Simplification Project: Section 13
Property entities & property related transactions

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Format for consultations

- Unmarked version
  - Now 10 pages (was 24)
- Key amendments
  - 12 items
  - Financial info; valuations, transactions & REITs
- Technical amendments
  - 3 items
- General Amendment
  - 22 page document

General amendments

- Green flags key amendments and technical items
- Familiar format

	Text ***Note: Paragraph references refer to the current Requirements, unless otherwise stated***	Rationale
1	**Scope of Section**	Reduced significantly to deal with core listings requirements. In terms of the existing and new definition of "*Listings Requirements*", the Scope of Section does not form part of the Requirements.

8	**Instances when a forecast is required** **Paragraph 13.4(a)(i), (b)(i), and 13.12** The JSE proposes to remove the obligation to produce a forecast of comprehensive income if historical financial information is available. Therefore, a forecast will no longer be mandatory for a new listing/reverse takeover and for a category 1 acquisition, but can be provided on a voluntary basis. **(Key Amendment Item 2)**	It is an onerous requirement to burden property entities with the obligation to produce a forecast when there is full historical financial information available. Shareholders are familiar with historical financial information, and it is acceptable to use historical financial information as basis for making investment and voting decisions for other entities. Property entities should therefore not be treated different. The directors of the issuer can still choose to voluntarily produce a forecast if they believe it is necessary/ adds value to their investment proposition.

Technical amendments

a) The definitions of "*property*" and "*rental area*" have been made more generic in line with the fact that infrastructure properties can seek a listing and be granted REIT status;

b) Sector level property portfolio disclosures

- principle-based approach linked to the characteristics of the building
- move away from JSE defined categories of retail, industrial, office etc

c) Tenant information disclosures on the property portfolio

- risk-based approach is proposed
- plus include grade of building
- move away from the JSE defined "A", "B" and "C" categories

Background

- Listings Requirements
  - 2005 Section 13
  - 2013 Reits
- Accounting
  - JSE review of AFS for compliance with IFRS (2011)
  - IFRS 13 *Fair value measurement (2013)*
  - Proactive monitoring report common findings report on Investment property (2020)
- Auditing
  - Advances in auditing standards
  - Improvements in regulation of auditors

Financial Information (3 matters): Item 1

- Where Section 8 historical financial information (HFI) is available and presented (for both new listings and transactions),
  - rely on that information and remove the obligation to **also** produce a forecast income statement
- Issuer is still free to produce a forecast (choice)
  - must give section 13 disclosures
  - extended this flexibility to a disposal

- For statement of financial position, as have HFI, remove obligation to **also** obtain the additional ‘special’ reporting accountants pro forma sign off on the adjustment column of the balance sheet)

Financial Information (3 matters): Forecasts

- When following the forecast route, two matters impacting assurance reports

- Item 2: Removing the obligation to have a special reporting accountants report on the forecast.
  - default to the general auditing standards –standards and auditor regulation robust enough
  - no need for JSE to direct auditor
  - 70% coverage of leases does not add value/strengthen to the opinion

- Item 3: For pro forma statement of financial:
  - still have the special reporting accountant's sign off (old 13.16e)
  - remove obligation to **also** create “carve out accounts” and obtain an audit opinion for a ‘business’ acquisition (so same approach as an asset acquisition)

Valuations (6 matters)

Item 4: Removing the *obligation* for a valuation report for a new listing and transactions, save for limited circumstances.

- Properties held to produce rental income no different to other business
- Financial information (historical or forecast income statement) reflects the business activities
- If property is carried at fair value-advances in IFRS ensure high standard of measurement and disclosures
- If issuer believes that a valuation is useful and is undertaken -that information must be made available to investors

Valuations

- Valuations are now only required for a new listing or category 1 transaction where the property doesn't have 12 months rental revenues
  - in terms of arms-length lease agreements : where
  - no more than 10% vacancy level
  - Unless it is less than 3% of a portfolio

  [ie undeveloped property and owner occupied properties still need valuation reports].

- No valuation report for cat 2 related party transaction
  - revert to normal section 10 requirements of a fairness opinion
  - same as any other company

Valuations

Item 5:

- Even if a valuation is required, removed the need to prepare a *separate summary* report
    - unnecessary administrative burden
    - full report can be easily accessed

Item 6:

- Information previously contained in the summary valuation report:
    - all now included in the property specific information disclosures (other than high level summary of individual leases); and
    - new obligation introduced for the board to confirm legal title for a new listing

Valuations –non property entities

Item 8:

- Change the assessment for when a non-property entity needs a valuation report
  - ‘Significance’ threshold moves from 25% to 50%
  - only an asset test (not revenue as well)
- Valuation report only required in same limited situations
  - doesn't produce independent rental revenue streams
- Repositioned this wording outside of section 13

Valuations

<u>Item 7</u>

- Financial Reporting: Removing the obligation to obtain valuation reports on a rolling three-year basis
  - JSE does monitor compliance with IFRS
  - Board is responsible for accuracy of values and compliance with IFRS (can not just defer to a property valuer)

<u>Item 9</u>

- Simplified the JSE process around appointment of independent valuers

Transactions (1 matter): Item 10

- Periodically dispose/acquire properties
- Does not fit within the ambits of the JSEs "*ordinary course of business*" test, which focusses on revenue/cost stream

- Increase the threshold for a category 2 property transaction from 5% to 10%
  - announcements of smaller (arms- length) transactions are not necessarily price sensitive
  - provides administrative relief where transactions not price sensitive
  - still need to consider general PSI rules e.g. if acquisition into a new sector

REITs (2 matters)

Item 11

- Removing the complexities of the adjustments around the 60% gearing test
  - objective to 'restrict' excessive gearing to facilitate payment of distributions
  - wording was tested during covid and had practical problems that didn't necessarily achieve its objective
  - new wording preserves the 60% level and objectives, slightly more onerous for issuers

Item 12

- Change the waiting period to reapply for REIT status to encourage good leavers
  - previously 24-month waiting period to reapply
  - was not clear how it applied in all instances
  - New 18 month (voluntary) or 30 month (JSE decision)