These classifications are needed for a number of specific fee and expense ratios.</p>
Recommendations to the Global Standards Steering Committee	<p>The Global Standards Steering Committee could investigate the possibility of INREV defining the sub-categories of management fee in the same way as REFER. This would be a relatively easy step. One possible point of discussion may be whether taxes related to fund and financing structures should be included. INREV may provide the rationale for no longer including this as a vehicle expense.</p>
Next steps	<ul style="list-style-type: none"> • Alignment of the REFER and INREV TER after performance fees. • Assessment of whether all management fees are clearly defined for the Global Total Fees and Expenses Ratio (TFER).
Sources used	<ul style="list-style-type: none"> • INREV Guidelines • NCREIF PREA Reporting Standards: <ul style="list-style-type: none"> • Performance and Risk Manual • Real Estate Fees and Expenses Ratio (REFER): Calculating the Fee Burden of Private U.S. Institutional Real Estate Funds and Single Client Accounts

Key focus area	Analysis
Reporting	
Comparison	<p>The gap between reporting requirements in the two frameworks has closed significantly. This stems particularly from the introduction of the latest INREV Guidelines and the adoption of the SDDS, which reflect many recommendations from the previous review. Key observations include:</p> <ul style="list-style-type: none"> • INREV Guidelines now include the requirement for quarterly reporting, as already stipulated in the Reporting Standards. • The biggest differences are due to INREV’s requirement for more detailed qualitative information. The Guidelines require more information from management reports included in financial statements than do the Reporting Standards. • The Guidelines and the Reporting Standards have become more aligned in terms of quantitative information.
Recommendations to the Global Standards Steering Committee	<ul style="list-style-type: none"> • The Global Standards Steering Committee could use the detailed gap analyses to identify all those quantitative and qualitative requirements which currently do not align. For each framework, a mapping table should be prepared to allow navigation from the specific reporting requirements within the Guidelines and the Reporting Standards to the Global Reporting Requirements. • For the more qualitative requirements, the Global Standards Steering Committee could assess whether NCREIF PREA would be receptive to including these in the Reporting Standards.
Next steps	<ul style="list-style-type: none"> • Preparing a complete overview of qualitative reporting requirements globally. • Preparing quantitative requirements for all qualitative reporting requirements globally.
Sources used	<ul style="list-style-type: none"> • INREV Guidelines • INREV Definitions • INREV Standard Data Delivery Sheet • NCREIF PREA Reporting Standards, Volumes I and II

Key focus area	Analysis
Valuation	
Comparison	<ul style="list-style-type: none"> • There do not appear to be major differences between the Guidelines and the Reporting Standards in terms of the frequency and providers (internal/external) of property valuations. However, the Reporting Standards include somewhat more detailed requirements than the Guidelines, although the latest revision of the Guidelines has reduced these differences through the inclusion of additional clarifications and requirements. • While the Reporting Standards rely on (or reference) the International Valuation Standard (IVS) for reporting on “Internal Valuation”, INREV does not specify a particular standard, instead referring to various international valuation standards such as IVS, RICS and TEGOVA. <p>The Reporting Standards require a written valuation policy for both external and internal valuation requirements. The Guidelines only require two disclosure requirements regarding valuation.</p>
Recommendations to the Global Standards Steering Committee	<ul style="list-style-type: none"> • It should be noted that the IVS definitions, in particular those relating to fair value, are currently under review. The Global Standards Steering Committee could follow this change to ensure that IFRS, US GAAP, Reporting Standards and INREV definitions are aligned. • Furthermore, NCREIF’s Valuation Committee has drafted a valuation manual pending NCREIF Board approval. In addition, guidance on the valuation of debt, covered in Volume II, is under revision. The Global Standards Steering Committee could follow this guidance once it has been confirmed.
Next steps	<ul style="list-style-type: none"> • Concluding global valuation requirements.
Sources used	INREV Guidelines INREV Definition NCREIF PREA Reporting Standards Valuation Elements of “Internal Valuation” Policies and Procedures for Fair Value Accounts

