

# **Capital Market Authority**

**DRAFT**

## **Real Estate Investment Traded Funds Instructions**

Issued by the Board of the Capital Market Authority  
Pursuant to its Resolution Number 0-00-2016 Dated 00/0/1437H  
Corresponding to 00/0/2016G Based on the Capital Market Law  
Issued by Royal Decree No M/30 dated 2/6/1424H

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## Part 1: Preliminary

- a) These Instructions aim to regulate offering of Real Estate Investment Traded Funds.
- b) These Instructions shall be read in conjunction with and in addition to the Capital Market Law and its Implementing Regulations.

## Part 2: Definitions

- a) Any reference to the “Capital Market Law” in these Instructions shall mean the Capital Market Law issued by the Royal Decree No. M/30 dated 2/6/1424H.
- b) Expressions and terms in these Instructions have the meaning which they bear in the Capital Market Law and the Glossary of defined terms used in the Regulations and Rules of the Capital Market Authority and specifically the Real Estate Investment Funds Regulations, unless the contrary intention appears
- c) For the purpose of implementing these Instructions, the following expressions and terms shall have the meaning they bear as follows unless the contrary intention appears:

**Real Estate Investment Traded Fund (REITF):** a real estate investment fund that is publicly offered and the units of which is traded on the Exchange, whose primary investment objective is to invest in construction developed real estates that generate periodic income, and distribute a prescriptive percentage of the fund's net income in cash to the unitholders at least annually.

**Construction Developed Real Estate:** real estates that are developed and ready for use, which include residential, commercial, industrial, and agricultural real estates.

**Unitholders from the Public:** means in these instructions unitholders who own units in the REITF other than the following:

- 1- any unitholder owning (5%) or more of the REITF's units.
- 2- the Fund manager and its affiliates.
- 3- the Fund's board of directors.

### **Part 3: General Provisions**

- a) The offer, operation and management of the REITF in the Kingdom shall be in accordance to these instructions, in addition to the provisions of the Real Estate Investment Funds Regulations to the extent that they apply to the nature of REITF.
- b) The fund manager must appoint one or more custodians who is authorized person to conduct custody activity in the Kingdom, to take custody of the assets of the fund and its documentation, and must be appointed pursuant to a written contract, the appointed custodian must not be a fund manager or a fund sub-manager to the relevant fund, or an affiliate of the fund manager or to the fund sub-manager.
- c) The Custodian appointed pursuant to paragraph (b) of Part (3) of these Instructions must segregate each REITF's assets from its own assets and from the assets of its other clients, and must maintain all necessary records to support the performance of its contractual responsibilities, and must be separately identified, by registering the securities and other assets of the relevant investment fund in the name of the custodian for the benefit of the relevant investment fund, and the real estate assets of the fund shall be registered in the name of a subsidiary of the custodian. The assets of the REITF shall be owned collectively by the unitholders in that fund.
- d) Real estate assets of the fund can be registered in the name of a subsidiary of a lender, that extended a loan to the fund as guarantee for the debt.
- e) The fund manager must appoint a property management company specialized in managing properties (Property management company)- after ensuring that governmental approvals required by the relevant governmental agencies are obtained– to manage the property held for investment, which should possess the necessary experience in real estate management, and should be responsible to carry out property management activities

- including, but not limited to, property management, property maintenance, leasing services and rent collection.
- f) The road show for the initial subscription in the REITF must not exceed (14) days.
  - g) The unitholders of REITF are deemed to have read and accepted the information memorandum and the funds terms and conditions upon purchasing a unit of REITF from the Exchange.
  - h) The units of REITF must be registered with the Depository Center.
  - i) The unitholder shall be entitled to exercise all rights in relation to the units including, but not limited to, the right to vote at meetings of unitholders, and rights issue in case of increasing the capital of the fund.
  - j) The capital increase mechanism of the fund will be through tradable rights issuance as in the case of listed companies in accordance with the regulatory procedures related to the Companies Law.
  - k) The fund manager must publish all information that must be disclosed referred to in Part (6) of these Instructions on the fund manager's website and the Exchange's website, and such information must be complete, clear, accurate and not misleading.
  - l) The fund manager shall not invest more than (25%) of the fund's total assets value in properties outside the Kingdom.
  - m) If any of the limitations referred to in these Instructions or in the fund's terms and conditions or in the information memorandum are breached due to a change of circumstances that is beyond the control of the fund manager and the breach has not been rectified within one month, the fund manager must immediately notify the Authority of such event in writing, indicating the action and period of time required to rectify the matter, and the Authority may in its absolute discretion vary the time limit for rectification of such breach.
  - n) The Authority may waive a provision of these Instructions in whole or in part as it applies to a person either on an application from such person to whom the relevant provisions of this paragraph would otherwise apply or on the Authority's own initiative.

