



PUBLIC RESPONSE PAPER

NO. 1/2018

PROPOSED AMENDMENTS TO GUIDELINES ON REAL ESTATE INVESTMENT TRUSTS AND STREAMLINING OF POST-LISTING REQUIREMENTS FOR LISTED REAL ESTATE INVESTMENT TRUSTS WITH LISTED CORPORATIONS

The Securities Commission Malaysia is issuing this Public Response Paper in response to feedback received pursuant to the Public Consultation Paper on the proposed amendments to *Guidelines on Real Estate Investment Trusts* and streamlining of post-listing requirements for listed real estate investment trusts with listed corporations dated 14 July 2016.

This public response paper is dated 15 March 2018.

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DEFINITIONS

APREA	Asia Pacific Real Estate Association
Bursa	Bursa Malaysia Securities Bhd
Bursa Listing Requirements	Main Market Listing Requirements of Bursa
Consultation Paper	Consultation Paper No. 3/2016 dated 14 July 2016 issued by the SC
DPU	distribution per unit
MCCG 2012	<i>Malaysian Code on Corporate Governance 2012</i>
MCCG	<i>Malaysian Code on Corporate Governance</i>
MIA	Malaysian Institute of Accountants
REIT	Real estate investment trust
REITs Guidelines	<i>Guidelines on Real Estate Investment Trusts</i> issued on 21 August 2008
RPGT	real property gains tax
SAC	Shariah Advisory Council
SC	Securities Commission Malaysia
TAV	total asset value
VAEA	Board of Valuers, Appraisers and Estate Agents Malaysia
VAEA Act 1981	<i>Valuers, Appraisers and Estate Agents Act 1981</i>

1 INTRODUCTION

- 1.1 On 14 July 2016, the SC published a Consultation Paper inviting public feedback on the proposed amendments to the REITs Guidelines, which included the streamlining of post-listing requirements for listed REITs with listed corporations.
- 1.2 The Consultation Paper was open for public feedback from 14 July 2016 to 13 September 2016.
- 1.3 The SC received feedback from 43 respondents, comprising submissions from REIT managers, trustees, valuers, corporate finance advisers, law firm, property development companies, individual investors and industry associations, including the Malaysian REIT Managers Association. The SC would like to thank all respondents for their comments.
- 1.4 Overall, the feedback provided was supportive of the proposed policies.
- 1.5 Feedback from the respondents on the proposed policies, together with the SC's comments are presented in the following sections.

2 FEEDBACK ON PROPOSALS RELATING TO FACILITATING GROWTH

2.1 Property development activities

2.1.1 In the Consultation Paper, the SC proposed to allow REITs to undertake property development, including acquiring vacant land for development.

2.1.2 Respondents were asked to give their comments on the following questions:

- 1) Do you agree with the SC's proposal to allow REITs to undertake property development activities by way of redeveloping their existing properties or acquiring vacant land for purpose of development? Please provide specific reasons for your views.**
- 2) Do you agree with the proposed aggregate limit of 15% of a REIT's total enlarged asset value for property development, property under construction and acquisition of vacant land for development (15% Limit)? Please provide specific reasons for your views. If you disagree with the proposed limit, please indicate what you consider as appropriate together with the rationale thereof.**
- 3) Do you agree with the SC's proposal for a REIT to be required to hold the completed property for at least two years from the date of completion of the property development? Please provide specific reasons for your views.**
- 4) Do you agree with the SC's proposal for a REIT to seek its trustee's consent in the event the REIT wishes to dispose of the completed property during the two-year holding period? Please provide specific reasons for your views.**
- 5) Do you agree with the SC's proposal for a REIT to seek its unit holders' approval by way of a special resolution in the event the REIT wishes to dispose of the completed property during the two-year holding period? Please provide specific reasons for your views.**
- 6) Do you agree with the proposed definition of "property development activities"? Please provide specific reasons for your views.**
- 7) Do you agree with the SC's proposal that REITs must have at least 75% of their total asset value invested in income-generating real estate and/or single purpose companies? Please provide specific reasons for your views.**

Feedback from respondents**2.2 Proposal to allow REITs to undertake property development activities subject to the proposed aggregate limit of 15% of a REIT's total enlarged asset value**

2.2.1 Most of the respondents supported the proposal to allow REITs to undertake property development activities, viewing it as a measure to allow the REIT greater flexibility to grow its portfolio and enhance its value of properties, while reducing the REIT's reliance on acquisitions and its sponsor for injection of properties. The proposal was also viewed as providing potential cost saving to the REITs, considering that property development cost is lower compared to property acquisition.

2.2.2 Some of the respondents suggested that additional safeguards be introduced, such as:

- (i) Requiring the development activities to have business proximity to the existing assets of the REIT;
- (ii) Only allowing acquisition of vacant land–
 - (a) with clear or approved development plans; or
 - (b) where the income from real estates within the REIT's investment portfolio is sufficient to ensure that there is no substantial dilution to the REIT's earnings per unit during the construction period;
- (iii) Specifying a timeline between acquisition of vacant land and commencement of development activities;
- (iv) Requiring pre-committed leases to be in place for the proposed asset to be developed;
- (v) Mandating the establishment of a risk committee for REIT managers, given the greater risk profile assumed by REITs;
- (vi) Requiring information on the development activities to be regularly provided to unit holders; and
- (vii) Differentiation between REITs which undertake property development activities and those which do not.

2.2.3 A handful of respondents agreed that REITs be allowed to undertake property redevelopment but not acquire vacant land. Their reservations were due to the risks associated with property development, which would attract investors with different risk profiles.

- 2.2.4 The respondents who disagreed with the proposal for REITs to undertake property development activities cited the nature of property development, which poses higher risk to investors as the reason.
- 2.2.5 The majority of respondents supported the proposal for property development, acquisition of property under construction and acquisition of vacant land for development by a REIT to be subject to a limit of 15% of a REIT's total enlarged asset value. They felt that with property development, there will be certain period where no income is generated for the REIT, and the proposed limit will help to maintain the REIT's stable and recurrent income generated from its existing real estate. Some respondents commented that the proposed limit should be sufficient and reasonable for a start as in principle, a REIT should not have too much exposure to construction risks.
- 2.2.6 Some of the respondents were of the view that the 15% Limit is too low and suggested a higher threshold. The range proposed was between 20% and 30%, with one respondent proposing that REITs be permitted to develop properties without any limitation, provided that the property is not held primarily for sale but in the ordinary course of the REIT's business.

