

Capital Market Authority

Real Estate Investment Traded Funds Instructions

Issued by the Board of the Capital Market Authority
Pursuant to its Resolution Number 6-130-2016 Dated 23/1/1438H
Corresponding to 24/10/2016G Based on the Capital Market Law
Issued by Royal Decree No M/30 dated 2/6/1424H
Amended by Resolution of the Board
of the Capital Market Authority Number 2-115-2018
Dated 13/2/1440H Corresponding to 22/10/2018G

Arabic is the Official Language of the Capital Market Authority

Important Note: The current version of these Regulations, as may be amended, can be found at the Authority website: www.cma.org.sa

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Part 1: Preliminary

- a. The purpose of these Instructions is to regulate the offering, registration and management of real estate investment traded funds units and associated activities in the Kingdom.
- 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 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:

The Fund's Net Profit: means the total returns of the fund after deducting the total expenses and fees incurred by the fund.

The Fund's Net Assets: Cash value based on the total assets value of the real estate investment traded fund minus its liabilities.

Real Estate Investment Traded Fund (REIT): a real estate investment fund that is publicly offered and the units of which are traded on the Main Market, whose primary investment objective is to invest in constructionally developed real estate, qualified to generate periodic and rental income, and distribute a prescriptive percentage of the fund's net profit in cash to the unitholders at least annually.

Constructionally Developed Real Estate: real estates that are developed and ready for use and which fulfills the regulatory requirements. This includes residential, commercial, industrial, agricultural and other types of real estates.

Substantial Unitholder: a person who owns 5% or more of the REIT fund's units.

Public Unitholders: means in these Instructions, any unitholder who own a unit or units in the REIT other than the following:

- 1) substantial unitholder;
- 2) the fund manager and its affiliates; or
- 3) the fund's board of directors.

Part 3: General Provisions



- a. The offering, operations and management of the REIT in the Kingdom shall be in accordance with these Instructions and the provisions of the Real Estate Investment Funds Regulations to the extent that such provisions do not contradict the nature of the REIT.
- b. The fund manager must appoint one or more custodians in the Kingdom pursuant to a written contract, who shall be authorised person to conduct custody activity, to take custody of the assets of the fund and their documentation. The appointed custodian must not be the fund manager or a fund sub-manager of the relevant fund, or an affiliate of the fund manager or of the fund sub-manager. The custodian appointed pursuant to this paragraph must also segregate each REIT's assets from its own assets and from the assets of its other clients and must maintain all necessary the records and other documents that support the performance of its contractual responsibilities. These assets 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 an affiliate person of the custodian, and the assets of the REIT are owned collectively by the unitholders in that fund.
- c. The custodian may, in respect of any REIT in relation to which the custodian acts, delegate one or more third parties or affiliates as a fund sub-custodian, pursuant to a written contract. the remuneration of the fund sub-custodian shall be paid by the custodian out of its own resources provided that the sub-custodian must be an authorized person to conduct custody activities.
- d. With exception to paragraph (c) of this part, a fund sub-custodian operating in a jurisdiction other than the Kingdom may be appointed to take custody of the fund's assets in relation to the fund's foreign investments, and must be appointed pursuant to a contract in writing and shall be established, authorized and supervised in a jurisdiction that employs regulatory standards and requirements at least equivalent to those of the Authority.
- e. The real estate assets of the REIT may be registered in the name of a subsidiary of a licensed lender, that extended a loan to the fund, as guarantee for the debt.
- f. The fund manager must appoint one or more companies to carry on property management, after ensuring that approvals and licenses required by the relevant governmental agencies are obtained, to manage the property held for investment. This company must possess the necessary experience in real estate and its

management, where applicable, and shall be responsible for carrying on all property management activities including, but not limited to, property management and maintenance, leasing services and rent collection. The fund manager may agree with the lessee, as per the leasing contract, that such lessee be responsible for managing the property and carry out any maintenance during the leasing contract period.

