

**RESPONSE TO
FEEDBACK RECEIVED**

29 May 2020

**Proposed Amendments
to the Requirements
for REITs**

MAS

Monetary Authority of Singapore

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1 Preface

1.1 On 2 July 2019, MAS published a consultation paper to seek feedback on the proposed amendments to the Code on Collective Investment Schemes to provide Singapore's REITs with more flexibility to manage their capital structure and to streamline the fundraising process for REITs.

1.2 The consultation closed on 1 August 2019. MAS would like to thank all respondents for their comments and feedback.

1.3 MAS has carefully considered the feedback received, and has made revisions to the proposals where appropriate. The list of respondents is set out in Annex A and the full submissions are provided in Annex B. Our response to comments that are of wider interest is set out below.

1.4 MAS has made amendments to the Code on Collective Investment Schemes to implement the final policy positions. The amendments took effect on 16 April 2020.

2 Defined Terms

CIS Code	Code on Collective Investment Schemes
ICR	Interest coverage ratio
MAS	Monetary Authority of Singapore
REIT	A real estate investment trust that invests primarily in real estate and real estate-related assets as specified in the Code on Collective Investment Schemes, and is listed on the Singapore Exchange Securities Trading Limited
SFA	Securities and Futures Act (Cap. 289)

3 Review of the Leverage Limit

Possible approach to recalibrate the leverage limit

3.1 MAS sought views on the possible approaches to recalibrate the leverage limit¹. These included the proposed use of a combination of leverage limit and minimum ICR in determining the amount of leverage that REITs can take on. In particular, MAS consulted on the option of allowing a REIT's leverage to exceed 45% but not more than 50% if the REIT has a minimum ICR of 2.5 times after taking into account the interest payments arising from the new debt. MAS also sought views on whether it is appropriate for a REIT that has demonstrated good financial discipline, such as having a higher ICR threshold, to be allowed a higher leverage, say 55%.

3.2 There was broad support from respondents for the leverage limit to be raised from 45% to 50%. Most respondents agreed that a minimum ICR, which measures serviceability of the underlying debt, complements the leverage limit. They therefore supported the use of ICR as a secondary metric that must be met before the leverage limit can be raised from 45% to 50%, with the ICR threshold set at 2.5 times.

3.3 Two respondents expressed concerns over the timing of the change, as the property market was approaching a possible peak and interest rates were at a historical low. Both could quickly reverse, heightening credit risks. One respondent expressed concern that retail investors, who are primarily focused on yield, may not understand that any resultant growth in distributions from increased leverage comes with higher credit risk.

3.4 There was less support for a further increase of the leverage limit to 55%. Some respondents felt that there was room for an increase to 55% as this would still be within the range in other jurisdictions. On the other hand, a few respondents observed that such a tiered system would favour larger REITs or REITs with properties in countries where borrowing costs are lower.

MAS' response

3.5 In light of developments brought about by COVID-19, MAS has further engaged the industry and institutional investors in the first quarter of 2020 on this set of proposals. Feedback was received that REITs may require more flexibility to take on borrowings for their short-term funding needs and better manage their capital structure over the longer term. Several institutional investors commented that a higher leverage limit will reduce

¹ Total borrowings and deferred payments of a REIT divided by the REIT's deposited property.

the need for REITs to undertake dilutive equity fundraising exercises (e.g. rights issues), while a couple of institutional investors commented that any increase in leverage limit should be temporary in nature.

3.6 Given the broad support from respondents and more recent feedback on the impact of COVID-19 on REITs, MAS had announced² that the leverage limit would be raised from 45% to 50% with effect from 16 April 2020.

3.7 As regards ICR as a secondary metric, feedback from the industry was that should the ICR threshold be applied under present circumstances, this would curtail REITs' access to debt funding given that their ICRs are likely to come under pressure due to the negative impact of COVID-19 on their earnings and cashflows. We recognise that imposing ICR threshold at this time could limit the ability of some REITs to utilise the additional debt headroom. Nevertheless, the ICR as a secondary metric would still be an important safeguard to ensure that REITs continue to pay close attention to their debt-servicing ability. Therefore, MAS had announced that instead of imposing the minimum ICR threshold of 2.5 times at this time, we will apply it from 1 January 2022.

3.8 Notwithstanding the higher leverage limit that is now in place, MAS expects REIT managers to carefully assess their ability to service financial obligations before taking on additional debt.

3.9 MAS has also amended the CIS Code to clarify that a REIT will not need to de-leverage if its leverage ratio exceeds the 45% limit, and its ICR is below the minimum ICR threshold of 2.5 times on or after 1 January 2022, if this is due to reasons beyond its control. However, the REIT will not be able to take on more debt.