The SC's position

- 2.2.7 Allowing REITs to undertake property development activities and acquire vacant land have both benefits and risks, and the following measures will be put in place to mitigate the risks as well as keep investors informed:
- (i) An aggregate limit of 15% of a REIT's total enlarged asset value will be introduced for property development, property under construction and acquisition of vacant land for development;
 - (ii) Subject to paragraph 9.03 and a materiality threshold for announcements as set out in paragraphs 10.05, 10.06 and 10.08 of the Main Market Listing Requirements of Bursa (Bursa Listing Requirements), a REIT will be required to make an announcement of any material information including acquisition of vacant land and provide the following information¹:
 - (c) The aggregate value of the vacant land, properties earmarked for property development and the property development cost, as a percentage of the total asset value of the REIT;
 - (d) The expected yield arising from the developed real estate compared with the total yield of the REIT, expressed as a percentage, together with the assumptions made in determining the expected yield; and

¹ Paragraph 47 of Bursa Consultation Paper No. 1/2016

- (e) The expected yield and rental arising from the property development activities;

[Note: Currently, under Bursa Listing Requirements, announcements in relation to transactions must include disclosure on the risks associated with the assets or interests to be acquired²];

- (iii) For other property development activities undertaken by the REIT which do not involve any acquisition of real estate such as redevelopment of aged properties, the REIT will be required to announce to Bursa if such activities are considered material;
- (iv) The REIT will be required to disclose the status of the property development activities including the development progress and the property development costs incurred, where applicable, in its quarterly report;
- (v) The REIT will be required to disclose a summary of all investments in property development activities or acquisition of vacant land for development in its annual report; and
- (vi) The REIT will be required to comply with the requirements to make an announcement to Bursa and obtain unit holders' approval pursuant to Chapter 10 of the Bursa Listing Requirements, for any disposal of property within the two-year holding period.

2.2.8 In relation to the suggestion to require the establishment of a risk committee, the SC is of the view that whilst having a risk committee would be good practice, it is not necessary to mandate it. REIT managers should be able to manage the risks associated with property development and there is already a limit of 15% on property development activities.

2.2.9 The SC notes the suggestions in relation to acquisition of vacant land and wishes to highlight that there are already some market-based safeguards in place, namely that a REIT is generally assessed on its ability to distribute income, i.e. its distribution per unit (DPU). The SC is of the view that unit holders should be given the relevant information for them to decide if they want to stay invested in a REIT should it choose to acquire vacant land. In this respect, in addition to the other information being proposed to be disclosed to unit holders [in paragraph 2.2.7(ii)] above, a REIT is required to further disclose the impact of the acquisition of vacant land on the REIT's expected yield.

2.2.10 The SC is of the view that segregating REITs into different categories, i.e. those that undertake property development activities and those that do not, is not necessary.

² Paragraph 16 of Part A of Appendix 10A, Bursa Listing Requirements

Based on the requirements, there would be sufficient information made available regarding a REIT's property development activities to enable investors to make an informed investment decision without the need to differentiate such REITs.

- 2.2.11 The REIT's trustee also has the fiduciary duty to oversee the activities of the REIT manager for compliance with the regulatory requirements applicable to the REIT. This would include taking reasonable care to ensure that the investment limitations applicable to the REIT are complied with.
- 2.2.12 Also, the SC is of the opinion that the 15% Limit strikes a fair balance between providing REITs greater flexibility to create more value for unit holders, while limiting risks associated with property development activities and allowing the REITs to maintain its stable and recurrent income generated from its properties.
- 2.2.13 In view of the above and the responses received, the SC will be implementing as proposed, the proposal to allow REITs to undertake property development, subject to the limit of 15% of the REIT's enlarged total asset value and the introduction of a requirement for a REIT to further disclose the impact of the acquisition of vacant land on the REIT's expected yield, as outlined in paragraph 2.2.9 above.

2.3 Trustee consent and unit holders' approval where a REIT wishes to dispose of the completed property during the two-year holding period

Feedback from respondents

Two-year holding period

- 2.3.1 Most of the respondents supported the proposal for a REIT to be required to hold the completed property for at least two years from the date of completion³ of the property development. They generally considered the two-year holding period to be appropriate, necessary and in line with the business objectives of REITs, which is to invest in long-term ownership of income-generating real estate.
- 2.3.2 Some respondents recommended that the period be extended to a minimum of three years to avoid attracting real property gains tax (RPGT) should the property be disposed of during the two-year holding period and to allow the REIT to enjoy the enhanced income generated from the redeveloped property. Clarification was also sought on disposals of partially completed properties.
- 2.3.3 Some respondents were of the view the REIT manager should have the discretion to dispose of the property, with proper justifications, as having a minimum holding period may restrict the REIT from maximising returns to unit holders as it may be

³ Upon attainment of the certificate of fitness

prevented from selling the property at the best time even if the REIT's investment strategies have changed.

Trustee's consent

- 2.3.4 Most of the respondents agreed with the proposal for trustee's consent, commenting that such requirement would result in higher accountability and transparency on the part of the REIT manager, while at the same time protecting unit holders' interests.

Unit holders' approval

- 2.3.5 The majority of respondents were supportive of the proposal for a REIT to seek its unit holders' approval by way of a special resolution in the event the REIT intends to dispose of the completed property during the two-year holding period. They commented that higher approval threshold via special resolution should be imposed to discourage such disposals within the two-year holding period to allow the REIT to benefit from the holding of such property unless there are strong commercial justifications. However, in the event that property development activities are not able to boost a REIT's income generation capacity during the two-year moratorium, the REIT may seek approval of the unit holders to dispose of the property for the value of the property.
- 2.3.6 Some respondents suggested that unit holders' approval by way of an ordinary resolution should suffice, while a few suggested that trustee's consent would be sufficient.

The SC's position

- 2.3.7 The SC notes the strong support received from the respondents on the proposal to require REIT managers to hold the completed property for at least two years from the date of completion of the property development and as such, will implement the proposal. This is to ensure that the property development activities are conducted with the objective of enhancing the rental income generating capacity of the REIT and not for purposes of development and subsequent disposal. On the issue of the REIT attracting RPGT, the SC is of the view that this should be left to the prerogative of the REIT manager, i.e. to determine if disposal would be in the best interest of the unit holders in view of the RPGT. As the disposal will require the REIT manager to seek unit holders' approval, should such disposal attract RPGT, REIT managers will be required to incorporate the relevant information in its circular⁴.
- 2.3.8 The SC also notes the strong support received from the respondents on the proposal to require REIT managers to seek trustee's consent in the event the REIT wishes to

⁴ Paragraphs 9.32(1)(a) and 9.32(1)(c)(i) of Bursa Listing Requirements

dispose of the completed property during the two-year holding period and will also be implementing the proposal. The trustee has a duty to ensure that the disposal is in the best interest of unit holders.

