

# CONSULTATION PAPER

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## Enhancements to the Regulatory Regime Governing REITs and REIT Managers

MAS

Monetary Authority of Singapore

## **PREFACE**

Singapore's REIT regime was established to provide investors with an opportunity to gain exposure to real estate assets, with diversification of risks through a pooling arrangement. It was envisaged that REITs would provide investors with stable distributions through their passive ownership of income producing properties. In keeping with these objectives, REITs have to observe the Property Funds Appendix ["PFA"] of the Code on Collective Investment Schemes ["CIS Code"] which are designed to, amongst others, ensure that REITs derive revenue mainly from stable sources that are not subject to significant fluctuations. As listed investment vehicles, REITs are required to comply with the initial and on-going listing obligations under the SGX-ST Listing Manual. REIT managers are subject to licensing and business conduct rules that seek to ensure that they are fit and proper, adequately capitalised and have appropriate corporate governance arrangements in place.

2. On the back of this framework, REITs have over the last decade become an investment option that delivers tax-efficient, stable and regular returns for investors. Singapore is now one of the largest REIT markets in Asia. As at the end of September 2014, there were 33 listed REITs in Singapore with an aggregate market capitalisation exceeding S\$61 billion.

3. MAS intends to build on the strength of our REIT regime to instill greater investor confidence and sustain trust and growth. The proposals in this consultation paper are geared towards fostering stronger governance practices and greater alignment of interests, whilst providing REITs with more operational flexibility to enhance their portfolio to deliver stronger performance. In formulating these proposals, MAS had considered views and suggestions expressed by REIT practitioners and market participants.

4. MAS invites interested parties to provide their comments and feedback on:
- (a) the proposals set out in this consultation paper;
  - (b) the proposed legislative amendments to the Securities and Futures Act (Cap. 289) [the “Act”] and the Securities and Futures (Licensing and Conduct of Business) Regulations [the “Regulations”];
  - (c) the draft Notice and Guidelines to REIT managers [respectively, the “Notice” and the “Guidelines”]; and
  - (d) the proposed amendments to the CIS Code.
5. Comments may be submitted to:

Market Conduct Department  
Monetary Authority of Singapore  
10 Shenton Way  
MAS Building  
Singapore 079117

Email: [reits@mas.gov.sg](mailto:reits@mas.gov.sg)  
Fax: (65) 6225-1350

6. MAS requests that all comments and feedback be submitted by 10 November 2014. Please note that all submissions received may be made public unless confidentiality is specifically requested for the whole or part of the submission.

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Appendix 1: Draft amendments to the Securities and Futures Act (Cap. 289)

Appendix 2: Draft amendments to the Securities and Futures (Licensing and Conduct of Business) Regulations

Appendix 3: Draft Notice to REIT managers

Appendix 4: Draft Guidelines to REIT managers

Appendix 5: Draft amendments to the Code on Collective Investment Schemes

## **SECTION 1: STRENGTHENING CORPORATE GOVERNANCE**

### **A. PRIORITISING THE INTERESTS OF REIT UNITHOLDERS**

1.1. Under general law, the directors of a company have fiduciary duties to act in the interests of the company and therefore, are to take into account the interests of its shareholders. Today, REIT managers are often wholly-owned by the property development company [the “Sponsor”] that had set up and listed the REIT by injecting its properties into the REIT. Following the REIT’s listing, it is not uncommon for the REIT to enter into service agreements or property transactions with the Sponsor or its subsidiaries.

1.2. As the interests of a REIT manager and its shareholders may potentially conflict with those of the unitholders, we propose to impose a statutory duty on the REIT manager and its individual directors, to prioritise the interests of the unitholders over those of the REIT manager and its shareholders in the event of a conflict of interest. Any REIT manager and any director of the REIT manager who breaches this duty will be subject to criminal and civil liability. This will enhance the protection of REIT unitholders’ interests and is consistent with the requirements that are applicable to trustee-managers of business trusts.

Q1: MAS seeks views on its proposal to impose a statutory duty on a REIT manager and on its individual directors to prioritise the interests of unitholders over those of the REIT manager and its shareholders, in the event of a conflict of interest.

### **B. BOARD INDEPENDENCE REQUIREMENTS**

1.3. A strong and independent element on the board of directors of the REIT manager [the “Board”] is important, given the Board’s responsibility for overseeing the management’s performance, and providing objective judgement on whether transactions proposed for the REIT are in the interests of unitholders. Currently, a REIT manager is required to ensure that at least one-third of the Board are independent directors. This is

consistent with the minimum standard in the Code of Corporate Governance [“CG Code”]<sup>1</sup>.

1.4. Taking into account feedback from market participants, MAS is considering two possible approaches to enhance the existing independence requirement:

- (a) Option 1: At least half the Board to comprise independent directors, if unitholders of the REIT are not given the right to appoint the directors of the REIT manager. If unitholders are given such right, the current requirement that the Board is to be at least one-third independent will continue to apply to that REIT manager; or
- (b) Option 2: At least a majority of the Board to comprise independent directors.

1.5. Under both approaches, an “independent director” has to satisfy all of the following:

- (a) independent from any management and business relationship with the REIT manager and the REIT;
- (b) independent from any substantial shareholder of the REIT manager and from any substantial unitholder of the REIT; and
- (c) has not served on the Board of the REIT manager for a continuous period of nine years or longer.

In addition, the Chairman of the Board cannot be an executive director or a person who is a member of the immediate family of the Chief Executive Officer [“CEO”].

1.6. Option 1 allows REIT managers to follow the board independence standards that apply to listed companies under the CG Code, as long as REIT unitholders are given the same rights as corporate shareholders to vote on director appointments. There could be some risk of investor confusion as to the board independence requirements applicable to different REIT managers, given that this requirement may not be uniformly applied consistently across all REIT managers. However, any potential for confusion is mitigated through adequate disclosure.

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<sup>1</sup> The CG Code further states that independent directors should make up at least half of the Board where:

- (a) the Chairman and the CEO is the same person;
- (b) the Chairman and the CEO are immediate family members;
- (c) the Chairman is part of the management team; or
- (d) the Chairman is not an independent director.

1.7. Under this option, if a REIT manager chooses to provide REIT unitholders with the right to vote on its director appointments, the REIT manager will need to make the appropriate modifications to its articles of association as well as the trust deed, to set out the procedures for appointment and removal of its directors.

1.8. Option 2 has the advantage of being a uniform requirement consistently applied to all REIT managers, but will result in higher compliance cost for the industry. For instance, an even-numbered Board will still have to source for one additional independent director to fulfil the requirement under Option 2. MAS notes that as of 30 September 2014, 24 of the 33 REIT managers have Boards that are at least half-independent, while 15 of the 33 REIT managers have Boards that are majority-independent.

