

4 June 2020
Ms. Tania Wimberly
Head of Financial Reporting
JSE Limited
One Exchange Square
Gwen Lane
Sandown
2146

Attention: Ms. Tania Wimberly

Dear Ms. Wimberly

REIT Distribution: Invitation for public comment dated 26 May 2020

In response to your request for comments on the abovementioned consultation paper which considers whether certain forms of relief should be provided to REITs, considering the impact of the Covid-19 pandemic on property companies, the South African Institute of Chartered Accountants ('SAICA') Banking Project Group ('BPG') has put together comments for your consideration on whether or not the relief should be considered by the JSE Limited ('JSE').

The BPG is a leading specialist forum for stakeholders in the areas that affect financial and regulatory reporting within the banking industry, with a view to making improvements in financial and regulatory reporting in South Africa, Africa and globally.

The banking sector remains committed to the ongoing provision of banking services to help our clients in these difficult times but must balance these with our requirements to comply with existing and evolving banking regulations. We are required to maintain capital and liquidity requirements as well as effective and efficient payment and clearing services, whilst managing our business in an environment of revenue pressures, increased impairments and expectations in respect of the role we play in society.

We commend the JSE for taking active and swift steps to address the regulatory implications and impacts as a result of the Covid-19 pandemic currently sweeping the globe. We believe these steps will help cushion some of the impact on the economy and South Africa's citizens resulting from the contraction in economic activity that has taken place during the last months, and which is likely to take place in the coming months. In response to the consultation paper and request for comments issued by the JSE in response to the Covid-19 impacts on REITs, please find included below the comments prepared by the BPG.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours Sincerely

Bruce Thomas
SAICA BPG Chairman

Kedibone Pilusa
SAICA Project Director: MIB Technical



Impact of Covid-19

The BPG notes the JSE's comments that the impacts of Covid-19 have resulted in unprecedented levels of volatility and economic uncertainty in the property sector in South Africa. In these times of uncertainty, in the absence of any temporary relief, REITs may encounter the dilemma of either not distributing 75% of their distributable profits in order to preserve the liquidity of the entity to ensure its long-term survival, or continuing to distribute 75% of their distributable profits in order to maintain their REIT status.

With the South African government and various other regulators and market participants coming forward in recent months to provide relief measures and support across various sectors in the South African economy, it is evident that curbing the immediate and longer-term effects of the Covid-19 pandemic on businesses and individuals, is a priority in these times.

With this context in mind, and with the knowledge that included in the aforementioned relief are tax concessions provided by National Treasury and the South African Revenue Services (SARS), the BPG would be in support of a temporary relaxation of the requirement for REITs to distribute at least 75% of their distributable profits, while being allowed to maintain their REIT status.

This will allow REITs to make decisions that are in the best interests of the long-term interests of their business, without concerns of their REIT status being prejudiced. In the absence of temporary relief in this regard, REITs would be at risk of losing their REIT status. Considering that in this case, property companies could only reapply for classification as a REIT in 24 months, the impact of Covid-19 on the operations of the property company would be prolonged as a result thereof. The relief is, therefore, also necessary to ensure that the longer-term impacts of Covid-19 on the property sector are mitigated.

The position of various stakeholders

The BPG also notes the JSE's concerns that the position of various stakeholders may be in conflict - with certain shareholders relying on REIT distributions as a source of income, while certain stakeholders including debt providers noting that the payment of a dividend in these times may be detrimental to the long-term viability of the entity. The BPG's view is that even fixed-income investors are ultimately shareholders, and should, thus, have the best interests of the entity in mind, which may entail a reduction in distribution of profits or no distribution at all to ensure the operations of the business can be continued for the foreseeable future.

The BPG thinks it would be useful to include the position of lenders/debt-providers in the balance of views as these parties are also key stakeholders in the long-term viability of REITs. The BPG believes that it is in all stakeholders' long-term interests to ensure that the liquidity of all REITs is maintained. On a larger scale, there may also be rating agency implications if liquidity is not preserved.



Compliance with regulations and the JSE Listings Requirements is essential. However, in these unprecedented times, that were not contemplated at the time when the JSE Listings Requirements were drafted, concessions are required to ensure that all entities survive the effects of the Covid-19 pandemic.

Conclusion

Therefore, the BPG is of the view that a temporary relaxation of the JSE Listings Requirement to distribute 75% of distributable profits would assist with safeguarding the sustainability of the South African real estate sector.

The BPG agrees with the JSE that the relief could be provided by deferring the final date by which REITs are required to make their distributions, and by allowing them to pay a limited or no distribution at all.

The BPG also believes that it would be useful, if the JSE determines that the relief contemplated in the consultation paper will be provided to REITs, to provide an indication of the anticipated timeframe of the relief.