- g. The unitholder of REIT is deemed to have read and accepted the funds terms and conditions upon purchasing a unit of REIT from the Exchange.
- h. With exception to paragraph (a) of Article (16) of the Real Estate Investment Funds Regulations, any related party may buy or sell any unit of the fund after listing the units.
- i. No person or group of persons having their names listed on the fund's terms and conditions, upon establishment, indicating their ownership of (5%) or more of the fund's units, may dispose any of the units in which they subscribed during the first year of trading commencement of the relevant fund's units.
- j. The units of REIT must be registered with the Securities Depository Center.
- k. 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.
- l. The fund's total assets value may increase by accepting in-kind or cash contributions, or both through the following mechanism:
 - 1. the fund manager shall obtain the Authority's approval to offer additional units of the fund by accepting cash or in-kind contributions, or both.
 - 2. after obtaining the Authority's approval referred to in sub-paragraph (1) of paragraph (l) of this part, the fund manager must obtain the approval of the unitholders- by an ordinary fund resolution- to offer additional units of the fund by accepting cash or in-kind contributions, or both.
 - 3. if the fund's total assets value is to increase by accepting cash contributions, or cash and in-kind contributions, the new units offering period shall be a minimum of (5) days within a period not later than (6) months from the date of the Authority's approval.
 - 4. where the minimum initial offer amount required is raised, the offered units shall be first allocated to the unitholders registered on the day of the unitholders' meeting, then allocate the remaining units (if any) to the remaining subscribers, and the excess money shall be refunded (if any) to the subscribers in cash, within a period not exceeding (15) days after the end of the offering period, which is set out in the terms and conditions of the fund. The ownership of the real estate that is to be acquired or its

benefit must be transferred for the interest of the fund, and the new units shall be listed on the Exchange within a period not exceeding (60) days from the end of the offering period. It is not permissible to dispose the units that have been allocated to subscribers owning (5%) or more of the fund through in-kind contributions in accordance with paragraph (l) of this part within the first year of their trading commencement.

5. where the fund's total assets value increase is made through accepting in-kind contributions, the additional units shall be allocated to the subscribers by in-kind contributions immediately after obtaining the unitholders' approval referred to in sub-paragraph (2) of paragraph (l) of this part, provided that the ownership of the real estate to be acquired or its benefit, is transferred for the interest of the fund and the new units are listed on the Exchange within a period not exceeding (60) days from the date of the unitholder's approval. It is not permissible to dispose the units allocated to subscribers by in-kind contributions of (5%) or more through the mechanism of increasing the fund's total assets value in accordance with paragraph (l) of this part within the first year of their trading commencement.
6. Without prejudice to sub-paragraph (3) of paragraph (l) of this Part, and where the minimum amount required to be raised and which is set out in the terms and conditions of the fund was not fulfilled, the fund manager must cancel the offer and return the subscribers' money with no deduction within a period not exceeding (5) days of the end of the offering period.
- m. The fund manager must publish all the required information to be disclosed as per part (8) of these Instructions on the its website and the Exchange's website and such information must be complete, clear, accurate and not misleading.
- n. Without prejudice to paragraph (e) of Article (3) of the Real Estate Investment Funds Regulations, the fund manager is prohibited from making any fundamental changes to the terms and conditions of the fund during the offering period.
- o. The fund's terms and conditions shall allocate a percentage of the total offer for institutional investors.
- p. The fund manager shall ensure when acquiring the assets of an existing real estate investment fund that is managed by the same fund manager, that such acquired assets have achieved rental net profit after deducting all expenses for the last three years for the constructionally developed and income generating real estates.