- 2.3.9 Taking into account the comments received and similar regulatory practice in comparable jurisdictions, the SC will proceed to require REIT managers to seek unit holders' approval by way of a special resolution in the event the REIT wishes to dispose of the completed property during the two-year holding period. The special resolution mechanism will accord minority unit holders with protection from decisions being taken without proper consideration and, to the extent possible, consensus. A special resolution further facilitates good decision-making, ensuring changes are better considered and an effort made to gain wider support than a simple majority.
- 2.3.10 In relation to the query raised by the REIT manager on the treatment for partially completed properties, the SC wishes to clarify that partially completed properties can be disposed, provided trustee's consent is obtained and unit holders' approval is granted by way of special resolution for the same reasons outlined above.

2.4 Definition for "property development activities"

Feedback from respondents

- 2.4.1 Most of the respondents agreed with the proposed definition, i.e. the construction or re-development of a building or the extension to an existing building and will not include renovations, refurbishment or retrofitting.
- 2.4.2 There were, however, quite a number of comments and suggestions in relation to refurbishment and extension, as follows:
- (i) For "major refurbishment works" which result in the property yielding less than 60% of its income prior to the refurbishment works, the refurbishment value should fall under "property development activities" and be subjected to the 15% Limit for property development activities;
 - (ii) Additional clarification should be provided as to what would be considered re-development versus renovation and refurbishment;
 - (iii) "Extension to an existing building" should not be part of "property development activities" as the activity ought to be part of "renovations, refurbishment or retrofitting";
 - (iv) Clarification should be made on whether the holding period on the extension to an existing building would apply to the entire building or just the extension; and

- (v) The definition should be widened to reflect the property development activities allowed to be carried out by property developers.

The SC's position

2.4.3 The SC had considered the comments received and noted that whilst there is a generally accepted industry understanding of the terms "re-development", "renovation", "refurbishment", "retrofitting" and "extension", there is a need for regulatory clarity if these terms are used in defining "property development activities".

2.4.4 After considering many different scenarios and possible definitions, the SC is of the view that a principles-based approach will provide the regulatory clarity needed and will define "property development activities" as follows:

"an activity which involves a construction or an extension of a building, or any other activity which results in the REIT being unable to receive or be entitled to any rental income from that building or land during the period of construction or redevelopment"

2.4.5 In deliberating how "extension of a building" should be viewed, the SC considered that the intention is to include activities where the REIT may be exposed to development-related risks which may adversely affect the REIT's DPU. Generally, an activity is considered to be an extension where there are construction activities on an existing building which result in additional floor space. The following are some examples of what would be considered an extension:

- (i) Adding floor space by constructing a mezzanine floor within an existing building;
- (ii) Building additional floors above an existing building;
- (iii) Constructing a block of serviced apartments on top of an existing shopping mall (as opposed to on vacant land); or
- (iv) Construction of a new wing to an existing building.

2.4.6 In relation to the query raised on whether the holding period on the extension to an existing building would apply to the entire building or just the extension, the SC wishes to clarify that the holding period would apply to the entire building, unless the extension and the existing building can be disposed of separately, in which case the holding period would only applicable to the extension.

2.5 Increasing the minimum investment of the REIT's total asset value in real estate from 50% to 75%

- 2.5.1 Almost all respondents agreed with the proposal. Most agreed that this would ensure that REITs have a substantial portion of their investments in real estate that generates recurrent rental income, with some highlighting that the increase in the limit from 50% to 75% would provide a larger pool of income source to mitigate any adverse financial effect of the REIT undertaking property development activities.
- 2.5.2 The SC will implement the proposal to increase the minimum investment of the REIT's total asset value in real estate from 50% to 75%, given the strong support received from the respondents.

2.6 Private leases

- 2.6.1 In the Consultation Paper, the SC proposed to allow REITs to acquire properties through private leases, subject to certain terms and conditions.
- 2.6.2 Respondents were asked to give their comments on the following questions:

- 8) Do you agree with the SC's proposal to allow REITs to acquire the legal and beneficial interest in real estate through private lease agreements? Please provide specific reasons for your views.**
- 9) Do you agree with the SC's proposal to limit the total value of private leases with a remaining lease period of less than 30 years to less than 25% of the total asset value (after acquisition) of a REIT? Please provide specific reasons for your views. If you disagree with the proposed limits, please indicate what you consider as appropriate together with the rationale thereof.**
- 10) Do you agree with the additional disclosures proposed and are there any further disclosures to be made?**

Feedback from respondents

Proposal to allow private leases

- 2.6.3 Almost all respondents agreed that REITs should be allowed to acquire the legal and beneficial interest in real estate through private lease agreements as such arrangement would provide an alternative investment for REITs.
- 2.6.4 Those who disagreed commented that banks might not finance acquisitions under such arrangements as it can be seen to be too risky and may lead to legal complications; and that such transactions may be manipulated, where owners may

be encouraged to lease out instead of selling their properties to the REIT which may not benefit the unit holders.

Proposal to limit the total value of private leases with a remaining lease period of less than 30 years to less than 25% of the total asset value (after acquisition) of a REIT

- 2.6.5 About half of the respondents agreed with the proposal.
- 2.6.6 A majority of those who disagreed viewed the 25% limit to be too high and suggested that this be reduced to between 5% and 15% because of the diminishing value of the private leases as well as the elevated risk profile of the REIT once it acquires properties via private leases.
- 2.6.7 There was a suggestion for additional requirements, including the need for renewal provisions and capping of renewal costs. Further, the guidelines should allow for the accrual of the REIT's investment in these private leases through the establishment of sinking fund (i.e. putting aside money over the duration of the lease) to recoup the REIT's investment in the event such leases lapse or to address this sinking fund to ensure that the REITs are exempted from income tax when it distributes 90% or more of its total income for the year.

Proposal for REITs to provide additional disclosures on private lease arrangements in the prospectus, announcements, circulars and annual reports, where applicable.

- 2.6.8 Most of the respondents agreed with the proposal.

The SC's position

- 2.6.9 The SC takes cognisance the respondents concerns of the diminishing value of private leases as the duration of the interests become shorter.
- 2.6.10 The SC noted from a jurisdictional review that in Hong Kong, no limit is imposed on REITs' investments in such interests/private leases. In Singapore, ownership of real estate with remaining lease period of less than 30 years by a REIT is limited to 50% of the group's operating profits for the past three years.
- 2.6.11 Taking into account practices in benchmarked jurisdictions, and that minimum investment of the REIT's total asset value in real estate that generates recurrent rental income at all times will now be increased from 50% to 75% (as discussed in paragraph 2.5), the SC considers the percentage limit (25%) and period (not less than 30 years) proposed to be appropriate and a good starting point.