Q2: MAS seeks views on the two options<sup>2</sup> in section 1.4 for enhancing the independence of the Board of the REIT manager.

### **C. REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS**

1.9. Under the CG Code, a listed company should report annually to its shareholders the remuneration of its directors, the CEO and at least the top five key management personnel (who are not also directors or the CEO) of the company. MAS observed that REIT managers adopt different standards in disclosing the remuneration of their directors and key executive officers.

1.10. Notwithstanding that the REIT manager is not a listed company, it manages a listed investment vehicle and should abide by the standards on remuneration disclosure set out in the CG Code. While MAS notes that the remuneration of directors and executive officers are paid by the REIT manager and not the REIT, MAS is of the view that such disclosures would enable unitholders to understand the link between the remuneration paid to directors and key executive officers on the one hand, and their performance. MAS proposes to require REIT managers to disclose, in the REIT's annual report:

- (a) their remuneration policies and procedure for setting remuneration of directors and executive officers;

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<sup>2</sup> Option 1 is reflected in the proposed amendments to the Regulations.

- (b) the remuneration of each individual director and CEO, on a named basis; and
- (c) the remuneration of at least the top five key executive officers of the REIT manager, on a named basis, in bands of S\$250,000<sup>3</sup>.

Q3: MAS seeks views on its proposal to require a REIT manager to disclose, in the annual report of the REIT, the following:

- (a) the REIT manager's remuneration policies and procedure for setting remuneration of directors and executive officers;
- (b) the remuneration of each individual director and CEO of the REIT manager, on a named basis; and
- (c) the remuneration of at least the top five key executive officers of the REIT manager, on a named basis, in bands of S\$250,000.

#### **D. AUDIT COMMITTEE REQUIREMENTS**

1.11. Currently, MAS requires a REIT manager to have an Audit Committee ["AC"] to review all related party transactions. The AC must comprise only non-executive directors, the majority of whom, including the AC Chairman, should be independent. However, there is currently no requirement for the AC of a REIT manager to comprise a minimum number of directors. To align with the guidelines in the CG Code, MAS proposes that the AC should comprise at least three directors.

1.12. The AC plays a key role in reviewing related party transactions, including annual reviews of material functions that a REIT manager may have outsourced to the Sponsor. MAS has observed instances where the non-independent director of an AC includes a nominee from the Sponsor's group. Where the nominee's responsibilities in the Sponsor's group relate only to control or back-office functions such as audit, finance, compliance or risk management, MAS proposes not to object to the appointment of the Sponsor's nominee to the AC. In such cases, the nominee may have the relevant expertise to contribute to the AC.

1.13. The Sponsor's nominee to the AC is required to abstain from voting on any matter in which the Sponsor has a direct or indirect interest. Given that related party transactions by REITs are not uncommon, MAS proposes that where an AC includes a nominee from the Sponsor, the AC should have a minimum of three other directors who are independent.

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<sup>3</sup> If there are fewer than five executive officers, the remuneration of all executive officers should be disclosed.



This will ensure that the AC has sufficient resources to carry out its responsibilities effectively, notwithstanding the abstention.

Q4: MAS seeks views on its proposal to stipulate a minimum of three directors for the AC.

Q5: MAS seeks views on its proposal to:

- (a) allow directors whose responsibilities in the Sponsor's group relate only to control or back-office functions to be a member of the REIT manager's AC; and
- (b) to require, in the case of an AC that has a Sponsor's nominee as a member, a minimum of three other directors who are independent.

## **E. ACCOUNTABILITY OF REIT MANAGERS**

1.14. The REIT manager is accountable to unitholders for the management of the REIT's assets and the performance of the REIT. Currently, unitholders can hold the REIT manager to account by exercising their rights under the REIT's trust deed to call for a general meeting to vote on the removal of the REIT manager. However, unitholders are unlikely in practice to exercise this right unless (and until) the REIT manager has failed to perform its duties or act in the unitholders' interests.

1.15. MAS would like to seek views on whether the current approach is effective in ensuring accountability of REIT managers to unitholders. If the current approach is deemed insufficient, what additional measures could be considered? For example, should MAS require REIT managers to submit themselves for re-appointment at regular intervals (e.g. once every five years or less), where the re-appointment is subject to unitholders' approval at a general meeting?

Q6: MAS invites comments on whether the current approach of relying on unitholders to initiate a review of the REIT manager's appointment is effective. Should regulatory intervention be deemed necessary, what additional measures could be considered and why?

## **SECTION 2: ALIGNMENT OF INCENTIVES**

### **A. FEE STRUCTURE**

2.1. REIT managers' compensation typically comprises management fees, acquisition fees, divestment fees and development management fees. The management fee is in turn made up of: (i) a base fee that is computed based on a fixed percentage of the value of the REIT's deposited properties; and (ii) a performance fee that is pegged to certain metrics (for example, the REIT's gross revenue, net property income, or distributions per unit).

2.2. Some commentators have noted that the fee structure adopted by some of the REITs could incentivise the REIT managers to grow the REITs' assets rather than to focus on maximising returns for unitholders. For instance, in the case where the performance fee is pegged to gross revenue or net property income, the REIT manager may have an incentive to acquire additional properties to increase the REIT's revenue or net property income. However, the increase in the size of the REIT's portfolio may not necessarily lead to an increase in the REIT's distributable income, especially if the acquisitions are accompanied by the REIT taking on additional borrowings. Further, the higher level of gearing could expose the REIT to refinancing risks. Some REITs have sought to address these concerns by pegging their performance fee to the growth in the REIT's distributions per unit.

2.3. As an over-arching principle, the fee structure adopted by a REIT manager should be aligned with the long-term interest of the REIT and its unitholders. To foster stronger alignment of interests between a REIT manager and unitholders, MAS is proposing to require the performance fee payable to the REIT manager to be computed based on a methodology that meets the following principles:

- (a) crystallisation of the performance fee should be no more frequent than once a year;
- (b) the performance fee should be linked to an appropriate metric which takes into account the long-term interest of the REIT and its unitholders such as net asset value per unit or distributions per unit; and
- (c) the performance fee should not be linked to the REIT's gross revenue.

Q7: MAS invites comments on its proposal to require the performance fee payable to the REIT manager to be computed based on a methodology that meets certain principles that foster stronger alignment between a REIT manager and unitholders. MAS also invites suggestions on the possible methodologies that could be adopted to comply with the principles. MAS welcomes alternative proposals, which should be accompanied by an explanation of how they would help strengthen the alignment of a REIT manager's interests and unitholders' long-term interests.

## **B. ACQUISITION AND DIVESTMENT FEES**

2.4. When a REIT makes an acquisition or a divestment, the REIT manager is usually entitled to an acquisition fee (normally 1% of the purchase consideration) or divestment fee (normally 0.5% to 1% of the sale consideration). Acquisition and divestment fees provide a pecuniary incentive for a REIT manager to rebalance the REIT's portfolio. Such fees can form a significant proportion of a REIT manager's total compensation.