- q. The fund manager must commence issuing and offering the fund units within (6) months of the Authority's approval of such application. If the applicant does not perform such action within the specified period, the Authority's approval shall be deemed to be canceled.
- r. If any of the limitations set forth in these Instructions or in the fund's terms and conditions 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 (5) days from the date of the occurrence of such breach, the fund manager must immediately notify the Authority of such event in writing, indicating the action taken and period of time required to rectify the matter. The Authority may at its absolute discretion vary the time limit for rectifying such breach.
- s. The Authority may waive a provision of these Instructions in whole or in part as it applies to a person, either based on an application from such person or on the Authority's own initiative.
- t. The fund manager must submit an updated version of the fund's terms and conditions to the Authority within (10) days from any amendments to it, and also provide the custodian with the updated version immediately. The fund manager must also publish the updated version of the fund's terms and conditions on the fund manager's website and the Exchange's website within (10) days of making any changes to it, including the annual update of the fund's performance.
-  u. The fund manager must have policies and procedures to detect risks that have an impact on the fund's investments, such policies shall include, but not limited to, conducting a risk assessment on an annual basis at least, and should publish the risk assessment report on the fund manager's website and the Exchange's website.
-  v. All lease agreements must be legally documented to ensure the rights of all parties.
- w. The fund manager must disclose the details of fundamental changes on the fund's terms and conditions on its website and the Exchange's website (10) days before the date in which the changes become effective.
- x. The fund manager must disclose all expenses related to the establishment and offering of the REIT, if such expenses were by incurred by the fund.
- y. The fund manager must submit to the Authority a statement of the offering results within (10) days from the end of the offering period of the offering and disclose such information on the fund manager's website and the Exchange's website.
- z. A fund board director shall not be entitled to vote on any resolution taken by the fund's board of directors in respect of any matter in which such fund board director has any direct or indirect interest. Any such interest must be disclosed to the fund's board.



aa. To achieve the independence of a member of the board of directors, the following must be complied:-

1. An independent director shall be able to perform his/her duties, express his/her opinions and vote on decisions objectively with no bias in order to help the board make sound decisions that contribute to achieve the interests of the fund.
2. The board shall conduct an annual assessment of each member's independence and ensure that there are no relationships or circumstances that affect or may affect his/her independence.
3. With regards to the definition of "Independent Member" in the Real-Estate Invest Funds Regulations and the Glossary of Defined Terms used in the Regulations and Rules of the Capital Market Authority, cases that negate the independence requirement for an independent director in the board of a REIT, include but are not limited to, the following:
 - a) if he/she holds (5%) or more of the fund's units or the units of another fund under the management of the same fund manager; or is a first degree relative of someone who owns such percentage.
 - b) if he/she is a representative of a legal person that holds (5%) or more of the fund's units or the units of another fund under the management of the same fund manager;
 - c) if he/she is a representative of a legal person that holds (5%) or more of the shares of the fund manager, an affiliate of the fund manager, the custodian or an affiliate of the custodian;
 - d) if he/she is a first degree relative of any member of the board of the fund or any other fund under the management of the same fund manager;
 - e) if he/she is a first degree relative of any related party of the fund.
 - f) if he/she is an employee or used to be an employee , during the preceding two years, of the fund manager or any party related to the fund, or if he/she, during the preceding two years, held a controlling interest in any of these parties.
 - g) if he/she receives financial consideration from the fund in addition to the remuneration for his/her membership of the board.