Disclosure of leverage ratio and ICR

3.10 Respondents were supportive of MAS' proposal to require REITs to disclose both their leverage ratios and ICRs in interim financial results announcements and annual reports.

MAS' response

3.11 MAS will proceed with the proposal. REITs will be required to disclose both leverage ratios and ICRs with immediate effect (see paragraph 3.14 below on the computation of ICR before 1 January 2022). This will provide investors with timely

² Joint Statement by Ministry of Finance, Inland Revenue Authority of Singapore, Monetary Authority of Singapore on "New Measures to Help REITs Navigate the Operating Challenges Posed by COVID-19", 16 April 2020.

information about the financial position of REITs. In addition, to facilitate retail investors' understanding of the risk-return tradeoff arising from higher leverage, MAS will require a REIT manager to explain in the REIT's annual report how a year-on-year increase in leverage would impact the REIT's risk profile.

Computation and disclosure of ICR

3.12 For comparability across the sector, MAS had proposed to standardise the definition of ICR as earnings before interest, tax, depreciation and amortisation (EBITDA) (excluding effects of any fair value changes) divided by interest expense.

3.13 Some respondents suggested excluding from the numerator, effects of changes on financial derivatives and foreign exchange translation. Other respondents suggested adding to the denominator, borrowing related fees (e.g. amortised up-front bank fees) and distributions on hybrid securities. In particular, the respondents expressed the view that an ICR that includes distributions on hybrid securities will provide additional assurance to equity investors that a REIT is able to service all of its capital financing obligations.

MAS' response

3.14 MAS has refined the definition of ICR to take into account the feedback received. The CIS Code has been amended to define ICR as the trailing 12 months earnings before interest, tax, depreciation and amortisation (EBITDA) (excluding effects of any fair value changes of derivatives and investment properties, and foreign exchange translation) divided by the trailing 12 months interest expense and borrowing-related fees. REITs will be required to disclose ICR in their interim financial results announcements and annual reports.

3.15 When the ICR threshold of 2.5 times takes effect on 1 January 2022, REITs will also be required to compute their ICR by including distributions on hybrid securities³ in the denominator ("Adjusted ICR"). This approach takes into account feedback that distributions on hybrid securities are similar to interest expense as they are financial obligations that REITs have to satisfy. From 1 January 2022, REITs will also be required to disclose the Adjusted ICR, in addition to the ICR, in their interim financial results announcements and annual reports. The threshold of 2.5 times will only be applied on the Adjusted ICR.

3.16 MAS would also like to clarify that for the purpose of the definition of ICR and Adjusted ICR, "borrowing-related fees" include fees and charges that are incurred to

³ These include perpetual securities and preference shares.

procure credit facilities (e.g. amortisation of fees and of transaction costs that are normally paid upfront to the lenders). Interest income should also be excluded from both EBITDA and interest expense. In addition, finance cost or interest expense arising from the application of Singapore Financial Reporting Standards (International) 16 / Financial Reporting Standard 116 Leases should be included in the denominator.

Proposed Removal of the Notification Requirements for REITs

3.17 All respondents supported MAS' proposal to remove the requirement for REITs to submit an online notification to MAS when they make an exempted offer to accredited and certain other investors under section 305 of the SFA.

MAS' response

3.18 MAS will proceed with the proposal to remove the notification requirements. This will streamline the fundraising process for REITs and bring it in line with the fundraising process for companies and business trusts.

3.19 To implement this proposal, MAS has introduced amendments to the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 which come into operation on 29 May 2020.