2.5. Acquisition fees, in particular, could result in an 'asset-growth' bias. It has been suggested that acquisition fees are necessary to incentivise REIT managers to search for good assets and undertake proper due diligence, as well as to compensate them for the expenses incurred in doing so. While it is reasonable for REIT managers to be compensated for expenses incurred in connection with such transactions, the pegging of acquisition fee to the size of the transaction could result in REIT managers being paid a fee which is not commensurate with the amount of efforts expended or the cost incurred, particularly if the valuation of the transacted property is large.

2.6. Given that the REIT manager would already be compensated through management and performance fees, there may not be a strong basis for the REIT manager to be paid a separate 'incentive' fee when the REIT undertakes an acquisition or a divestment. Further, if the property is acquired from or sold to an interested party (e.g. the Sponsor), the scope of the work performed by the REIT manager is likely to be relatively more limited and administrative in nature, as compared to transactions with independent parties.

2.7. Given the foregoing, MAS is proposing to allow REIT managers to charge an acquisition or divestment fee only if the fee is determined on a 'cost recovery' basis. This would ensure that acquisition and divestment fees are charged on a clear and reasonable basis. The costs and out-of-pocket expenses incurred by the REIT manager in connection with an acquisition or divestment would have to be reviewed by the REIT trustee before payment can be disbursed.

2.8. Separately, MAS noted that the disposal of a property to an interested party could fuel queries as to whether the REIT manager has taken all reasonable steps to obtain the best possible offer for the property. There are currently requirements to ensure that an interested party transaction is carried out on normal commercial terms and at arms' length. To provide greater assurance that the REIT manager has taken all reasonable steps to obtain the best possible offer for the property, MAS proposes to require the AC of the REIT manager to certify that it:

- (a) is not aware of any other offer for the subject property with terms that are more favourable to those offered by the interested person; and
- (b) has no reason to believe the divestment can be made on terms that are more favourable than those offered by the interested person.

Q8: MAS seeks views on its proposal to allow REIT managers to charge an acquisition or divestment fee only if the fee is determined based on a 'cost-recovery' basis.

Q9: MAS seeks views on its proposal to require, where a REIT's property is divested to an interested party, the AC of the REIT manager to certify that it is not aware of any other offer with, and has no reason to believe that the divestment can be made on, terms that are more favourable than those offered by the interested party.

### **C. REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS**

2.9. MAS observed that directors and executive officers of the REIT manager may participate in the employee share option plans of the Sponsor (or its related entity) or receive part of their compensation in the form of shares in the Sponsor (or its related entity). Such compensation may result in a misalignment of interests as it creates an incentive for these individuals to prioritise the interests of the Sponsor over those of the REIT unitholders.

2.10. To mitigate potential conflict of interests, MAS proposes to prohibit the remuneration of directors and executive officers of the REIT manager to be:

- (a) paid in the form of shares or interests in the Sponsor or its related entities;  
or
- (b) linked in any way to the performance of any entities other than the REIT.

2.11. In addition, in line with the requirements that are applicable to SGX-listed companies<sup>4</sup>, MAS is proposing to restrict the remuneration of the executive directors of a REIT manager from being linked to the revenue of the REIT. This serves to remove the incentive for the executive directors to drive top-line figures, at the expense of the long-term interest of the REIT and its unitholders. MAS also proposes to introduce a requirement for the fees payable to the non-executive directors of a REIT manager to be a fixed sum.

Q10: MAS seeks views on its proposal to impose certain restrictions which seek to ensure that the remuneration or fees payable to the directors and executive officers of REIT managers would not lead to a misalignment of interests.

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<sup>4</sup> Appendix 2.2 of the SGX-ST's Listing Manual requires the constitutive documents of SGX-listed companies to provide that (i) salaries payable to executive directors may not include a commission on or a percentage of turnover; and (ii) fees payable to non-executive directors must be by a fixed sum.

## **SECTION 3: OPERATIONAL FLEXIBILITY**

### **A. LEVERAGE LIMIT**

3.1. Currently, REITs are subject to a leverage limit of 35% of their total assets. This limit can be increased to 60% if the REIT obtains a credit rating and discloses the rating to the public. This rule seeks to ensure that REITs do not over-extend themselves by pursuing highly geared property acquisitions. The requirement for the REIT to be rated before it can leverage up to 60% is essentially a means to keep a REIT's level of leverage in check through market discipline. The market is not likely to have a favourable view of a REIT that decides to leverage up despite having a poor credit rating.

3.2. MAS has received feedback that credit ratings may not provide a complete picture of a REIT's capacity to take on and service additional debt. This rule could also lead to a situation where a REIT with a poor credit rating is allowed to undertake highly-g geared acquisitions. In practice, MAS notes that even though two-thirds of the REITs are rated, most REITs have kept their leverage ratios within 35%.

3.3. With a view to reducing mechanistic reliance on credit ratings and ensuring that the rule remains effective in limiting REITs exposure to refinancing risk, MAS is proposing to adopt a single-tier leverage limit of 45% (without requirement for credit rating) and remove the option for a REIT to leverage up to 60% by obtaining a credit rating.

<p>Q11: MAS seeks views on its proposal to adopt a single-tier leverage limit of 45% (without requirement for credit rating) and remove the option for a REIT to leverage up to 60% by obtaining a credit rating.</p>
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### **B. DEVELOPMENT LIMIT**

3.4. Under paragraph 7.1(d) of the PFA, the total contract value of property development activities undertaken and investments in uncompleted property developments by a REIT should not exceed 10% of the REIT's deposited property. This requirement limits a REIT's exposure to the risks and uncertainties associated with property development.

3.5. We have received feedback that the 10% development limit is unduly restrictive and affects the ability of REITs to rejuvenate their portfolios. As their portfolios mature, the need for REITs to undertake redevelopment and refurbishment will increase. In practice, REITs are able to overcome the development limit by selling their properties to their Sponsors to redevelop and subsequently buy back the ‘redeveloped’ property. However, such interested party transactions give rise to concerns about conflict of interests. A higher development limit will reduce the need for REITs to undertake such transactions with their Sponsors.

3.6. Taking into account the greater need for REITs to rejuvenate their properties, MAS proposes to allow a REIT to undertake development activities up to 25% of its deposited property, but only if: (a) the REIT obtains specific unitholders’ approval for the higher development limit of 25%; and (b) the additional 15% allowance (over and above the current 10% limit) is utilised solely for the redevelopment of an existing property that has been held by the REIT for at least 3 years and which the REIT will continue to hold for at least 3 years after redevelopment.

