

New Measures to Help REITs Navigate Operating Challenges Posed by COVID-19

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The Ministry of Finance (MOF), the Inland Revenue Authority of Singapore (IRAS), and the Monetary Authority of Singapore (MAS) today announced new measures to provide real estate investment trusts listed on the Singapore Exchange (S-REITs) with greater flexibility to manage their cash flows and raise funds amid a challenging operating environment due to COVID-19. These comprise an extension of the deadline for distribution of taxable income by MOF and IRAS, and a raising of the leverage limit and deferment of new regulatory requirements by MAS.

Extension of Permissible Period for Distribution of Taxable Income

2. MOF and IRAS will extend the timeline for S-REITs to distribute at least 90% of their taxable income from 3 months to 12 months (after the end of Financial Year (FY) 2020) to qualify for tax transparency¹. This extension is only applicable for distributions made from taxable income that is derived by an S-REIT during FY2020. For example, to avail to the tax transparency treatment for FY2020 taxable income, S-REITs with FY2020 ending 31 March 2020 and 31 December 2020 will have up to 31 March 2021 and 31 December 2021 respectively, to distribute to their unitholders at least 90% of their taxable income derived in FY2020.

3. The extension will give S-REITs more flexibility to manage their cash flows. As S-REITs typically distribute the bulk of their income to unitholders, they tend to hold lower cash reserves.

4. IRAS will provide further details of the change by early May 2020.

Higher Leverage Limit and Deferral of Interest Coverage Requirement

5. MAS will raise with immediate effect the leverage limit for S-REITS from 45% to 50%, to provide S-REITs greater flexibility to manage their capital structure and to raise debt financing amid

the challenging environment created by the COVID-19 pandemic.

6. MAS will defer to 1 January 2022 the implementation of a new minimum interest coverage ratio (ICR) requirement. In its public consultation last year², MAS had proposed to require S-REITs to have a minimum ICR of 2.5 times before they are allowed to increase their leverage to beyond the prevailing 45% limit (up to 50%). The implementation of the ICR requirement will now be deferred as S-REITs' ICRs are likely to come under pressure in the near term due to the negative impact of the COVID-19 pandemic on their earnings and cashflows.

7. The higher leverage limit, together with the enhanced share issue limit announced by SGX RegCo last week³, will allow S-REITs to have continued access to different funding channels, including borrowing from banks, issuing bonds, and raising equity.

8. To provide investors with timely information about the financial position of S-REITs and the impact of higher leverage on their risk profiles, MAS will require S-REITs to disclose their leverage ratios and ICRs in annual reports and interim financial results.

9. Notwithstanding the higher leverage limit, MAS expects S-REIT managers to carefully assess their ability to service financial obligations before taking on additional debt.

¹ Under the tax transparency treatment, an S-REIT is not taxed on its income that is distributed to its unitholders.

² On 2 July 2019, MAS issued the [Consultation Paper on Proposed Amendments to the Requirements for REITs](#). MAS will release a detailed response to the Consultation Paper in due course.

³ On 8 April 2020, SGX RegCo announced that it would provisionally enable Mainboard issuers to seek a general mandate for an issue of pro-rata shares and convertible securities of up to 100% of its share capital (excluding treasury shares and subsidiary holdings in each class) versus 50% previously. This is one of the measures that SGX RegCo has, in consultation with MAS, introduced to support listed issuers amid COVID-19. Please refer to SGX RegCo's Press Release at this link for more information.