2.6.12 The SC would like to clarify that the 25% limit, involving the real estate having remaining lease period of less than 30 years, must not be exceeded at the point of listing or acquisition. Where the REIT has more than 25% of its properties with less than 30 years lease period and the REIT manager decides not to sell the property as it gives a good yield, such REIT would not be considered to have breached the requirements of the REITs Guidelines.

2.6.13 On the suggestion in paragraph 2.6.7 to require private leases to have renewal provisions and the capping of renewal costs, the SC is of the view that the ability to do so would be based on negotiations. Also, similar to the suggestion to set up a sinking fund, these are all commercial decisions for the REIT managers to make. Therefore, the REIT manager should have the discretion to do so and the SC will not prescribe such requirements.

2.6.14 In view of the above, the SC will implement the proposals, as proposed.

2.7 Income support

2.7.1 In the Consultation Paper, the SC proposed that certain terms and conditions must be met where REITs acquire real estate with income support arrangements.

2.7.2 Respondents were asked to give their comments on the following questions:

11) Do you agree with the proposed approach in addressing income support arrangements? Please provide specific reasons for your views.

12) Do you agree with the proposed additional disclosures? Please provide specific reasons for your views. If you believe investors/unit holders should be provided with any other information, please indicate what that would be with the rationale thereof.

Feedback from respondents

2.7.3 Almost all respondents agreed with both the proposals. Comments given by respondents in support of the proposed approach include the following:

- (i) Will increase the competitiveness of REITs in Malaysia;
- (ii) Will mitigate the risk of overvaluing properties due to short term enhancement or one-off income support arrangement; and

- (iii) Allow REITs to benefit from acquiring a potentially good yielding asset before its full potential can be realised.
- 2.7.4 Seven REIT managers, although agreeing with the proposed approach, suggested that acquisitions with income support should be limited to 10% of the REIT's TAV and the income support tenure should not exceed three years while VAEA suggested that there must be regulatory supervision in view of the potential abuse of such an arrangement. Additionally, the seven REIT managers also suggested that the basis of valuation, i.e. with or without income support, should be decided by the independent valuer.
- 2.7.5 APREA further suggested that any acquisition that includes income support should be approved by unit holders with related parties excluded from the decision.
- 2.7.6 On the proposal for additional disclosures to be made in relation to income support arrangement, most respondents felt that the disclosures promote transparency and are adequate for investors to make an informed decision. However, one of the REIT managers is of the view that the detailed information required to be disclosed is onerous on REITs and that passive investors may not be able to analyse such information.
- 2.7.7 A few respondents suggested the following additional disclosures:
- (i) Average rent levels implied by the income support on the asset against the current market rent levels on comparable assets to allow investors to analyse the likelihood of the asset continuing at rentals equivalent to the income support level when the income support ceases; and
 - (ii) The amount of income support received and its effect on distribution per unit, including reasons for any material deviation from the forecast.

The SC's position

- 2.7.8 The SC takes cognisance of the general view by respondents on the need to mitigate risks associated with income support, including limiting the acquisition of real estates with income support and requiring income support to be approved by unit holders. The SC is of the view that:
- (i) It would be up to the investors to decide whether or not to invest or stay invested in the REIT in view of any income support arrangements; and
 - (ii) There are market-based safeguards in place, for example the DPU where the REIT will have to demonstrate the sustainability of the DPU after the income support ends.

- 2.7.9 The role of regulation in this respect would be to provide investors with the necessary information to make an informed decision through the proposed additional disclosures in the prospectus, circulars, announcements at the point of acquisition and the continuous ongoing disclosure in the annual report.
- 2.7.10 With regard to the suggestion in paragraph 2.7.4 on the valuation with or without income support, the SC notes that the definition of market value under the Malaysian Valuation Standards specifically excludes an estimated price inflated or deflated by special terms or circumstances such as income support. Where there is an element of income support, the valuation must be based on the market value without the income support being incorporated into the valuation model. A separate assessment of the income support is to be made to allow investors to make an informed investment decision.
- 2.7.11 On the additional disclosures suggested in paragraph 2.7.7, the SC would like to highlight that this information would already be covered in the disclosure requirements proposed in the Consultation Paper and in the valuation certificate prepared by an independent valuer.
- 2.7.12 As such, the SC will adopt the proposals, as proposed.

2.8 Islamic REITs

- 2.8.1 In the Consultation Paper, the SC proposed the following:
- (i) Islamic REITs must reduce the percentage of total rental received from Shariah non-compliant activities (Shariah Non-Compliant Rental) from less than 20% to less than 5% of the Islamic REIT's total turnover (less than 5% threshold) by the end of the fifth full financial year after establishment; and
 - (ii) Prior to an Islamic REIT reaching the end of the fifth full financial year post establishment, the Islamic REIT may:
 - (a) Accept new tenants and renew tenancy agreements of existing tenants whose activities are Shariah non-compliant; and
 - (b) Acquire additional real estate having tenants that carry out Shariah non-compliant activities, provided that –
 - (1) the percentage of Shariah Non-Compliant Rental is less than 20% of the Islamic REIT's total turnover; and
 - (2) the Islamic REIT reduces the percentage of Shariah Non-Compliant Rental to less than 5% of its total turnover by the end of the fifth full financial year.

After the end of the fifth full financial year post establishment, the percentage of Shariah Non-Compliant Rental for (1) and (2) above must be less than 5% of the Islamic REIT's total turnover.

2.8.2 Respondents were asked to give their comments on the following questions:

13) Do you agree that an Islamic REIT be given five full financial years to comply with the less than 5% threshold? Please provide specific reasons for your views.

Feedback from respondents

2.8.3 The majority of respondents agreed with the proposal as it would allow Islamic REITs to be more flexible and competitive, thereby giving more options to the investors. The five financial year period for the Islamic REITs to reduce the Shariah Non-Compliant Rental was viewed as sufficient given that most rental arrangements are between three to five years.

2.8.4 Several REIT managers however, argued that the timeframe given is too short and it may not be practical to terminate long-term leases in order to meet the requirement. Further, in the event of unfavourable market conditions, the retention rate would be a priority to Islamic REITs and the income of the Islamic REITs would be affected should there be difficulty in securing tenants with Shariah compliant activities. Therefore, the REIT managers suggested that the timeframe to reduce the Shariah Non-Compliant Rental be extended to 10 years.

