

CMFAS Module 10 – Rules and Regulations for REIT Management, with Product Knowledge and Analysis

Summary of Updates (September 2020 – Version 2.4)

The updates made to the CMFAS Module 10 (August 2019 – Version 2.3) are summarized as follows:

**Additions / updates / corrections are indicated in blue italics.*

Deletions are indicated in strikethrough.

Chapter	Page No.	Update / Amendment
7 – Key Ratios and Performance Measures		
Section 7.4.1 – Leverage Ratios	Pg 70	<p>The aggregate leverage limit for S-REITs is 45%. Higher aggregate leverage reflects lower capacity to meet its financial obligations, such as servicing the interest payments or repaying the debt when it matures. Failure to do so is extremely costly as they may be forced to sell properties to pay off debts or forced to service debts at exorbitant interest cost.</p> <p>The aggregate leverage limit for S-REITs:</p> <p><i>a) should not, before 1 January 2022, exceed 50% of the fund’s deposited property;</i></p> <p><i>b) should not, on or after 1 January 2022, exceed 45% of the fund’s deposited property.</i></p> <p><i>The aggregate leverage of a property fund may exceed 45% of the fund’s deposited property (up to a maximum of 50%) only if the property fund has a minimum adjusted interest coverage ratio of 2.5 times after taking into account the interest payment obligations arising from the new borrowings.</i></p> <p><i>If there are circumstances beyond the control of the Manager which has led to the level of aggregate leverage for the S-REIT exceeding the 50% limit, there is no breach on the part of the manager. The Property Funds Appendix specifies two such circumstances: (i) a depreciation in asset value of the S-REIT, or (ii) a redemption of units or payments made from the S-REIT.</i></p>
9 – Legal Framework of S-REITS		
Section 9.10 – Aggregate Leverage Limits	Pg 101	<p>However, the Property Funds Appendix restricts the total borrowings^{S64} and deferred payments^{S65} (together, the “aggregate leverage”) of an S-REIT to 45% of its deposited property at the time the borrowing is incurred <i>as follows:</i></p> <p><i>a) should not, before 1 January 2022, exceed 50% of the fund’s deposited property;</i></p> <p><i>b) should not, on or after 1 January 2022, exceed 45% of the fund’s deposited property. The aggregate leverage of a property fund may exceed 45% of the fund’s deposited property (up to a maximum of 50%) only if the property fund has a minimum adjusted interest coverage ratio of 2.5 times after taking into account the interest payment obligations arising from the new borrowings.</i></p>

Chapter	Page No.	Update / Amendment
		<p>If <i>there are</i> circumstances beyond the control of the Manager <i>which has led to</i> the level of aggregate leverage <i>for the S-REIT</i> exceeding the <i>50% limit</i>, there is no breach on the part of the manager.</p>
13 - Differences between Real Estate Investment Trusts and Business Trusts		
Section 13.5.3- Leverage Limit	Pg 190	<p>The Property Funds Appendix prescribes that the total borrowings and deferred payments of an S-REIT (together the “aggregate leverage”) of an S-REIT¹⁷: should not exceed 35% of the S-REIT’s deposited property. The aggregate leverage of a property fund may exceed 35% of the S-REIT’s deposited property (up to a maximum of 60%) only if a credit rating of the property fund from Fitch Inc., Moody’s or Standard and Poor’s is obtained and disclosed to the public. The S-REIT should continue to maintain and disclose a credit rating so long as its aggregate leverage exceeds 35% of the S-REIT’s deposited property.</p> <p><i>a) should not, before 1 January 2022, exceed 50% of the fund’s deposited property;</i> <i>b) should not, on or after 1 January 2022, exceed 45% of the fund’s deposited property. The aggregate leverage of a property fund may exceed 45% of the fund’s deposited property (up to a maximum of 50%) only if the property fund has a minimum adjusted interest coverage ratio of 2.5 times after taking into account the interest payment obligations arising from the new borrowings.</i></p> <p><i>If there are circumstances beyond the control of the Manager which has led to the level of aggregate leverage for the S-REIT exceeding the 50% limit, there is no breach on the part of the manager. The Property Funds Appendix specifies two such circumstances: (i) a depreciation in asset value of the S-REIT, or (ii) a redemption of units or payments made from the S-REIT.</i></p>
Section 13.13 Leverage Limit	Pg 202	<p>The aggregate leverage of an S-REIT <i>must comply to the following</i>: should not exceed 35% of the S-REIT’s deposited property. The aggregate leverage may exceed 35% of the S-REIT’s deposited property (up to a maximum of 60%) only if a credit rating is obtained and disclosed to the public.</p> <p><i>a) should not, before 1 January 2022, exceed 50% of the fund’s deposited property;</i> <i>b) should not, on or after 1 January 2022, exceed 45% of the fund’s deposited property. The aggregate leverage of a property fund may exceed 45% of the fund’s deposited property (up to a maximum of 50%) only if the property fund has a minimum adjusted interest coverage ratio of 2.5 times after taking into account the interest payment obligations arising from the new borrowings.</i></p> <p><i>If there are circumstances beyond the control of the Manager which has led to the level of aggregate leverage for the S-REIT exceeding the 50% limit, there is no breach on the part of the manager. The Property Funds Appendix specifies two such circumstances: (i) a depreciation in asset value of the S-REIT, or (ii) a redemption of units or payments made from the S-REIT.</i></p>