Part 4: Conditions for Offering REITs

- a. The following conditions must be satisfied when applying:
- 1) **The fund type:** the real estate investment traded fund must be a closed-ended fund.
 - 2) **The minimum requirement for establishment:** the fund's total assets value must be 500 million Saudi Riyals at least, at establishment.
 - 3) **The nominal value per unit:** the nominal value per unit must be 10 Saudi Riyals.
 - 4) **Subscription consideration:** public unitholders may only subscribe by way of cash contributions.
 - 5) **Subscription limit:** the minimum subscription must not exceed 1000 units per unitholder.
- b. The fund manager must comply with the following at all times:
- 1) **Investment policy:** the fund's investments value in constructionally developed real estate, and qualified to generate periodic rental income must not be less than (75%) of the fund's total assets value according to the last audited financial statements.
 - 2) **Distributions:** the distributed profits on unitholders must not be less than (90%) of the fund's net profits annually.
 - 3) **Asset restrictions:**
 - a) the fund manager may not invest in white lands. the fund manager is allowed to invest up to 25% of the fund's total assets value, according to the last audited financial statements, in any of the following :
 1. Real estate development, whether the real estate is owned by the fund manager or not.
 2. Renovation and redevelopment of real estate.
 3. Real estate repurchase agreements.
 4. Cash and such, units of investment funds licensed by the Authority and real estate companies.
 5. Usufruct rights.
 - b) The fund manager is prohibited from investing more than 25% of the fund's total assets value, according to the last audited financial statements) in real estate outside the Kingdom.
 - 4) **Leverage:** the borrowing of the fund shall not exceed (50%) of the fund's total assets value; according to the last audited financial statements.

- 5) **Fund's assets requirements:** without prejudice to Article (21) of the Real Estate Investment Funds Regulations, the fund manager shall ensure the following:
- a) all fund's real estates are owned as per valid deeds.
 - b) the fund's real estate in place of investment, shall be approved for planning or building, based on an official statement from the competent authority, with submitting a confirmation of its readiness for formal use.
 - c) the accredited valuers' reports shall be submitted and published on its website and the Exchange's website during the offer period. The reports shall contain an assessment of market rents and the assessment period shall not exceed three months of the offering commencement date. Where more than two accredited valuers were appointed, the fund manager must publish all the accredited valuers' reports.
 - d) the fund manager must replace the accredited valuers every (5) years at most. Any accredited valuers who have served for this period of time may be re-appointed after a period of (1) year has elapsed from the date of last contract.
- c. The fund manager must submit a declaration from each accredited valuer confirming that the accredited valuer is complying with the Accredited Valuers Law and its Implementing Regulations and any other Regulations issued by the Saudi Authority for Accredited Valuers (TAQEEM), and that the scope of the assessment reports is appropriate for the purpose of the fund manager's request and is valid for the public offering. The assessment reports shall include the rental market value of the relevant real estate, if they are different from the contractual rental value in the real estate leases.

Part 5: Offering Requirements

- a. A fund manager seeking to offer a REIT units on the Exchange must submit an application to the Authority.
- b. In addition to the requirements set forth in article (3) of the Real Estate Investment Funds Regulations, the fund's terms and conditions must include all necessary information to enable the potential unitholders to make an informed judgment based on sufficient information regarding the investment offered to them. This application shall contain the information provided in Annex (1) of these Instructions.

- c. When submitting an application for offering, the fund manager must provide the Authority with a binding agreement to sell the real estate subject of investment or a binding agreement to transfer the real estate's interest, where the fund is investing in usufruct rights, without prejudice to sub-paragraph (5/a/3) of paragraph (b) of part (4) of these Instructions, as determined in the fund's terms and conditions, upon the completion of the fund units offering and before its listing.
- d. When submitting an application for offering, the fund manager must provide the Authority with a memorandum of understanding between the fund manager and the company responsible for the property management or the lease contract, if agreed that the lessee is responsible for managing the property, as the case may be.
- e. When submitting an application for offering, the fund manager must provide the Authority with the names of two receiving agents, at least.
- f. When submitting an application for offering, the returns from any lessee must not exceed (25%) of the fund's total returns.
- g. The fund manager seeking to register and offer the REIT units must submit an application to the Authority which contains the information required under these Instructions, and submit to the Exchange, at the same time, an application for listing of such units in accordance with the provisions of the Listing Rules.
- h. The fund manager may not offer units to the public without making prior arrangements for listing those units on the Exchange in accordance with the Listing Rules.
- i. The approval of the application for offering will only be given by the Authority if:
 - 1. the Authority has received a notification from the Exchange of the Exchange's conditional approval of the corresponding application for listing pursuant to the Listing Rules;
 - 2. the conditional approval mentioned under sub-paragraph (1) of paragraph (j) of this part has not been withdrawn by the Exchange; and
 - 3. the Authority is satisfied that the information contained in the terms and conditions is complete and fulfills the requirements of the Capital Market Law and its Implementing Regulations.
- j. The fund manager must transfer the ownership of the real estate to be acquired or the right to its utility for the interest of the fund and to list the offered units on the Exchange within a period not more than (60) days from the end of the offering period.