The SC's position

2.8.5 The suggestion from the REIT managers was considered by the SC's Shariah Advisory Council (SAC). The SAC took note of the difficulties that REIT managers may encounter in retaining tenancies to make the Islamic REITs more attractive, especially during unfavourable market conditions and the fact that some lease agreements have tenures of more than five years.

2.8.6 To ensure the continued viability of Islamic REITs and facilitate the growth of the industry, the SAC resolved to extend the timeframe to reduce the Shariah Non-Compliant Rental to 10 years. Following the SAC's ruling, the SC will accord a timeframe of 10 years for Islamic REITs to reduce the Shariah Non-Compliant Rental.

2.9 Unit buy-back

2.9.1 In the Consultation Paper, the SC proposed to allow REITs to buy back their own units. The unit buy-back would be subject to restrictions and notification

requirements similar to those applicable to unit buy-backs by a business trust under the Bursa Listing Requirements, including that the units purchased must be immediately cancelled.

2.9.2 Respondents were asked to give their comments on the following question:

14) Do you agree with the SC's proposal to allow listed REITs to buy back their own units? Please provide specific reasons for your views.

15) Do you agree with the SC's proposal for the unit buy-back to be subject to restrictions and notification requirements similar to those applicable to unit buy-backs by a business trust under the Bursa Listing Requirements? Please provide specific reasons for your views.

16) Do you agree with the SC's proposal for the units purchased to be subsequently cancelled? Please provide specific reasons for your views.

Feedback from respondents

2.9.3 Most of the respondents supported the proposal to allow REITs to buy back their own units, where the units would be subject to requirements similar to those applicable to a business trust. These respondents considered the proposal to be beneficial to REITs and their unit holders for the reasons similar to those outlined in the Consultation Paper.

2.9.4 A majority of the respondents further supported the proposal on the cancellation of the units purchased. Respondents who were of the view that the cancellation of the units should be an option, similar to those of listed corporations, felt that treasury units would provide more flexibility for the REIT managers to raise funding without having to incur additional cost.

The SC's position

2.9.5 Given the support for the proposals and for consistency in treatments of unit buy-back between REITs and business trust, the SC will adopt the proposals, as proposed.

2.10 Leverage limit

2.10.1 In the Consultation Paper, the SC proposed to retain the current leverage limit at 50% but to remove the option for a REIT to increase the limit with the approval of its unit holders by way of an ordinary resolution.

2.10.2 Respondents were asked to give their comments on the following question:

17) Do you agree with the SC's proposal to adopt a fixed leverage limit of 50%? Please provide specific reasons for your views.

Feedback from respondents

2.10.3 Most of the respondents supported the proposal and considered the proposal to be beneficial to REITs for reasons similar to those outlined in the Consultation Paper. They also added that the 50% limit acts as a check and balance in risk management to avoid elevated risk profile in REITs.

2.10.4 The respondents who disagreed either thought the limit was too low or too high. Respondents who felt the limit is too low suggested limits of between 60% and 70%. Respondents who felt the limit is too high suggested lowering it to between 35% and 45%, and commented that REITs should not rely heavily on borrowings and a higher limit increases the risk profile of a REIT. One respondent felt that market forces should be the best determinants of the appropriate level of gearing, thus setting a leverage limit may not be necessary.

The SC's position

2.10.5 The SC is of the view that the 50% leverage limit is an appropriate level and strikes a balance between providing REIT managers some flexibility while managing risks, particularly given that REITs would now be able to undertake property development activities. The SC also believes that a fixed 50% leverage limit strikes a good balance between preventing REITs from over-gearing themselves, and providing a certain level of flexibility to the REIT managers. The SC notes that the leverage limit for REITs in Hong Kong and Singapore is 45%.

2.10.6 Separately, for the purposes of calculation of a REIT's leverage limit, the SC will allow hybrid securities to be treated as equity and thus be excluded from the leverage calculation, provided they fulfil the criteria below:

- (i) The securities have a perpetual term;
- (ii) The redemption is at the sole discretion of the REIT;
- (iii) The distributions are non-cumulative;
- (iv) There are no features that will have the effect of incentivising the REIT to redeem its units, e.g. step-up in interest or profit rates; and
- (v) The securities are deeply subordinated in the event of liquidation.

3 FEEDBACK ON PROPOSALS RELATING TO ENHANCING GOVERNANCE

3.1 Statement of Corporate Governance and Internal Control

3.1.1 In the Consultation Paper, the SC proposed that REIT managers disclose a Statement of Corporate Governance and Internal Control in the annual report of REITs⁵.

3.1.2 Respondents were asked to give their comments on the following questions:

18) Do you agree with the SC's proposal for the board of directors of a REIT manager to provide a Statement of Corporate Governance and a Statement of Internal Control in the annual report of a REIT? Please provide specific reasons for your views.

Feedback from respondents

3.1.3 The proposal for the board of directors of a REIT manager to provide the statements received unanimous support.

The SC's position

3.1.4 Having considered the feedback received, the current Bursa Listing Requirements to provide a Statement of Internal Controls in the annual report of listed corporations⁶ will be made applicable to REITs.

3.1.5 The SC wishes to highlight that the new *Malaysian Code on Corporate Governance* (MCCG) issued by the SC on 26 April 2017 requires a listed issuer to ensure that its board of directors provides an overview of the application of the principles set out in the MCCG (CG Overview Statement), in its annual report. This will replace the previous requirement for a listed issuer to provide a Statement of Corporate Governance.

3.1.6 As the rationale for the proposal to require the REIT managers to disclose a Statement of Corporate Governance in the annual report of REITs was to streamline the requirements for all listed issuers, the board of directors of a REIT manager will now be required to provide the CG Overview Statement in the REIT's annual report.

⁵ Paragraphs 3.1 to 3.2 of the Consultation Paper

⁶ Paragraph 15.25(1) of Bursa Listing Requirements

3.2 Audit committee

3.2.1 In the Consultation Paper, the SC proposed to require REIT managers to establish an audit committee and that the requirements as provided for in the Bursa Listing Requirements⁷ be adopted for REITs.

3.2.2 Respondents were asked to give their comments on the following questions:

19) Do you agree with the SC's proposal to make it mandatory for REIT managers to establish an audit committee? Please provide specific reasons for your views.

20) Do you agree that the requirements in the Bursa Listing Requirements in relation to audit committee be made applicable to REITs? Please provide specific reasons for your views.