Key focus area	Analysis
NAV and fair value accounting	
Comparison	<ul style="list-style-type: none"> • The two frameworks have different starting points with respect to the definition of NAV. The definition of INREV NAV (Fair Value Net Asset Value) has been revised to differ from the fair value definition of IFRS and IVS. The IFRS and IVS definitions incorporate the concept of a theoretical sale, as of the balance sheet date, assuming an arm's length transaction, a willing buyer and seller, adequate time to market and no duress. INREV NAV incorporates a less direct theoretical sale definition, in order to present what INREV contends is a more fitting view of economic value as many INREV member funds use different pricing mechanisms (for example bid-offer prices). The definition of NAV under the Reporting Standards is Fair Value U.S. GAAP based. • The starting point for both frameworks is the fair value of assets and liabilities. The main differences stem from the fact that INREV adjusts to spread costs for the benefit of different generations of investors whereas NAV under the Reporting Standards does not make such an adjustment. Apart from the spreading of costs, there are some differences in the guidance on how to assess the fair value of assets compared to the IFRS and US-GAAP standards.

Key focus area	Analysis
	<p>NAV per share</p> <p>INREV NAV represents the economic value of the total investment of the investors in a fund, taken as a group. To derive the INREV NAV per unit, managers should take into consideration any rights (such as carried interest, performance fees, manager remuneration schemes, terms or different classes of units, NAV waterfall calculations, option shares etc.) held by the equity shareholders, or prospective equity stakeholders (in the case of options) in the vehicle.</p> <p>In certain circumstances, where the vehicle has raised and called capital, some investors may not have fully paid in their contributions. The INREV NAV per share does take into account the impact of called but unpaid capital.</p> <p>In the Reporting Standards, guidance is included with respect to an FV NAV per share (total FV NAV divided by the number of units outstanding). With respect to carried interest, and other manager remuneration schemes some guidance has been provided. Incentive fees some guidance is provided.</p>
<p>Recommendations to the Global Steering Committee</p>	<p>Global FV NAV</p> <ul style="list-style-type: none"> • Based on the detailed assessment it is clear that in some areas there are differences between the Reporting Standards Fair Value Accounting Policy for Fair Value NAV and the INREV definition of NAV. • Some differences might be resolved with additional research on the reasons for differences between IFRS and US GAAP. For other differences, it may be helpful to refer to the discussions of the initial or subsequent working groups on Fair Value Policy. • Additional detail should be gathered on the calculation methodology of the Global Index, to determine whether any potential changes would affect its results since currently the calculation and NAV used for the Global Index are calculated differently between USA and Europe/Asia. • One option to explore would be top-side adjustments to NCREIF-PREA FV NAV to build a bridge to INREV NAV. • Another option is to consider eliminating some adjustments from INREV NAV to derive a Global FV NAV. A bridge table could be prepared to come from INREV NAV to Global FV NAV.

Key focus area	Analysis
	<p>Global FV NAV per share</p> <ul style="list-style-type: none"> • Deloitte NL recommends that the Global Standards Steering Committee consider including such a modification to the guidance for defining a potential Global FV NAV. Special consideration should be given to the effects of carried interest, performance fees and/or manager remuneration schemes on the FV NAV, and whether such items should be included in the fund FV NAV, This assessment should be made in relation to the Global Index. The Global Standards Steering Committee has to ensure that distributions of fees via the General Partners' shares are properly taken into account in assessing the investors' total return. A similar assessment should be made with respect to the Total Expense Ratios. • This topic should also be discussed relative to the calculation of the Global Index. Such discussions should consider which NAV and method of calculation would make the index most meaningful and comparable for benchmark purposes. <p>Disclosure</p> <ul style="list-style-type: none"> • The Global Standards Steering Committee should investigate the different disclosure requirements in more detail, to assess the differences and determine whether the basis for a Global FV NAV is agreed. Consideration should be given to whether it meets the level of disclosure required for a proper understanding of the underlying assumptions and rationale for accounting and/or adjusting.
Next steps	<ul style="list-style-type: none"> • Alignment is not a first priority. However discussions to resolve the differences between INREV NAV and NCREIF PREA FV NAV should be held, making reference to the Global Index calculation.
Sources used	<ul style="list-style-type: none"> • INREV Guidelines / INREV Definition • Fair Value Accounting Policy Manual

Conclusion

The Global Standards Steering Committee will consider Deloitte NL's findings and recommendations as it establishes its priorities for global convergence. As progress is made, ANREV, INREV, NCREIF and PREA intend to promptly inform the industry. Where necessary, we anticipate seeking member input prior to the issuance of a converged product. We anticipate that our work will provide global investors the tools they need to facilitate informed decisions within the global marketplace.