Part 6: Consent of Unitholders to the Fundamental Changes:

- a. The fund manager must obtain the Authority's approval to the proposed fundamental change of the relevant fund.
- b. The fund manager, having obtained the approval of the Authority's specified in paragraph (a) of this part, must obtain the consent of the fund unitholders –by way of an ordinary fund resolution- to any proposed fundamental change.
- c. For the purposes of these Instructions, "fundamental changes" means:
 - 1) a change which significantly changes the purposes of the fund;
 - 2) a change which may have a material adverse effect on the unitholders or their rights in relation to the fund;
 - 3) a change which alters the risk profile of the fund; or
 - 4) Increasing the fund's total assets value by accepting cash or in-kind contributions or both in accordance with the provisions of paragraph (l) of part (3) of these Instructions.

Part 7: Meetings of Unitholders

- a. The fund manager may call for a meeting of unitholders on its own initiative.
- b. The fund manager must call for a meeting of unitholders within (10) days of receiving a written request from the custodian.
- c. The fund manager must call for a meeting of unitholders within (10) days of receiving a written request from a unitholder or unitholders, holding individually or collectively at least (25%) in value of the units in the fund, and the fund manager must state it in the fund's terms and conditions.
- d. The fund manager shall call for a meeting of unitholders by announcing it on its website and the Exchange's website, and by sending a notice in writing to the custodian giving not less than (10) days' notice of the meeting and no more than (21) days' notice before the meeting. The announcement and notice must specify the date, place and time of the meeting and the resolutions proposed. The fund manager must provide a copy of such notice to the Authority immediately without any delay.
- e. The quorum required to conduct a meeting of the unitholders shall be such number of unitholders holding together at least (25%) in value of the units in the fund or greater percentage as specified in the terms and conditions of the fund.
- f. If the quorum requirements set out in paragraph (e) of this part are not met, the fund manager shall call for a second meeting by announcing it on its website and on the Exchange's website and shall send a notice in writing to the custodian giving not less than (5) days' notice of the second meeting. At the second meeting, any

number of unitholder(s) holding any number of units present in person or represented by a proxy is a quorum.

- g. Every unitholder shall be entitled to appoint a proxy to represent such unitholder at the meeting of unitholders.
- h. Every unitholder shall be entitled to exercise one vote at the meeting of the unitholders for each unit which the unitholder holds as at the time of the meeting.
- i. Substantial unitholders may not vote at the meeting of the unitholders on the decisions relating to the acquisition of real estate assets owned or utilized by them.
- j. The unitholders meetings and its deliberations and voting on decisions may be conducted through modern technology in accordance with requirements set by the Authority.
- k. The decision shall be effective upon the approval of unitholders holding more than (50%) of the total units present in the meeting either by unitholders attending in person, appointed proxy or through contemporary technology.