3.2.3 Almost all respondents agreed with the proposal.

3.2.4 The SC takes note of the strong support received on the proposal and will adopt the policy as proposed.

3.3 Change of REIT manager

3.3.1 In the Consultation Paper, the SC proposed to allow the removal of the REIT manager by way of a resolution passed by a simple majority of unit holders voting at a general meeting and that in such circumstance, the REIT manager, its nominees and its related parties be allowed to vote and be counted in the quorum at the meeting.

3.3.2 Respondents were asked to give their comments on the following questions:

21) Do you agree with the SC's proposal to introduce a requirement to allow the removal of the REIT manager by way of a resolution passed by a simple majority of unit holders voting at a general meeting? Please provide specific reasons for your views.

22) Do you agree with the SC's proposal to allow a REIT manager and related parties of the REIT manager to vote and be counted in the quorum at the meeting to remove the REIT manager? Please provide specific reasons for your views.

⁷ Part C, Chapter 15 of Bursa Listing Requirements

Feedback from respondents

- 3.3.3 The majority of respondents supported the proposal to allow the removal of the REIT manager by way of a resolution passed by a simple majority of unit holders voting at a general meeting. They generally considered the proposal to be beneficial for the reasons stated in the Consultation Paper. In addition, the proposal would strengthen the REIT's corporate governance practice, which in turn enhances the level of protection accorded to unit holders.
- 3.3.4 Most of the respondents who disagreed with the proposal were REIT managers. They raised concerns that this proposal may lead to REIT managers being removed without fair justifications and proposed that the removal and proposed for the removal of the REIT manager be by way of special majority.
- 3.3.5 On the proposal to allow the REIT manager and related parties of the REIT manager to vote and be counted in the quorum at the meeting to remove the REIT manager, the majority of respondents agreed with the proposal. Those who disagreed felt that it would defeat the purpose for unit holders (minority interests) to have the right to remove the REIT manager should the REIT manager and its related parties be allowed to vote as their interest would be conflicted.
- 3.3.6 Two respondents commented that if a REIT manager and its related parties are allowed to participate in the voting, the passing rate should be increased to 75%. With simple majority voting, the REIT manager and its related parties may easily block or approve the decision, which may not reflect the view taken by the rest of the unit holders.

The SC's position

- 3.3.7 The SC will allow the removal of the REIT manager by way of a resolution passed by a simple majority of unit holders voting at a general meeting. The introduction of such requirement will not only provide unit holders greater say on who should manage the REIT, but it will also ensure that the treatment in removing the manager is consistent across all REITs. It is further noted that similar rights are accorded to unit holders of REITs in benchmarked jurisdictions.
- 3.3.8 REIT managers are required to comply with the REITs Guidelines at all times, acting always in the best interests of the unit holders. If the REIT managers and their related parties hold units in the REITs, their rights as unit holders should not be denied and their interests should also be taken into account when deciding on the removal of the REIT manager.
- 3.3.9 The SC believes that allowing all unit holders to vote on the removal of the REIT manager would better align the economic interests of the controlling stake of

ownership in a REIT, which is in line with regulations in other comparable jurisdictions. As such, the SC will implement both proposals, as proposed.

3.4 Termination of a REIT

3.4.1 In the Consultation Paper, the SC proposed that on completion of a termination of the REIT, in addition to the current requirements of the REIT Guidelines⁸, the following be made available to unit holders:

- (i) A REIT manager's report, explaining how the real estate has been disposed of, the transaction price and salient terms of disposal; and
- (ii) A trustee's report, stating that the REIT manager has managed and terminated the REIT in accordance with the provisions of the REIT's deed.

3.4.2 Further, the SC also proposed that within two months of the completion of termination, copies of the financial statements be distributed to unit holders and filed with the SC.

3.4.3 Respondents were asked to give their comments on the following questions:

23) Do you agree with the SC's proposal to require that on completion of the termination of a REIT, unit holders be provided with a REIT manager's report explaining how the real estate has been disposed of, the transaction price and salient terms of disposal? Please provide specific reasons for your views.

24) Do you agree with the SC's proposal to require that on completion of the termination of the REIT, unit holders be provided with a trustee's report stating that the REIT manager has managed and terminated the REIT in accordance with the provisions of the REIT's deed? Please provide specific reasons for your views.

25) Do you agree with the SC's proposal to require copies of the REITs financial statements to be distributed to unit holders and filed with the SC within two months of the completion of the termination of the REIT? Please provide specific reasons for your views.

Feedback from respondents

3.4.4 Respondents were unanimous in support of the requirements. Two respondents suggested that the period between the completion of the termination of the REIT

⁸ Paragraphs 15.27 and 15.28 of the REITs Guidelines

and the distribution of the REITs financial statements to unit holders be extended to between four and six months.

The SC's position

- 3.4.5 The SC notes the suggestion on extending the period proposed. However, the SC takes cognisance of MIA's comment that while the period proposed may seem short, it is achievable with careful planning. As such, the SC will adopt the proposal, as proposed.

3.5 Revaluation of real estate

- 3.5.1 In the Consultation Paper, the SC proposed that:

- (i) Each of the real estate of a REIT be revalued by an independent valuer at least once in each financial year; and
- (ii) A valuer be allowed to conduct valuations of any particular real estate of a REIT for up to three consecutive years only.

- 3.5.2 Respondents were asked to give their comments on the following questions:

26) Do you agree with the SC's proposal to require a revaluation of each of a REIT's real estate to be conducted at least once in each financial year? Please provide specific reasons for your views.

27) Do you agree with the SC's proposal to allow a valuer to conduct valuations of any particular real estate of a REIT for up to three consecutive years only? Please provide specific reasons for your views.

Feedback from respondents

3.6 Proposal to require each of the real estate of a REIT be revalued by an independent valuer at least once in each financial year

- 3.6.1 The majority of respondents supported the proposal to require each real estate of a REIT to be valued at least once in each financial year, commenting that the yearly valuation will provide an up-to-date and accurate reflection of the market value of the real estate and further assist unit holders and investors in making an informed investment decision.

- 3.6.2 Respondents who disagreed with the proposal were concerned about the costs and questioned the necessity for a yearly valuation when the property is not necessarily going to be disposed of that year. Some proposed that the current practice be maintained, where valuations are updated yearly and full revaluations only carried

out once every three years. One respondent proposed valuations be conducted twice a year.

