

# Customer Account Statement Rule Changes: What You Need to Know

1

## Initial Estimated Valuations

### Previous Regulation

A DPP or public non-listed REIT must develop an initial valuation of its shares no later than 18 months after the close of its offering.

### New Regulation

From the admission of the first investor into a non-listed REIT and continually thereafter, broker-dealers will provide a per share estimated value of the security on customer account statements which has been developed in a manner reasonably designed to provide a reliable value. FINRA has defined two valuation methods that are presumptively reliable:

#### 1. Net Investment Methodology

Broker-dealers may report a value that is equal to the offering price minus selling commissions, dealer manager fees and estimated organizational and offering expenses. Valuations using this methodology may be reported on investor account statements until 150 days after the second anniversary of the initial escrow break.

-OR-

#### 2. Appraised Value Methodology

Broker-dealers may report a value disclosed by the REIT or DPP that is based on an appraisal of the assets and liabilities of the program by or with the material assistance of a third-party valuation expert, in conformity with standard industry valuation practice. Values based on this methodology may be used at any time during or after the offering period.

The Investment Program Association (IPA), in partnership with its non-listed real estate investment trust (REIT) members, has recognized the need for broker-dealers and financial advisors to understand the new requirements relating to the reporting of per share estimated values for unlisted REIT securities. This brochure is designed to provide a summary of key changes related to NASD Rule 2340 and FINRA Rule 2310 (“Customer Account Statement Rule”), and its impact on the broker-dealers’ customer account statements.

### The Implementation Period

The new regulations will take effect in April 2016. This implementation period provides sufficient time for the industry to educate advisors and investors about the proper interpretation of the future changes to account statement values. It also provides the necessary time to re-program IT systems for compliant account statement production and reporting, create investor education material and adapt existing product structures.

2

## Frequency of Reporting Revised Valuations

### Previous Regulation

The estimated valuations included on customer account statements may be based on data up to 18 months old.

### New Regulation

Revised valuations must be performed at least annually when using the Appraised Value Methodology.

3

## Account Statement Disclosures

### Previous Regulation

No disclosures are required regarding the impact of any distributions in excess of earnings. Disclosures regarding the valuation methodology utilized are limited in scope. The account statement must also include a disclosure that DPP or non-listed REIT securities are generally illiquid, and that the estimated value may not be realized when the investor seeks to liquidate the security.

### New Regulation

Any distributions in excess of earnings will be reflected in appraisal-based valuations. However, prior to the reporting of the first appraisal-based valuation, the account statement must include the following (or similar) disclosure prominently and in close proximity to the disclosure of distributions:

*“IMPORTANT – Part of your distribution includes a return of capital. Any distribution that represents a return of capital reduces the estimated per share value shown on your account statement.”*

The following text (or similar) must also be included on every account statement that reports DPP or non-listed REIT securities, regardless of the valuation methodology used:

*“DPP and non-listed REIT securities are not listed on a national securities exchange, are generally illiquid, and even if you are able to sell the securities, the price received may be less than the per share estimated value provided on the account statement.”*

## Customer Account Statement Rule Changes

*(NASD Rule 2340, FINRA Rule 2310)*

### What You Need to Know

FOR BROKER-DEALERS



About the IPA: The Investment Program Association (IPA) was formed in 1985 to provide effective national leadership for the direct investment industry. The IPA supports individual investor access to a variety of asset classes not correlated to the traded markets and historically available only to institutional investors. These include public non-listed REITs (NL REITs), business development companies (BDCs), energy and equipment leasing programs, and private equity offerings. For 29 years the IPA has successfully championed the growth and improvement of such products, which have increased in popularity with financial professionals and investors alike. Direct investments are held in the accounts of more than 2 million individual investors, and the IPA's member companies operate or have properties in all 50 states. Today these investment products function as a critical component of effectively diversified investment portfolios and serve an essential capital formation function for the US economy. The mission of the IPA is advocating direct investments through education. Access the wealth of IPA educational materials here, or visit the IPA online for more information about becoming a member.

### IPA's support of these changes

**The IPA supports the aforementioned changes. We believe they will benefit the investing public, their advisors, broker-dealers and the investment sponsors, in that they will directly or indirectly:**

- Strengthen the disclosure regimen and improve transparency of underwriting and sales costs;
- Accelerate securities valuations to investors, based on appraisals of underlying assets;
- Improve the standards for determining valuations, including the involvement of independent appraisal experts;
- Increase the frequency of independent valuations