Part 8: Disclosure Requirements

a. Disclosure of material developments:

- 1) the fund manager must disclose to the Authority and the unitholders without delay any material developments in its sphere of activity which are not public knowledge and which may affect the assets and liabilities, or financial position or the general course of business of the fund manager or any change affecting the status of the fund or leading to the voluntary withdrawal of the fund manager from its position as a fund manager and which may reasonably lead to movements in the price of the listed unit or significantly affect the fund's ability to meet its commitments in respect of the debt instruments.
- 2) In determining whether a development falls within the scope of this paragraph, the fund manager must assess whether a prudent investor would be likely to consider information about the development in making his investment decisions.

b. Disclosure of specific events:

The fund manager must disclose without any delay to the Authority and the unitholders any of the following developments (whether a material development as per paragraph (a) of this part):

- 1) any transaction to purchase, sell, lease or mortgage an asset at a price equal to or greater than (10%) of the fund's net assets value according to the latest reviewed interim financial statements or audited annual financial statements, whichever is later;

- 2) any losses equal to or greater than (10%) of the fund's net assets; according to the latest reviewed interim financial statements or audited annual financial statements, whichever is later;
- 3) any changes in the composition of the board of directors or the fund's committees.
- 4) any dispute, including any litigation, arbitration or mediation where the value involved is equal to or greater than (5%) of the fund's net assets according to the latest reviewed interim financial statements or audited annual financial statements, whichever is later;
- 5) the increase or decrease of the fund's net assets equal to or greater than (10%) according to the latest reviewed interim financial statements or audited annual financial statements, whichever is later;
- 6) the increase or decrease of the fund's gross profit equal to or greater than (10%) according to the latest audited annual financial statements;
- 7) any transaction between the fund and a related party or any arrangement through which the fund and a related party invest in any project or asset or provide financing thereof if this transaction or arrangement is equal to or greater than (1%) of the fund's gross revenues according to the latest audited annual financial statements;
- 8) any interruption in the principal activities of the fund equal to or greater than (5%) of the fund's gross revenues according to the latest audited annual financial statements;
- 9) any change in its external auditors;
- 10) appointing an alternative custodian;
- 11) the issuance of any judgment, decision, order or declaration by a court or judicial body, whether at first instance or on appeal, which may adversely affect the fund's utilisation of any portion of its assets which in aggregate value represents a value exceeds (5%) of the fund's net assets according to the latest reviewed interim financial statements or audited annual financial statements, whichever is later; or
- 12) any proposed change to the fund's total assets value.



- c. The fund manager must immediately publish a quarterly statement on its website and the Exchange's website, including as a minimum the following:
- 1) the unit price at the end of the quarter;
 - 2) the rental income on the unit price;
 - 3) the expense ratio and percentage of total fees and charges;

- 4) the performance of the unit price;
- 5) a list of names and percentages of real-estate in the fund's portfolio;
- 6) the percentage of borrowing to the fund's net assets value;
- 7) the percentage of the fund's costs to the fund's total assets value;
- 8) with exception to the provisions of paragraph (b) of Article (23) of the Real Estate Investment Funds Regulations; the fund units net assets value and any profit paid after the last disclosed report;
- 9) any fundamental, material or significant changes that affects the fund's function; and
- 10) a statement on the fund's dividends distributed on the unitholders.

d. Disclosure of significant changes

- 1) The fund manager must notify the Authority and disclose to the public any proposed significant changes. The notice period for notifications to both the Authority and public of a significant change must not be less than (21) days prior to the day on which the fund manager intends to make that change.
- 2) For the purposes of these Instructions, "significant change" means any change which is not a fundamental change in accordance with the provisions of part (6) of these Instructions but which:
 - a. would reasonably be expected to cause the unitholders to reconsider their participation in the fund;
 - b. results in any increased payments out of the assets of the fund to a fund manager or any member of the fund board or an affiliate of either;
 - c. introduces any new type of payment out of the assets of the fund; or
 - d. materially increases other types of payment out of the assets of the fund.
 - e. Any other cases determined by the Authority from time to time and reported to the fund manager.
- 3) The details of significant changes must be disclosed (10) days before the date in which the change becomes effective on the fund manager's website and on the Exchange's website or in any other means that the Authority determines.
- 4) Details of all significant changes shall be included in the fund's reports prepared by the fund manager pursuant to this part.

e. The fund manager must prepare an annual report and publish it on its website and on the Exchange's website. The annual report shall include the following information:

- 1) assets in which the fund invests in.

