

Guest-of-Honour Speech by Tan Boon Gin, CEO of SGX RegCo at the REITAS Conference 2021

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Good morning ladies and gentlemen,

1. Wow, time flies. The REIT regulatory framework has been in place at SGX for over 21 years and we have had REITs listed on the exchange for close to 20 years. So, in a way, it feels like we are on the cusp of new beginnings as young adults heading into their 20s. The millennials have a name for this; they call it #adulting, and it signifies certain developments and new responsibilities. One change that we have seen already is the growth in sustainable investing in the REIT space, which is why we have launched the SGX Nikkei ESG-REIT Index Futures contracts, and the iEdge-UOB APAC Green Reit Index that tracks environmentally-positive REITs.

2. This is a trending topic online and much content has been posted about it. Which led me to think - what does #adulting mean in the context of our 20-year-old REIT industry? Here I am going to take inspiration from three #adulting themes that have struck me.

Valuation, valuation, valuation

3. The first is about buying your first home. To my surprise, I found that the mantra that I had grown up hearing, “location, location, location” has now been replaced by “valuation, valuation, valuation”. Now I dare say first-time Singaporean homebuyers are not the only ones who are value conscious. The same can be said of all unitholders and indeed most stakeholders of our REITs.

4. That is why SGX rules require that certain property transactions such as IPOs and interested person transactions must be accompanied by independent valuations. Earlier this year, we introduced rule changes to raise the standard of property valuers and property valuations. Broadly speaking, valuers now need to meet certain professional qualifications and independence criteria and valuation reports must be in accordance with international standards and contain a minimum level of prescribed information.

5. Property valuers are now required to have at least five years relevant practical experience in valuing properties in *a similar industry and area* as the property to be valued. This ensures that the valuer has the necessary familiarity with the relevant local market conditions and requirements to value the particular property in question. I want to emphasize this as our REITs become more international and start to hold more properties overseas, as well as diversify into new and highly specialized assets.

6. For valuation of Singapore properties, the valuers must hold Singapore Institute of Surveyors and Valuers (SISV) membership and additionally hold an appraiser's license issued by the Inland Revenue Authority of Singapore. For valuation of foreign properties, the valuer must be similarly licensed or a member of an equivalent professional body with disciplinary powers. The common theme running through this is accountability. SGX does not regulate valuers. But under our enhanced rules, property valuers whether here or overseas must belong to a professional body who can hold them accountable.

7. Suffice to say that we have made full use of this ability to refer valuers who we felt had fallen short and should be held to account, to their respective disciplinary bodies, and we will no doubt, do so again wherever appropriate.

8. I should also highlight that in respect of the independence requirement, we have taken the opportunity to clarify in the course of our rule changes that, in addition to the independence tests in the SGX listing rules, valuers should also apply the conflicts of interest requirements prescribed by their respective professional bodies. We therefore expect valuers to consider if there are business relationships or financial arrangements with the sponsor that may create conflicts of interest in accordance with their own respective professional standards.

9. Finally, while the enhancements to property valuations are headlined by the rule changes I have just alluded to, I would also like to draw attention to a listing decision that we published earlier this year on sponsor material leases, that is, where sponsors are the master lessees of the properties in the REIT portfolio. Broadly speaking, we have enhanced the disclosures relating to sponsor material leases. So, now, in addition to the requirement that we have had all along of requiring at least two independent valuations for each property with a sponsor material lease, we now also require a disclosure whether the sponsor material leases were entered into at market rates, or not, as the case may be.

Engagement, engagement, and more engagement

10. The second theme is centered on communication. Since the start of the pandemic and introduction of necessary measures to keep the investing community safe, issuers including REITs have had to pivot towards virtual unitholder meetings.

11. The next step is to see how we can improve on the quality of communication to reap the benefits of both virtual and face-to-face formats. There have been calls to improve the timeliness of issuers' responses to shareholders' or unitholders' questions, so that shareholders or unitholders have the benefit of seeing the questions answered before they vote, especially for important corporate actions like a rights issue or privatization. The REIT industry and indeed all issuers can expect more guidance on such matters in relation to virtual meetings going forward.

12. I am heartened by the fact that this year, both FIRST REIT, ahead of the EGM for its rights issue, as well as Soilbuild Business Space REIT ahead of its privatization exercise, voluntarily decided to hold virtual dialogue sessions together with Securities Investors Association (Singapore) (SIAS) to answer unitholders' questions. It is perhaps no coincidence that both REITs secured the support of over 90% of their independent unitholders at their respective votes.

13. I would like to see such efforts continue especially as REITs have become such a key pillar of the Singapore market. REITs and business trusts account for over 20% of the total value of the entire market, with many ever-present in the daily lives of Singapore investors as familiar landmarks and even workplaces. Given its prominence, the industry is perfectly placed to be a benchmark in communicating more and better with their investors.

Stress

14. Third among the #adulting topics that struck me is stress. The pandemic has posed great stress to many businesses, and many REITs have not been spared. When it comes to financial matters, the stance of lenders during periods of stress is crucial. No doubt there may be protracted negotiations between lenders and borrowers and no doubt some lenders may be prepared to be more accommodating in their approach, perhaps due to the importance of maintaining business relationships, especially those that have been forged over a long period.

15. But we have made it clear in our rules, that if an issuer receives a letter of demand for a substantial sum that has a material impact on the issuer, this must be disclosed. The fact that the borrower may still be seeking an extension of time does not alter the need for timely disclosure, as there is already certainty of the claim.

16. Now we have provided in our rules that disclosure may not be necessary if a claim or action can be reasonably characterized as “bound to fail”. We have been encountering more issuers seeking to rely on this exception, that they did not need to disclose a letter of demand because it was “bound to fail”.

17. Let me emphasize that “bound to fail” is a very, very, very high bar. Mere optimism that both parties are close to settling a claim is not enough. Nor is legal advice that one has a good chance of winning. An issuer is fully entitled to explain the merits of a case in its favour. But it must be contained in the announcement disclosing the receipt of the letter of demand.

18. In the same way that stress can accumulate, letters of demand that are individually insubstantial can add up to a substantial sum that requires disclosure. As a rule of thumb, letters of demand adding up to 10% of an issuer’s net asset value should be disclosed. So, once the 10% threshold is hit, all the letters of demand adding up to the 10% must be disclosed. Usually, after this first announcement of a letter or letters of demand adding up to more than 10% of NAV, the issuer will go on to seek bankruptcy protection, in which case it may not be as meaningful to announce every subsequent letter of demand, since there is already a recognition that the issuer may be unable to pay its debts.

19. However, in the absence of bankruptcy protection, a balance must be struck between having to disclose every single letter of demand received thereafter and keeping the market informed. As a rule of thumb, subsequent letters of demand should be disclosed in at least bands of 10%, so once the letters of demand received after the first announcement add up to yet another 10% of NAV, a second announcement should be made and so on. Now this is not something we have provided guidance on previously, so I hope that the industry, practitioners, and investors will take note.

Conclusion

20. It is somehow fitting that as the REIT industry reaches the #adulting milestone, we appear to be turning a corner in a world where the New Normal is still the subject of much speculation and conjecture, and the ability to learn and adapt is what we, regulators and industry participants alike, need to hone. On this note, I wish all of you an insightful conference full of much learning and inspiration. Thank you.