MONETARY AUTHORITY OF SINGAPORE

29 May 2020

Annex A

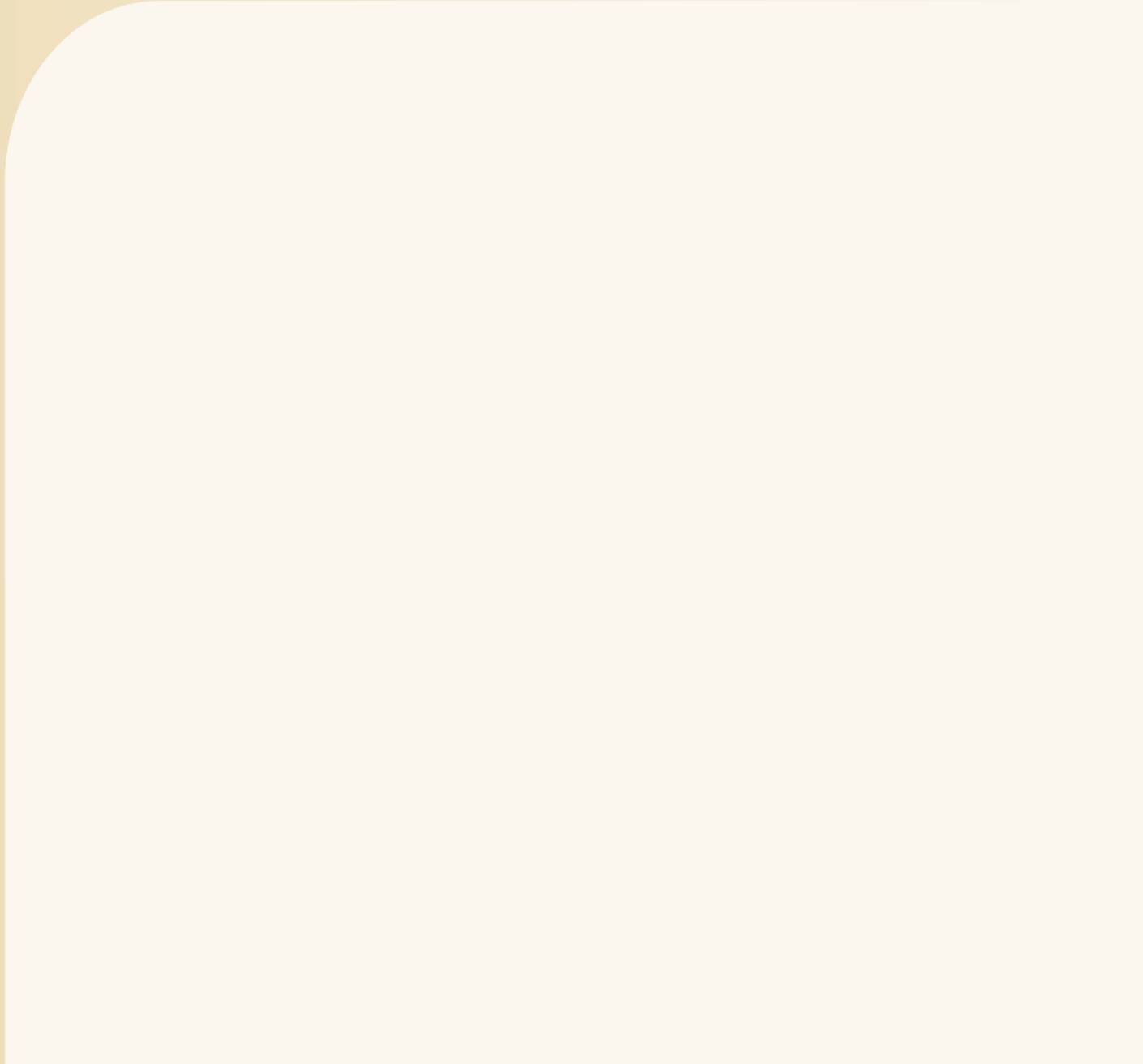
**LIST OF RESPONDENTS TO THE CONSULTATION PAPER ON PROPOSED
AMENDMENTS TO THE REQUIREMENTS FOR REITS**

1. Asia Pacific Real Estate Association
2. CFA Society Singapore
3. Chan Choon Yuan
4. Cromwell EREIT Management Pte. Ltd.
5. DBS Bank Ltd.
6. FEO Hospitality Asset Management Pte. Ltd.
7. Fitch Ratings Singapore Pte Ltd
8. Matthew Dobbs
9. Stephen Chen
10. Tam Ging Wien
11. Tommy Teo
12. Victor Looi Yi En
13. Vincent Tan
14. WongPartnership LLP
15. 10 respondents requested for confidentiality of submission: Allen & Gledhill LLP; ARA Trust Management (Cache) Limited; Frasers Centrepoint Trust; Frasers Commercial Trust; Frasers Logistics & Industrial Trust; Frasers Hospitality Trust; Keppel Capital Holdings Pte. Ltd.; Mapletree Investments Pte Ltd; REIT Association of Singapore; United Overseas Bank Limited
16. 2 respondents requested for confidentiality of identity
17. 4 respondents requested for confidentiality of identity and submission

Annex B

**FULL SUBMISSIONS FROM RESPONDENTS TO THE CONSULTATION PAPER
ON PROPOSED AMENDMENTS TO THE REQUIREMENTS FOR REITS**

Note: Please refer to attachment uploaded separately. Only submissions for which respondents did not request for confidentiality have been included.



Monetary Authority of Singapore