3.7. Separately, MAS has received requests to provide guidance on the types of building works that would be regarded as “property development activities” for the purpose of paragraph 7.1(d) of the PFA. MAS proposes to clarify that “property development activities” has the same meaning as “building works” as defined under section 2(1) of the Building Control Act<sup>5</sup>.

Q12: MAS seeks views on its proposal to allow a REIT to exceed the 10% development limit and undertake property development activities up to 25% of its deposited property, only if:

- (a) the REIT obtains specific unitholders’ approval for the higher development limit of 25%; and
- (b) the additional 15% allowance (over and above the existing 10% limit) is utilised solely for the redevelopment of an existing property that has been held by the REIT for at least 3 years and which it will continue to hold for at least 3 years after redevelopment.

<sup>5</sup> Under section 2(1) of the Building Control Act, “building works” mean:

- (a) the erection, extension or demolition of a building;
- (b) the alteration, addition or repair of a building;
- (c) the provision, extension or alteration of any air-conditioning service or ventilating system in or in connection with a building, and includes site formation works connected with or carried out for the purpose of paragraph (a), (b) or (c).

## **SECTION 4: OPERATIONAL REQUIREMENTS ON REIT MANAGERS**

### **A. COMPLIANCE FUNCTION**

4.1. REIT managers are currently required to conduct their compliance activities in Singapore, but are not required to have a dedicated compliance function. This is unlike licensed fund management companies [“FMCs”] that manage funds for retail investors, which are required to have a dedicated<sup>6</sup> compliance function due to the greater market conduct risks and impact posed by such players (as compared to FMCs that manage funds for accredited or institutional investors) and the broader scope of laws and regulations applicable to them. MAS notes that while some REIT managers already have a dedicated compliance function, the majority of the REIT managers have outsourced the compliance function to their Sponsors or related entities. Where the REIT manager does not have a dedicated compliance function, situations may arise where there could be competing demands on the compliance function’s resources.

4.2. Under the CG Code, the AC’s duties should include reviewing and reporting to the Board of the REIT manager, the adequacy and effectiveness of the compliance controls of the company. To ensure that such reviews are conducted at least annually, MAS proposes to require the AC of the REIT manager to state, in the REIT annual reports, whether the compliance arrangements of the REIT manager are adequate and effective, taking into account the nature, scale and complexity of the REIT manager’s operations. On nature, the AC should consider the type of properties that the REIT invests in. On scale, the AC should take into account the size of the REIT’s property portfolio. Factors relevant to the complexity of the REIT manager’s operations would include the frequency and value of related party transactions, including the materiality of functions that the REIT manager may have outsourced to the Sponsor and the transparency of laws in the jurisdiction(s) in which the properties are located.

4.3. If the AC is of the view that the arrangements are inadequate, the AC should state the mitigating measures that are being taken.

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<sup>6</sup> Dedicated compliance officers may perform other non-conflicting roles to complement their functions. For example, a compliance officer may also concurrently assume the role of an in-house legal counsel for the FMC.



Q13: MAS seeks your views on its proposal to require the AC of the REIT manager to state in the REIT annual reports:

- (a) whether the compliance arrangements of the REIT manager are adequate and effective, taking into account the nature, scale and complexity of the REIT manager's operations; and
- (b) (if the AC is of the view that the arrangements are inadequate or ineffective) the mitigating measures being taken.

## **B. PROFESSIONAL INDEMNITY INSURANCE**

4.4. A professional indemnity insurance ["PII"] serves to protect the insured against claims arising out of the provision of professional advice. The PII may cover:

- (a) civil, criminal, investigative and regulatory proceedings;
- (b) claims brought by or on behalf of the insured's clients; and
- (c) wrongful acts committed by the insured such as negligence, breach of trust or misrepresentation.

4.5. A REIT manager could be exposed to the risk of such claims over the decisions that it makes in the management of the REIT. Such risk may be heightened in the case of investment decisions made for assets located in a foreign jurisdiction.

4.6. MAS notes that the trust deed for a REIT typically stipulates that liabilities and claims that a manager may suffer in carrying out its duties may be payable out of the REIT assets unless such liabilities and claims arose from any fraud, gross negligence or wilful default of the REIT manager, or a breach of the trust deed by the REIT manager. However, when such claims are made, it may take time to establish whether the REIT manager has acted in good faith or with due care. In the interim, the REIT manager is liable to legal costs.

4.7. To mitigate the impact of claims on the viability of a REIT manager's operations, MAS proposes to require REIT managers to procure a PII. The amount of coverage should meet the minimum requirements set out in Annex 1 of Appendix 4, which are in line with those that apply to licensed FMCs serving retail investors. The amount of PII deductible should not exceed 20% of the REIT manager's base capital. In lieu of a PII, a letter of undertaking ["LU"] may be provided by the REIT manager's parent company, where the latter has a satisfactory financial standing.

4.8. MAS notes that most REIT managers already procure a PII and hence does not expect a significant cost increase arising from this proposal.

Q14: MAS seeks views on its proposal to require the REIT manager to procure a PII or, in lieu of a PII, a LU may be provided by the REIT manager's parent company, where the latter has a satisfactory financial standing.

### **C. PROPERTY MANAGEMENT FUNCTION**

4.9. MAS notes that it is common for a REIT manager to engage a property manager which is wholly-owned by the Sponsor. Apart from the REIT's properties, the property manager may also provide property management services to other properties owned by the Sponsor or its related entities. To ensure that the property manager does not compromise on the service standards for the REIT's properties (when compared to other properties owned by the Sponsor or its related entities), it is important for the REIT manager to independently assess, on a periodic basis, the compliance of the property manager with the terms of the property management agreement. Where the compliance of the property manager with the property management agreement is found to be unsatisfactory, the REIT manager should be required to take remedial actions.

4.10. To ensure that the REIT manager takes active steps to evaluate that the engagement of the property manager remains appropriate, MAS proposes to require:

- (a) the REIT manager to ensure that the property management agreement does not contain any term that materially restricts the ability of the REIT to remove the property manager; and
- (b) the AC of the REIT manager to review the compliance of the property manager with the terms of the property management agreement, at least once every two years and to take remedial actions where necessary.

Q15: MAS seeks your views on its proposal to require:

- (a) the REIT manager to ensure that the property management agreement (entered into with a property manager that is connected to the Sponsor) does not contain any term that materially restricts the ability of the REIT to remove the property manager; and
- (b) the AC of the REIT manager to review the compliance of the property manager with the terms of the property management agreement, at least once every two years and to take remedial actions where necessary.