The SC's position

- 3.6.3 While the SC acknowledges that requiring a revaluation at least once in each financial year would incur additional cost, the benefits outweigh the costs as an annual revaluation ensures that the latest market value of the REIT's real estate is reflected in the REIT's balance sheet. In addition, most REITs in Malaysia have been revaluing their real estate annually. In view of this, the SC will proceed to require REITs to revalue all their real estates at least once in each financial year.
- 3.6.4 The SC is of the view that the suggestion for revaluation at least twice a year would not be in line with the SC's regulatory philosophy of proportionality as such an exercise is costly and real estate prices are generally less volatile compared to other investment products i.e. securities. However, a REIT should conduct additional valuation when market conditions indicate that real estate values have changed materially.
- 3.6.5 The SC would like to highlight that under the current requirements, revaluation of real estate is to be carried out based on the Malaysian Valuation Standards and need not be in accordance with the SC's *Asset Valuation Guidelines*. Also, the Malaysian Valuation Standards do not allow desktop valuations.
- 3.7 Proposal to allow a valuer to conduct valuations of any particular real estate of a REIT for up to three consecutive years only**
- 3.7.1 Given the strong support received from most respondents, the SC will allow a valuer to conduct valuations of any particular real estate of a REIT for up to three consecutive years only. This is to mitigate the risk of impairment of independence of the valuer arising from an extended engagement and to ensure there are constant checks and balance on the indicative valuations of the assets and thereby reducing the valuation bias over the portfolio of assets.

4 FEEDBACK ON PROPOSALS RELATING TO STREAMLINING OF POST-LISTING REQUIREMENTS

4.1 Issuance of securities under general mandate and issuance of bonus units

4.1.1 In the Consultation Paper, the SC proposed to adopt requirements similar to those for listed corporations, save for the threshold stipulated in Bursa Listing Requirements.

4.1.2 The 20% threshold⁹ for units issued under the general mandate will continue to apply and for the issuance of bonus units, the SC proposed to streamline the requirements for REITs and listed corporations and in this respect adopt the threshold of 80%¹⁰.

4.1.3 Respondents were asked to give their comments on the following questions:

28) Do you agree with the SC's proposal to retain the general mandate threshold of 20% that is currently provided for in the REITs Guidelines instead of adopting the 10% threshold in the Bursa Listing Requirements that applies to listed corporations? Please provide specific reasons for your views.

29) For the provisions relating to issuance of bonus units, do you agree with the SC's proposal to streamline the requirements for REITs and listed corporations and in this respect adopt the threshold of 80%? Please provide specific reasons for your views.

Feedback from respondents

4.1.4 Most of the respondents supported the proposal to retain the general mandate threshold of 20%. They generally considered the proposal to be beneficial to REITs for the reasons outlined in the Consultation Paper.

4.1.5 Almost all the respondents agreed with the proposal to streamline the requirements for REITs and listed corporations, in relation to the bonus unit issuance provisions. Respondents commented that the proposal would provide a safer threshold to absorb any potential decline in valuation. It would also increase the affordability of investing in the units, thus increasing the units in circulation, which in turn, enhances the REIT's liquidity.

⁹ Paragraph 14.03(a) of the REIT Guidelines

¹⁰ Paragraph 6.30(2) of the Bursa Listing Requirements

The SC's position

- 4.1.6 Considering the strong support by respondents, the SC will adopt both proposals, as proposed.

4.2 Transactions

- 4.2.1 In the Consultation Paper, the SC proposed to adopt the following requirements for the acquisition and disposal of real estate by REITs, which will harmonise the requirements for transactions entered into by REITs with the requirements for transactions entered into by listed corporations, as provided for in the Bursa Listing Requirements:

(i) Requirement for an announcement to be made

A listed REIT must make an announcement to Bursa where the transaction value is–

- (a) 5% or more of the fund's total asset value; or
- (b) in the case of a related-party transaction, 0.25% or more of the fund's total asset value.

This requirement will not apply where the transaction value is less than RM500,000.

(ii) Requirement to obtain unit holders' approval

A listed REIT must obtain unit holders' approval by way of an ordinary resolution where the transaction value is–

- (a) 25% or more of the fund's total asset value. This requirement will not apply where transaction value is less than RM500,000; or
- (b) in the case of a related-party transaction, 5% or more of the fund's total asset value. The REIT must also appoint an independent adviser for the transaction, similar to the requirements for listed issuers under paragraph 10.08 of the Bursa Listing Requirements.

- 4.2.2 The SC also proposed to remove the limitations to the acquisition and disposal pricing. Instead, unit holders will be empowered to decide on the transaction, and be given the relevant information to do so. This would include independent valuation reports and where it is a related-party transaction, independent advice.

4.2.3 Respondents were asked to give their comments on the following questions:

- 30) Do you agree with the thresholds proposed for when REITs must make an announcement in relation to acquisition and disposal of real estate? Please provide specific reasons for your views.**
- 31) Do you agree with the thresholds proposed for when unit holders' approval would be required for acquisition and disposal of real estate by REITs? Please provide specific reasons for your views.**
- 32) Do you agree with the SC's proposal that a REIT must appoint an independent adviser where it undertakes a related party acquisition or disposal where the value is 5% or more of the fund's total asset value? Please provide specific reasons for your views.**
- 33) Do you think the requirements in relation to the price for any acquisition and disposal of real estate by REITs should be removed? Please provide specific reasons for your views.**

Feedback from respondents and the SC's position

4.3 Requirement for an announcement to be made

4.3.1 Almost all respondents supported the proposal, highlighting that this move would promote transparency and provide unit holders with information on any new investments or disposals by the REITs.

4.3.2 Given the strong support, the SC will implement this proposal, as proposed.

4.4 Requirement for independent adviser

4.4.1 Almost all respondents agreed with the proposal, commenting that this requirement will protect unit holders' interests and provide them with competent independent advice on the fairness and reasonableness of the transaction.

4.4.2 Given the strong support, the SC will implement the proposals, as proposed. In addition to promoting transparency, an independent adviser's role is crucial, particularly in providing unit holders with unbiased advice on the transactions, including their resultant effects.

4.5 Requirement for unit holders' approval and removal of pricing limit

4.5.1 The views on the requirement for unit holders' approval were divided, with only a small majority of the respondents agreeing with the proposal. The respondents who

agreed generally considered the proposal to be beneficial for the reasons stated in the Consultation Paper, adding that the proposal would accord the unit holders the right to influence the decision.

4.5.2 The rest of the respondents generally fell into one of two groups:

- (i) Group 1 – those who disagreed with the requirement for unit holders' approval and suggested that the pricing limit be maintained instead (mainly REIT managers and corporate finance advisers), and
- (ii) Group 2 – those who agreed with the requirement for unit holders' approval but also wanted the pricing limit to be maintained (mainly investors).