- 2) assets in which the fund is aiming to invest in, if any.
- 3) the percentage of the leased and unleased real-estate to the total owned real-estate.
- 4) a comparative table covering the performance of the fund during the last (3) financial years (or since the inception) including:
 - a) the fund net assets value at the end of each financial year.
 - b) the fund net assets value per unit at the end of each financial year.
 - c) highest and lowest net asset value of the fund per unit for each financial year.
 - d) the number of units in issue at the end of each financial year.
 - e) income distribution per unit.
 - f) expense ratio
- 5) a performance record that covers the following:
 - a) the total return for (1), (3) and (5) years (or since inception).
 - b) the annual total return for each of the last (10) financial years (or since inception).
 - c) a table showing the fees, services and expenses paid by the fund to external parties during the year. The total expenses 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.
- 6) if there were material changes that occurred during the period and which affected the performance of the fund, these changes must be clearly disclosed.
- 7) the fund's annual report approved by the fund board including, but not limited to, the topics discussed and issued resolutions, as well as the fund performance and fund achievement of its objectives.
- 8) a statement on any special commission received by the fund manager during the period, clearly identifying its nature and the manner in which they were utilized.
- 9) a risk assessment report.

f. Complete, clear, accurate and not misleading disclosures:

- 1) All disclosures made by the fund manager must be complete, clear, accurate and not misleading and shall be published on the fund manager's website and the Exchange's website and as specified in the fund's terms and conditions.
 - 2) Where, in the opinion of the fund manager, disclosure of any matter required by these Instructions would be unduly detrimental to the fund and omission is not likely to mislead unitholders with regard to facts and circumstances, knowledge of which is essential for the assessment of the fund units in question, the fund manager may apply to postpone the relevant requirement or waive it. The fund manager must in that case provide the Authority on a strictly confidential basis with a statement of the request together with the reasons why the fund manager believes that the information should not be disclosed at that time. The Authority may approve the application for postponing or waiving the relevant requirement or reject it. If the Authority approves the application, the Authority may at any time require the fund manager to disclose any information on the waiver or postponement of the disclosure.
 - 3) All information and material developments set forth in this part shall be deemed confidential until they are disclosed. Before disclosing such information, the fund manager shall be prohibited from communicating such information to parties not bound by a confidentiality obligation and an obligation to protect such information. A fund manager must also take all necessary steps to prevent the leakage of any information and material developments before disclosing them as per these Instructions.
- g. The fund manager must determine the need to publish a disclosure to the public in response to rumors related to any material developments, and the Authority may require such publication to be made by the fund manager as it sees appropriate.
 - h. With exception to paragraph (e) of Article (24) of the Real Estate Investment Funds Regulations, the fund manager must make the interim financial statements (prepared in accordance to the accounting and auditing standards adopted by SOCPA) available to the public, free of charge, within a period not exceeding (30) days after the end of the financial period included in such financial statements, in such locations and by such means as specified in the terms and conditions, the fund manager's website and the Exchange's website.
 - i. With exception to paragraph (f) of Article (24) of the Real Estate Investment Funds Regulations, the fund manager must make the annual financial statements (prepared in accordance to the accounting and auditing standards adopted by SOCPA) available to the public, free of charge, within a period not exceeding (3) months after the end of the financial period included in such financial statements, in

such locations and by such means as specified in the terms and conditions, the fund manager's website and the Exchange's website.