## **SECTION 5: STRUCTURING OF REITS**

### **A. INCOME SUPPORT ARRANGEMENTS**

5.1. In recent years, there has been a trend towards the use of income support arrangements to enhance the yield of the properties acquired. Such arrangements can take several forms such as:

- (a) a REIT acquiring a property under a sale and leaseback arrangement, under which the vendor agrees to a relatively short but expensive lease for its own use;
- (b) the vendor of a property guaranteeing a certain minimum rental for a number of years after the REIT acquires the property;
- (c) the vendor of the property entering into a master lease agreement with the REIT at rents which are significantly higher than the existing rents of the underlying leases; and
- (d) a REIT raising IPO proceeds (in excess of the amount needed to acquire the initial portfolio) and using these proceeds to support distributions to unitholders post-listing.

5.2. While there could be legitimate reasons for such arrangements in some circumstances (for example, where the property is newly completed and the rental rate or occupancy level has not stabilised), these arrangements may give rise to certain concerns, such as the following:

- (a) the income support may have the effect of inflating the valuation of the property, which could result in the REIT over-paying for the property;
- (b) investors may be misled by the headline yield when the income support provides only short-term enhancement to the REIT's yield that is not sustainable after the expiration of the income support period, particularly if the income support is structured to provide a rental rate that is significantly higher than the prevailing market rental rate; and
- (c) the REIT may be exposed to the credit risk of the party providing the income support.

5.3. Currently, where forecasts of distribution yields are provided in prospectuses, circulars, announcements, marketing materials and other relevant documents sent to unitholders, the REIT is required to provide clear and prominent disclosure of any existing or proposed arrangement that materially enhances short-term yields while potentially diluting long-term yields. In the case of prospectuses and circulars, disclosures should include the risks associated with such arrangements and an analysis of how the arrangements may affect current and future yield. The analysis should include a computation of the forecast distribution yield assuming that the arrangements are in place. This approach relies on disclosure to impose market discipline.

5.4. MAS would like to seek views on whether the current approach is effective. If regulatory intervention is deemed necessary to deal with any potential risk of abuse, what additional measures could be considered to address the concerns mentioned above? For instance:

- (a) Should MAS require the independent valuer (of a property with income support arrangement) to attest to the sustainability of the enhanced yield after the expiration of the income support period?
- (b) Would a requirement that limits the period of use of income support to no more than a 3-year lease cycle (from the date of listing or acquisition) help ensure that the properties are able to achieve their target yield over time, without the need for income support?
- (c) Is there need for stronger measures, for instance, requiring REITs to treat all income support payments as revenue from a 'non-stable source' that would not comply with paragraph 7.2 of the PFA, thus curtailing the ability of REITs to derive more than 10% of their revenue from such payments?

5.5. MAS welcome views on this issue and will take them into account in formulating appropriate measure(s) to deal with the risks associated with income support arrangements.

Q16: MAS invites comments on the following:

- (a) whether the current approach of relying on disclosure to impose market discipline on the use of income support arrangements is effective; and
- (b) if regulatory intervention is deemed necessary, what additional measures could be considered to address the concerns with the use of such arrangements?

## **B. STAPLED SECURITIES STRUCTURE**

5.6. A number of REITs have adopted the stapled securities structure where units in a REIT are stapled to units in a business trust [“BT”]. While the REIT and the BT continue to exist as separate entities under the stapled securities structure, the stapled group would trade as one counter and share the same investor base.

5.7. In Singapore, the stapled securities structure is commonly adopted by REITs in the hospitality sector. In these instances, the REIT normally owns either a portfolio of hotels or service residences which are leased back to the Sponsor (or a Sponsor-owned entity) under a master lease arrangement. The master lessee would then appoint a hotel manager to provide hotel management services. The REIT is normally stapled to a dormant BT which will be activated to take on the management of the hotel if the need arises (e.g. in the event of the resignation of the hotel manager).

5.8. MAS notes that stapled securities structures have been adopted in other jurisdictions. For instance, in Australia, most of the units in larger retail mall REITs are stapled to shares of their Sponsors (which normally engage in property-related businesses).

5.9. This structure allows the Sponsor and the REIT to be operated and traded as a combined entity which conducts active business operations in addition to the holding of a portfolio of passive income-producing properties. Proponents argue that this structure enables REITs and Sponsors to scale up by consolidating their respective asset base, fully leverage on the real estate value chain and compete more effectively in an increasingly global real estate landscape.

5.10. Notwithstanding the foregoing, MAS is cognizant that the proliferation of stapled securities structures may alter the nature and characteristics of our REIT market, particularly if REITs start pairing themselves with entities that they have little nexus to. The stapling of a REIT to an entity with active business operations could potentially impact the stability of returns that investors expect of REITs. Even if such stapled entities are not marketed as REITs, investors may still regard them as having a risk-reward profile that is similar to stand-alone REITs. Moreover, as more varied forms of stapling emerge, our REIT regime may eventually lose its character and depart from the original aim of providing investors with stable distributions through passive ownership of income-producing properties.

5.11. With a view to ensuring that stapled entities (with a REIT component) remain a predominantly stable yield vehicle, MAS is considering allowing the stapling of a REIT to an entity with active operations only if that entity:

- (a) is the Sponsor or a related entity of the Sponsor;
- (b) has business operations that are in the same industry segment as the REIT;  
and
- (c) is operating a business or providing a service that is ancillary to the assets held by the REIT.

5.12. MAS intends to impose certain operational restrictions on stapled groups with a REIT component, over and above the restrictions for the REIT component, to limit their overall exposure to the risks of running active operations. These include:

- (a) requiring at least 65% of a stapled group's assets to be invested in income-producing real estate;
- (b) imposing a 35% limit on the development activities<sup>7</sup> that may be carried out by the stapled group, with the condition that the completed properties must be held within the stapled group for at least 3 years after completion;  
and
- (c) imposing an overall leverage limit of 60% on the stapled group.

5.13. For consistency, MAS also intends to apply the restrictions in section 5.12 above on stapled groups (with a REIT component) that are already in existence. We do not envisage that these stapled groups would have significant difficulties in meeting these requirements as most of them are stapled to a BT that is dormant. MAS is prepared to provide a transition period of six months for any stapled group that may be affected by these proposed restrictions.

Q17: MAS invites comments on the proposals to:

- (a) require the REIT to have sufficient nexus to the entity that it will be stapled to;
- (b) require the stapled group to meet certain operational restrictions, in order to preserve the character of REITs as stable income vehicles; and
- (c) apply these operational restrictions on existing stapled groups (with a REIT component).

<sup>7</sup> Calculated based on the total contract value of property development activities (as defined under paragraph 7.1(d) of the PFA) against the total assets of the entities within the stapled group.

MAS also invites comments on whether the proposed restrictions and a transition period of six months is practicable, and whether there is a need to impose other restrictions, such as limits on the types of revenue sources for stapled groups.