## Part 4: REITF Conditions

- a) The following must be satisfied when submitting an application to the Authority to offer REITFs units:
  - 1) **Fund Type:** the REITF must be closed-ended fund.
  - 2) **Minimum Initial Offer:** the minimum amount that must be raised must be at least SAR 100 million.
  - 3) **The nominal value per unit:** the nominal value per unit must be SAR 10.
- b) The fund Manager must comply with the following at all times:
  - 1) **Investment Policy:** at least (75%) of the fund's total assets value must be invested in construction developed real estates that generate periodic rental income.
  - 2) **Fund Registration and Admission to Listing:** there must be a sufficiently liquid market for the unit that are the subject of the application for registration and admission to listing, as follows:
    - a) at least 200 unitholders from the public; and
    - b) at least 50% of the total REITF units are owned by unitholders from the public.
    - c) the requirements of sub-paragraph (2/a) and in sub-paragraph (2/b) of the paragraph (b) of Part (4) shall constitute a continuous obligation on the fund manager.
    - d) where the fund manager at any time, following having its units admitted to listing, becomes aware that the requirements of the sub-paragraph (2/a) and sub-paragraph (2/b) of the paragraph (b) of Part (4) are no longer met, the fund manager must take the necessary remedial action to ensure that the relevant requirements are met.
  - 3) **Distributions:** at least (90%) of the fund's net income must be distributed annually to the unitholders.
  - 4) **Asset Restrictions:** the fund manager is prohibited from investing in vacant land. The fund manager is allowed to invest up to a maximum of (25%) of the fund's total assets value in real estate development and to renovate or redevelop its owned properties.

- 5) **Leverage:** the borrowing of the fund's must not exceed (50%) of the total assets value of the fund.

### Part 5: Offering Requirements

- a) The fund manager seeking to offer and list of REITs units in the Exchange must submit an application to the Authority.
- b) In addition to the requirements set out in Article (3) of the Real Estate Investment Funds Regulations, the fund manager must produce a REITF information memorandum in a way that makes it easy for unitholders and the potential unitholders to understand and comprehend, and the REITF information memorandum must include information necessary for all potential unitholders to make an informed judgment regarding the investment being offered to them, in which it contains the information required in Annex (1) of the Real Estate Investment Funds Regulations to the extent that they apply to nature of the of REITF, in addition to the following information:
  1. key dates and initial subscription procedures this section must include the following information:
    - a. a timetable showing the expected dates of the initial offer.
    - b. a description of the initial subscription procedures.
    - c. Unit allocation method.
  2. dividend policy: This section must include clarification of the REITF policy on the distribution of dividends to unitholders.
  3. the expected duration to hold the targeted real estate.
  4. a Statement that the "Committee for the Resolution of Securities Disputes" has the jurisdiction to adjudicate disputes arising from investing in the REITF.
- c) When submitting an application to offer, the fund manager shall provide the authority with a binding agreement to sell the property subject to investment or to transfer its interest at the completion of fund units offering as determined in the terms and conditions of the fund.
- d) When submitting an application to offer, the fund manager must provide the authority with memorandum of understanding between the fund manager and the property management company to manage the fund's property.

## Part 6: Disclosure Requirements

- A. In addition to the disclosure requirements set out in the Investment Real Estate Investment Funds Regulations (including unitholders reports, interim and annual financial statements) the fund manager shall disclose the following at least once every six months:
1. any material events that might affect the fund's business.
  2. a description of the fund's dividends distributed to unitholders.
- B. The fund manager must prepare and provide annual reports to the unitholders containing the following information:
- 1) assets in which the fund invests.
  - 2) assets that the fund is aiming to invest in.
  - 3) a benchmark of the fund's performance over the last three financial years (or since inception of the fund) that includes:
    - i. the fund net assets value at the end of each financial year.
    - ii. the fund net assets value per unit at the end of each financial year.
    - iii. highest and lowest net asset value per unit for each financial year.
    - iv. the number of units in issue at the end of each financial year.
    - v. income distribution per unit (gross and net).
    - vi. expense ratio.
  - 4) a performance record that covers the following:
    - i. the total return for 1 year, 3 years and 5 years (or since inception).
    - ii. the Annual total return for each of the last 10 financial years (or since inception).
    - iii. a table showing actual fees and fund expenses paid by the investment fund during the year. The Total Expense Ratio should also be clearly disclosed. If there are any circumstances in which a fund manager may elect to waive or rebate any fees, this must also be disclosed.
  - 5) if there were material changes that occurred during the period that affected the performance of the fund, these must be clearly disclosed.



- 6) the fund's board annual report including, but not limited to, topics discussed and issued resolutions, as well as the Fund performance and the Fund achievement of its objectives.
- 7) a statement on any special commission received by the fund manager during the period, clearly identifying what they are and the manner in which they were utilized.

### **Part 7: Trading Halt and Cancellation of Listing**

- a) The Authority may at any time suspend the trading of REITF's units or cancel its listing as it deems fit, in any of the following circumstances:
  1. the Authority considers it necessary for the protection of investors or the maintenance of the orderly market.
  2. the Fund Manager fails, in a manner which the Authority considers material, to comply with the Capital Market Law and its implementing regulations.
  3. the liquidity requirements set out in sub-paragraph (2/a) and in sub-paragraph (2/b) of the paragraph (b) of Part (4) of these Instructions are no longer met.
  4. The Authority considers that the fund does not have a sufficient level of operations to warrant the continued trading of its securities on the Exchange.
  5. The Authority considers that the fund manager or its business is no longer suitable to warrant the continued listing of its units on the Exchange.
- b) The fund manager may request in writing to the Authority a temporary trading halt or cancellation of the REITF's units. The request should include specific reasons of the request. The Authority may accept, reject or accept subject to conditions the request for the trading halt or cancellation in its discretion.

### **Part 8: Publication and Entry into Force**

These instructions shall be effective in accordance to its approval resolution.