4.5.3 Some of the respondents in Group 1 commented that the acquisition and disposal of real estates are the ordinary course of business of a REIT, thus having to seek unit holders' approval once a certain threshold is triggered would prolong the process and increase the cost of compliance. Another reason submitted is that transactions should be guided by valuations carried out by professional valuers and giving unit holders absolute empowerment may limit a REIT manager's ability to acquire new investments. Then, there is also the presence of the trustee who would act in the best interests of the unit holders at all times. While the SC acknowledges that both the valuer and trustee have their own critical role to play in the transaction, once a certain threshold is triggered, unit holders must be given an opportunity to participate and make their views known.

4.5.4 The respondents in Group 2, mainly comprising of investors, agreed with the requirement for unit holders' approval but also wanted the pricing limit to be maintained, attributing it as an additional safeguard for their benefit. The SC is of the view there are already existing measures for the investors to safeguard their interest, including the relevant information on the transaction that will be made available to them via the circular, which will be prescribed in Bursa Listing Requirements. The removal of the pricing limit will allow the REIT managers to transact at negotiated prices, subject to the unit holders' approval. Also, where a transaction is with a related-party, the appointment of an independent adviser will ensure that unit holders have the benefit of getting independent advice on the transaction.

4.5.5 In view of the above, the SC will implement the proposals, as proposed.

5 FEEDBACK ON PROPOSALS RELATING TO OTHER AMENDMENTS PROPOSED

5.1 Property management

5.1.1 In the Consultation Paper, the SC proposed to allow a REIT manager to take up equity interest in a property management company provided the property management company can only manage real estates owned by REITs that are managed by the same REIT manager to address any potential conflict of interest.

5.1.2 Respondents were asked to give their comments on the following questions:

34) Do you agree with the SC's proposal to allow a REIT manager to take up equity interest in a property management company? Please provide specific reasons for your views.

35) Do you agree with the SC's proposal to allow the property management company referred to in paragraph 5.1.1 above to only manage real estates owned by REITs that are managed by the same REIT manager? Please provide specific reasons for your views.

36) In your opinion, is the proposed requirement set out in paragraph 5.1.1 above adequate to manage any potential conflict of interest? Please provide specific reasons for your views.

Feedback from respondents

Proposal to allow a REIT manager to take up equity interest in a property management company

5.1.3 Most of the respondents supported the proposal to allow a REIT manager to take up equity interest in a property management company. Those who disagreed were concerned about potential conflicts of interests and the REIT's interest being affected if the property management is sued.

5.1.4 Several respondents suggested that the SC consider providing the property manager of the REITs' assets appointed by the REIT manager and trustee with an exemption from being a licensed property manager under the VAEA Act 1981.

Proposal to allow the property management company to only manage real estates owned by REITs that are managed by the same REIT manager

- 5.1.5 Most of the respondents agreed with the proposal to allow the property management company to only manage real estates owned by REITs that are managed by the same REIT manager.
- 5.1.6 Some of the reasons provided by respondents who disagreed with the proposal are as follows:
- (i) This will restrict the ability of the property management company to grow;
 - (ii) Firms under VAEA should not be excluded from providing services to the public who are willing to engage them and pay the fees due to carry out the professional services that the firm declares it provides. The rule change by VAEA to allow equity held by a non-registered valuer in a property management firm does not extend to any management control whatsoever of the company to the minority equity holder;
 - (iii) The property management companies should be able to not only manage the real estates owned by the REITs but also the sponsors', who may incubate certain assets for future injections into the REIT. By using the same property manager (if allowed by SC) will enhance operational efficiency; and
 - (iv) This should be driven by market forces and hence a business decision.

Whether the proposed requirement is adequate to manage any potential conflict of interest

- 5.1.7 Most of the respondents agreed that the proposed requirement is adequate to manage any potential conflict of interest.

The SC's position

- 5.1.8 The SC is of the view that allowing REIT managers to take up equity interest in a property management company will provide the REIT managers with the opportunity to participate in the equity of a property management company, which manages the real estates of the REIT.
- 5.1.9 A registered valuer(s) can set up a firm with various branches (subsidiaries) including a branch (subsidiary) which is held by a non-valuer (but up to a shareholding of 49%). As such, the proposal to allow the property management company to only manage real estates owned by REITs that are managed by the same REIT manager will not restrict the registered valuer from providing their services to the public.

- 5.1.10 The SC is of the view that the REIT manager should be applying all its resources towards managing the REIT for the best interest of the unit holders and not have another business that may distract it from its role to provide regular and stable distributions to unit holders and ensure capital growth and improved returns from its property portfolio.
- 5.1.11 On the suggestion in paragraph 5.1.4 that the SC should consider providing the property management company managing a REITs' assets with an exemption from being a licensed property manager under the *VAEA Act 1981*, the SC wishes to highlight that the requirement relating to property management practice comes under the purview of the Board of Valuers, Appraisers and Estate Agents Malaysia.
- 5.1.12 In view of the strong support received from the respondents for both proposals and the concern that the interests of the unit holders could be compromised, the SC will implement both proposals, as proposed.

5.2 Internal management

- 5.2.1 The SC had received inquiries on whether REITs are allowed to be internally managed and sought views on the following question:

37) What are your views on internally managed REIT?

Feedback from respondents

- 5.2.2 Most of the respondents are supportive of allowing internally managed REITs, for the following reasons:
- (i) Provides flexibility to the REITs to decide on which structure is best for the them;
 - (ii) Provides greater governance;
 - (iii) REITs to benefit from the reduced administration cost; and
 - (iv) Enhances a REIT manager's organisation structure, especially when the parent company may not be in the real estate industry.
- 5.2.3 It was highlighted that externally managed REITs may have more resources at their disposal and possibly a broader pool of talents to tap from, thereby broadening the skills and experiences available to the REIT.
- 5.2.4 It was also highlighted that internally managed REITs are common in the United States and Australia, where the structure is seen to be more efficient.

The SC's position

- 5.2.5 The SC takes note of the strong support on internally managed REITs and will issue a clarification that an internally managed REIT structure is allowed.

5.3 Unlisted REITs

- 5.3.1 In the Consultation Paper, the SC sought views on the proposal to limit the offer of unlisted REITs to Sophisticated Investors.

- 5.3.2 Most of the respondents were supportive of the proposal and generally considered it to be beneficial for the reasons stated in the Consultation Paper, adding that Sophisticated Investors are expected to have better understanding of investment and market risks, and have stronger holding power as compared to retail investors.

- 5.3.3 Having considered the feedback received from respondents, the SC will adopt the proposal, as proposed.