## **SECTION 6: ENHANCING DISCLOSURES**

### **A. INCOME SUPPORT PAYMENTS**

6.1. As noted in Section 5, income support arrangements may be used to enhance yield artificially. To ensure that investors can clearly distinguish between a REIT's stable sources of revenue and the payments derived from income support arrangements, MAS intends to require a REIT to disclose in its annual report:

- (a) the amount of income support payments received by the REIT during the year; and
- (b) where the income support arrangement is embedded in a master lease<sup>8</sup>, the difference between the amount of rents derived under the master lease and the actual amount of rents from the underlying leases during the year.

### **B. DEVIATIONS OF ACTUAL DISTRIBUTIONS PER UNIT FROM FORECAST DISTRIBUTIONS PER UNIT**

6.2. Forecast distributions per unit ["DPU"] shown in a REIT's prospectus is a key investment consideration for investors deciding on whether to subscribe for units in that REIT, especially for REITs that have properties with short operating history. A REIT may also provide a forecast DPU when making an acquisition. The forecast DPU is derived based on a set of assumptions. While the assumptions may be reasonable at the time the forecast was prepared, they may not hold over the period of the forecast. As such, the actual DPU may deviate from the forecast DPU. However, given the stability of operating real estate cash flows, any material deviation between forecast and actual DPU should be the exception rather than norm.

6.3. To increase transparency and accountability, MAS intends to require REITs to disclose, in their annual reports, any material deviation of the actual DPU from the forecast DPU, together with a detailed explanation of the deviation. MAS welcome views on the appropriate threshold for determining whether a deviation is considered material.

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<sup>8</sup> A master lease will be considered to have an 'embedded' income support arrangement if the rent under the master lease is higher than the current passing rents of the underlying sub-leases.



### **C. DISCLOSURE OF FEES AND EXPENSES**

6.4. Currently, REITs' annual reports must disclose the total operating expenses of the REIT including all fees and charges paid to the manager, adviser and interested parties. However, the manner in which such disclosure is made varies across REITs.

6.5. In order to enhance comparability across REITs, MAS proposes to require that the total operating expenses (including all fees and charges paid to the manager) be disclosed in both absolute terms and as a percentage of the net asset value of the REIT (as at the end of the financial year). REITs' annual reports must also disclose the distributions declared by the REIT for the financial year.

### **D. LENGTH OF NEW LEASES AND DEBT MATURITY PROFILE**

6.6. To allow investors to assess the lease expiry profile and the refinancing needs of a REIT, MAS proposes to require disclosure in the annual report of the weighted average lease expiry ("WALE")<sup>9</sup> of new leases entered into in the past financial year (and the proportion of revenue attributed to these leases) as well as the REIT's debt maturity profile.

Q18: MAS seeks views on its proposal to require a REIT to disclose in its annual report the following:

- (a) the total operating expenses (including all fees and charges paid to the manager) in both absolute terms and as a percentage of the net asset value of the REIT (as at the end of the financial year) and distributions declared by the REIT for the financial year;
- (b) the amount of income support payments received by the REIT;
- (c) where the income support arrangement is embedded in a master lease, the difference between the amount of rents derived under the master lease and the actual amount of rents from the underlying leases;
- (d) any material deviation of actual DPU from forecast DPU, together with detailed explanations for the deviation; and
- (e) the WALE of new leases entered into in the past year (and the proportion of revenue attributed to these leases) and the debt maturity profile.

<sup>9</sup> Computed based on gross rental income.

## **SECTION 7: MISCELLANEOUS AMENDMENTS**

### **A. DEFINITION OF “SPONSOR”**

7.1 For the purposes of requirements that apply where there is a Sponsor, such as section 1.12 on the composition of the Audit Committee and section 2.10 on the remuneration of directors and executive officers of the REIT manager, MAS proposes to define a “Sponsor” as:

- (a) the entity that determines the properties to be injected into the initial portfolio of the REIT at the time of listing;
- (b) the entity that provides the REIT with a right of first refusal in relation to any asset; or
- (c) the entity that represents itself as a Sponsor of the REIT in any prospectus, circular, announcement, marketing material or other relevant report or document,  
or its successor.

Q19: MAS seeks views on the proposed definition of a “Sponsor”, as set out in section 7.1 above.

### **B. NOMINATING AND REMUNERATION COMMITTEES**

7.2 Under the Guidelines on Criteria for the Grant of a Capital Markets Services Licence other than for Fund Management [“Guidelines”], a REIT manager managing a REIT listed on the Singapore Exchange Limited is expected to abide by the CG Code. Any deviation from the CG Code should be explained in the annual report of the REIT.

#### *Nominating Committee*

7.3 Currently, a REIT manager is not required to have a Nominating Committee [“NC”]. MAS observed that one of the reasons cited by some REIT managers for not having a NC is that the REIT manager is not a listed entity and the Board considers it unnecessary to establish a NC.

7.4 REIT managers have also approached MAS regarding the appointment of ex-directors from other related companies in the Sponsor’s group of companies, to their Board as independent directors. In this regard, MAS expects the REIT manager to

subject the proposed appointment to rigorous review if the director had previously served on the Board of the Sponsor or other related companies (including another REIT manager owned by the same Sponsor) for nine years or longer.

7.5 MAS is of the view that a NC will strengthen a REIT manager's process of sourcing for new directors, as the NC will have the responsibility of making informed recommendations to the Board on all board appointments. MAS notes that of the 33 existing REIT managers, five REIT managers have already set up NCs.

7.6 A REIT manager that does not set up a NC should explain its rationale in the annual report of the REIT. MAS is of the view that explaining that the REIT manager is not itself listed or that it is relying on the NC of the Sponsor, is inadequate. MAS also notes that while the REIT manager is not listed, the REIT managed by the REIT manager is. Furthermore, given that the majority of a NC should comprise independent directors (who should, among other requirements, be independent from the Sponsor), reliance on the NC of the Sponsor is not a good substitute.

#### *Remuneration Committee*

7.7 Currently, a REIT manager is also not required to have a Remuneration Committee ["RC"]. In addition to the AC and NC, MAS notes that most Singapore-listed companies have a RC as well. This is aligned with the CG Code's recommendations.

7.8 A RC helps to ensure that there is a formal and transparent procedure for developing policies on executive remuneration and for determining the remuneration packages of individual directors. In addition, the RC could ensure that the level and structure of remuneration of directors and executive officers are aligned with unitholders' long-term interests and the REIT's risk policies, instead of with the Sponsor or its related entities. MAS notes that of the 33 existing REIT managers, five REIT managers have already set up RCs.

7.9 A REIT manager that does not set up a RC should explain its rationale in the annual report of the REIT. As is the case with NCs (mentioned in section 7.6 above), MAS is of the view that stating that the REIT manager is not itself listed will not be adequate. Similarly, reliance on the RC of the Sponsor is not a good substitute.

<p>Q20: MAS seeks views on its expectations that in the event that a REIT manager does not set up a NC and RC, the REIT manager's explanation must adequately address whether it has a process for (a) sourcing new directors; and (b) developing policies on</p>
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executive remuneration and determining the remuneration packages of individual directors.

**C. OTHER BUSINESS INTERESTS OF CEO AND EXECUTIVE DIRECTORS OF REIT MANAGER AND THEIR COMMITMENT TO THE REIT MANAGER'S OPERATIONS**

7.10 Where there is the potential for conflicts of interest to arise, the board and senior management of a REIT manager should ensure that all necessary steps are taken to avoid these conflicts and, should they arise, that the conflicts are resolved fairly and equitably. Conflicts of interest may arise, in particular, if the CEO or executive directors of the REIT manager have concurrent roles in entities related to the Sponsor.

7.11 In addition, sector differences in the real estate market have become blurred, with some REITs investing in mixed developments. Where the CEO or executive directors of a REIT manager have concurrent appointments in another property company or fund manager that invests in the same geographic market, MAS notes that this could give rise to situations where REIT unitholders' interests are undermined.

7.12 For proper managerial oversight, MAS also expects the CEO and executive directors of the REIT manager to be fully committed to the operations of the REIT manager.

7.13 In view of the above considerations, MAS proposes to set out its expectation that the REIT manager should ensure that:

- (a) the CEO and executive directors of a REIT manager should not sit on the board of another entity (e.g. property company) with competing interests;
- (b) the CEO and executive directors of a REIT manager are employed full-time in the day-to-day operations of the REIT manager and should not take up an executive role in another entity; and
- (c) the CEO of a REIT manager should be resident in Singapore, even if the REIT manager manages a REIT invested primarily in foreign properties.

Q21: MAS seeks views on the proposed restrictions on other business interests of the CEO and executive directors of a REIT manager.

#### **D. NUMBER OF EXPERIENCED REPRESENTATIVES**

7.14 MAS expects a REIT manager to appoint a minimum of three full-time representatives who are resident in Singapore, given that REIT management involves the functions of investment management, asset management, financing, marketing and investor relations. These three full-time representatives should each have at least five years of experience relevant to REIT management and may include the CEO, who is expected to have at least 10 years of relevant experience. MAS notes that most REIT managers already meet the above expectation.

7.15 MAS will set this expectation out in guidelines. For the avoidance of doubt, individuals based overseas who perform the above-mentioned functions on behalf of the REIT manager should also be appointed as representatives of the REIT manager, but they will not be counted towards the minimum of three full-time, Singapore-resident representatives.

Q22: MAS invites comments on its expectations concerning representatives of the REIT manager.

#### **E. TREATMENT OF HYBRID SECURITIES**

7.16 A number of REITs have undertaken fundraising exercises through the issuance of hybrid securities such as convertible perpetual preference units and perpetual securities. As these hybrid securities bear the characteristics of both equity and debt securities, REIT managers would normally consult MAS on the treatment of the hybrid securities for the purpose of determining their aggregate leverage (in relation to paragraph 9.2 of the PFA) prior to issuance.

7.17 In general, MAS would regard hybrid securities as equity for the purpose of paragraph 9.2 of the PFA if they are expected to remain as a permanent form of capital for the REIT. An instrument is considered as a permanent form of capital if it is perpetual in nature, it is deeply subordinated, the payment of dividends or distributions is entirely at the discretion of the REIT, and there are no terms that would incentivise the REIT to redeem early. To provide more clarity to issuers and their advisers, MAS intends to clarify in the PFA that in determining whether hybrid securities are regarded as equity or debt, MAS will consider various factors including, but not limited to, the following:

- (a) whether the securities have a perpetual term;
- (b) whether there are features that have the effect of incentivising the redemption of the securities, such as step-up in interest rates, or other similar terms;
- (c) whether the distributions are determined at the sole discretion of the REIT and are non-cumulative<sup>10</sup>; and
- (d) whether the securities are deeply subordinated in the event of liquidation.

Q23: MAS seeks views on:

- (a) its proposal to clarify the factors that it will consider in determining whether hybrid securities are regarded as equity or debt for the purpose of paragraph 9.2 of the PFA;
- (b) whether the factors are appropriate; and
- (c) whether any other factors could be considered.

#### **F. UNIT BUY-BACK MANDATES BY REIT MANAGERS**

7.18 Under Chapter 6.4(a) of the CIS Code, the manager of a collective investment scheme (which includes a REIT) is not allowed to issue, redeem or repurchase units in a scheme at a price other than its NAV. This requirement is intended to apply to open-ended collective investment schemes where the manager stands ready to issue, redeem or repurchase units at a price which reflects the current fair value of the units.

7.19 This requirement is not relevant for listed closed-ended funds like REITs. Similar to other listed entities, listed closed-ended funds issue and repurchase their units with reference to the traded price of the units, which may not necessarily correspond to the NAV of the funds. MAS intends to clarify that Chapter 6.4(a) of the CIS Code does not apply to a listed closed-ended fund provided that the issuance, redemption or repurchase of the units complies with the applicable SGX-ST listing rules.

Q24: MAS seeks views on its proposed clarification that Chapter 6.4(a) of the CIS Code does not apply to a listed closed-ended fund provided that the issuance, redemption or repurchase of the units complies with the applicable SGX-ST listing rules.

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<sup>10</sup> A distribution is deemed to be cumulative if, in the event of the REIT opting not to pay dividends in a given distribution period, these unpaid dividends will be added to the payable dividend in the subsequent distribution period.

## **G. CHANGE OF CONTROL COVENANTS**

7.20 It is common for loan agreements to contain a ‘change of control’ covenant where the lender has a right to require repayment of the loan in the event of a change in control of either the REIT or the REIT manager. Such a covenant serves to protect the interests of the lenders as a change of control could affect the REIT’s credit or risk profile.

7.21 Paragraph 2.7 of the PFA enunciates the principle of ‘non-entrenchment’ of a REIT manager. The expectation is that REITs should not enter into agreements that could materially restrict the ability of unitholders to remove the REIT manager. Loan agreements with a ‘change of control’ covenant could be viewed as a mechanism to entrench a REIT manager.

7.22 REIT managers usually seek prior consent from MAS for the inclusion of a ‘change of control’ covenant in loan agreement, on the basis that the covenant is required by the lender and is not intended to entrench the REIT manager. MAS intends to codify the current position of allowing loan agreements to contain such a covenant if:

- (a) the covenant is solely required by the lender;
- (b) the covenant can be waived with the consent of the lender; and
- (c) the covenant is disclosed in accordance with SGX-ST’s listing rules.

Q25: MAS seek views on its proposal to codify the current position of allowing loan agreements to contain a change of control covenant if:

- (a) the covenant is required solely by lenders;
- (b) the covenant can be waived with the consent of lenders; and
- (c) the covenant is disclosed in accordance with SGX-ST’s listing rules.

## **SECTION 8: SAVINGS AND TRANSITIONAL PROVISIONS**

8.1 For the implementation of the proposed amendments, MAS proposes to provide the applicable savings and transitional provisions as follows:

- (a) amendments to be made to the Regulations will take effect no later than the first Annual General Meeting relating to financial years ending on or after 31 Dec 2015. This is to take into consideration that REIT managers may need time to reconfigure their Boards to meet the proposed requirements on independence and composition.
- (b) amendments to be made to the Act and CIS Code, as well as the proposed Notice and Guidelines will take effect on 1 January 2016.

Q26: MAS invites comments on the proposed amendments to the Act, Regulations, Notice, Guidelines and CIS Code set out in Appendices 1 to 5, and seeks views on the proposed transitional period for the amendments to take effect.



## LIST OF PROPOSALS

### STRENGTHENING CORPORATE GOVERNANCE

- Q1: MAS seeks views on its proposal to impose a statutory duty on a REIT manager and on its individual directors to prioritise the interests of unitholders over those of the REIT manager and its shareholders, in the event of a conflict of interest.
- Q2: MAS seeks views on the two options in section 1.4 for enhancing the independence of the Board of the REIT manager.
- Q3: MAS seeks views on its proposal to require a REIT manager to disclose, in the annual report of the REIT, the following:
- (a) the REIT manager's remuneration policies and procedure for setting remuneration of directors and executive officers;
  - (b) the remuneration of each individual director and CEO of the REIT manager, on a named basis; and
  - (c) the remuneration of at least the top five key executive officers of the REIT manager, on a named basis, in bands of S\$250,000.
- Q4: MAS seeks views on its proposal to stipulate a minimum of three directors for the AC.
- Q5: MAS seeks views on its proposal to:
- (a) allow directors whose responsibilities in the Sponsor's group relate only to control or back-office functions to be a member of the REIT manager's AC; and
  - (b) to require, in the case of an AC that has a Sponsor's nominee as a member, a minimum of three other directors who are independent.
- Q6: MAS invites comments on whether the current approach of relying on unitholders to initiate a review of the REIT manager's appointment is effective. Should regulatory intervention be deemed necessary, what additional measures could be considered and why?

## **ALIGNMENT OF INCENTIVES**

- Q7: MAS invites comments on its proposal to require the performance fee payable to the REIT manager to be computed based on a methodology that meets certain principles that foster stronger alignment between a REIT manager and unitholders. MAS also invites suggestions on the possible methodologies that could be adopted to comply with the principles. MAS welcomes alternative proposals, which should be accompanied by an explanation of how they would help strengthen the alignment of a REIT manager's interests and unitholders' long-term interests.
- Q8: MAS seeks views on its proposal to allow REIT managers to charge an acquisition or divestment fee only if the fee is determined based on a 'cost-recovery' basis.
- Q9: MAS seeks views on its proposal to require, where a REIT's property is divested to an interested party, the AC of the REIT manager to certify that it is not aware of any other offer with, and has no reason to believe that the divestment can be made on, terms that are more favourable than those offered by the interested party.
- Q10: MAS seeks views on its proposal to impose certain restrictions which seek to ensure that the remuneration or fees payable to the directors and executive officers of REIT managers would not lead to a misalignment of interests.

## **OPERATIONAL FLEXIBILITY**

- Q11: MAS seeks views on its proposal to adopt a single-tier leverage limit of 45% (without requirement for credit rating) and remove the option for a REIT to leverage up to 60% by obtaining a credit rating.
- Q12: MAS seeks views on its proposal to allow a REIT to exceed the 10% development limit and undertake property development activities up to 25% of its deposited property, only if:
- (a) the REIT obtains specific unitholders' approval for the higher development limit of 25%; and
  - (b) the additional 15% allowance (over and above the existing 10% limit) is utilised solely for the redevelopment of an existing property that has been held by the

REIT for at least 3 years and which it will continue to hold for at least 3 years after redevelopment.

## **OPERATIONAL REQUIREMENTS ON REIT MANAGERS**

Q13: MAS seeks your views on its proposal to require the AC of the REIT manager to state in the REIT annual reports:

- (a) whether the compliance arrangements of the REIT manager are adequate and effective, taking into account the nature, scale and complexity of the REIT manager's operations; and
- (b) (if the AC is of the view that the arrangements are inadequate or ineffective) the mitigating measures being taken.

Q14: MAS seeks views on its proposal to require the REIT manager to procure a PII or, in lieu of a PII, a LU may be provided by the REIT manager's parent company, where the latter has a satisfactory financial standing.

Q15: MAS seeks your views on its proposal to require:

- (a) the REIT manager to ensure that the property management agreement (entered into with a property manager that is connected to the Sponsor) does not contain any term that materially restricts the ability of the REIT to remove the property manager; and
- (b) the AC of the REIT manager to review the compliance of the property manager with the terms of the property management agreement, at least once every two years and to take remedial actions where necessary.

## **STRUCTURING OF REITS**

Q16: MAS invites comments on the following:

- (a) whether the current approach of relying on disclosure to impose market discipline on the use of income support arrangements is effective; and
- (b) if regulatory intervention is deemed necessary, what additional measures could be considered to address the concerns with the use of such arrangements?

Q17: MAS invites comments on the proposals to:

- (a) require the REIT to have sufficient nexus to the entity that it will be stapled to;
- (b) require the stapled group to meet certain operational restrictions in order to preserve the character of REITs as stable income vehicles; and

- (c) apply these operational restrictions on existing stapled groups (with a REIT component).

MAS also invites comments on whether the proposed restrictions and a transition period of six months is sufficient and whether there is a need to impose other restrictions, such as limits on the types of revenue sources for the stapled group.

## **ENHANCING DISCLOSURES**

Q18: MAS seeks views on its proposal to require a REIT to disclose in its annual report the following:

- (a) the total operating expenses (including all fees and charges paid to the manager) in both absolute terms and as a percentage of the net asset value of the REIT (as at the end of the financial year) and distributions declared by the REIT for the financial year;
- (b) the amount of income support payments received by the REIT;
- (c) where the income support arrangement is embedded in a master lease, the difference between the amount of rents derived under the master lease and the actual amount of rents from the underlying leases;
- (d) any material deviation of actual DPU from forecast DPU, together with detailed explanations for the deviation; and
- (e) the WALE of new leases entered into in the past year (and the proportion of revenue attributed to these leases) and the debt maturity profile.

MAS also seeks your view on the other proposals set out in Q19 to Q26. These proposals mainly relate to the formalisation of existing MAS positions or practices.



Monetary Authority of Singapore