- j. The fund manager must assess the fund's assets based on reports made by accredited two valuers, once every (6) months at least. Such reports must be published immediately on the fund manager's website and the Exchange's website; including the valuation of the market rentals. Where more than two accredited valuers were appointed, the fund manager must publish all the accredited valuers' reports.
- k. The fund manager must comply with the provisions of the Investment Funds Announcements Instructions.
- l. **Disclosure relating to substantial unitholders dealings:**
 - a) Any person must notify the Exchange if such person becomes the owner of, or is interested in, (5%) or more of the fund's units at the end of the third trading day the execution of the transaction or the occurrence of the event which results such ownership or interest; the person notification shall also include a list of persons, in which those persons, have an interest in the units that they own or control.
 - b) The person referred to in sub-paragraph (1) of this paragraph must notify the Exchange the event of any change to the list of persons referred to in sub-paragraph (1) of this paragraph including any event which requires the inclusion of a person to that list or the exclusion of any person who has been previously included in that list. Such notification must be made at the end of the third trading day following the occurrence of the relevant event.
 - c) For the purposes of this paragraph, in calculating the total number of the fund's units in which a person is interested, that person will be deemed to be interested in any units owned or controlled by any of the following persons:
 - a. a relative of that person;
 - b. a company controlled by that person; or
 - c. any other persons with which that person has agreed to act in concert to acquire an interest in the fund units.
 - d) the notification referred to in sub-paragraph (1) of this paragraph must contain at least the following information:
 - a. the names of the persons who own the units or who have the right to dispose of the subject units;
 - b. details of the ownership process; and

- c. details of any loans or financial support for the ownership process that the person has received from any other persons.

Part 9: Merging Real Estate Investment Traded Funds:

a. Submitting an application to the Authority for merging real estate investment traded funds

- 1) after obtaining the approval of the unitholders of all the related funds by way of a special fund resolution, the fund manager may apply to the Authority for the approval to merge a number of real estate investment traded funds offered in accordance with the Real Estate Investment Funds Regulations and these Instructions.
- 2) the merger shall be through combining one fund or more into an existing fund.
- 3) the unitholders must be notified about the merger details, which must be disclosed on the fund manager's website and on the Exchange's website, at least, (21) days prior to executing the merger.
- 4) the merger details must be incorporated in the fund's reports prepared by the fund manager pursuant to the Real Estate Investment Funds Regulations and these Instructions, based on the type of offer.
- 5) the fund manager must disclose the merger costs.

b. Additional information to be provided to unitholders

- 1) The fund manager must provide all the unitholders with complete information about the proposed merger that will enable them to reach a proper decision, as per the following:
 - a. it is written in a way that is clear, accurate, and not misleading.
 - b. it contains, in a detailed way, all the expected consequences of the proposed merger.
- 2) it contains a detailed comparison of the charges of all services, commissions and management fees that are imposed on the related funds.

Part 10: Publication and Entry into Force

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

Annex 1

Requirements for the Terms And Conditions of the REIT

The fund manager shall deliver the terms and conditions of the fund in Arabic, and in a manner that is easy to understand and comprehend for unitholders and potential unitholders. The terms and conditions shall include the following information in agreement with the sequence described in this Annex:

Content of the Cover Page:

- 1) The name of the fund, indicating its class and type.
- 2) Name of fund manager.
- 3) Name of custodian.
- 4) Fund size.
- 5) The number of units offered, their total value, and its percentage to the fund size.
- 6) The following disclaimer:

"The Capital Market Authority does not make any representation as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. Prospective subscribers of the units offered hereby should conduct their own due diligence on the accuracy of the information relating to the units. If you do not understand the contents of this document, you should consult an authorized financial advisor."
- 7) For a Shariah-compliant investment fund, the following statement shall be additionally stated:

"[Name of fund] has been certified as being Shariah compliant by the Sharia Board appointed for the investment fund."
- 8) A statement that the fund's terms and conditions shall be read in conjunction with the other documents of the investment fund.
- 9) Date of issuance of the fund's terms and conditions, and the last update, if any.
- 10) Date of the Authority's approval on the establishment of the Investment Fund and the offering of its units.

Contents within the Cover Page:

- 1) Table of Contents.
- 2) Glossary of terms used in the terms and conditions

- 3) Fund Manual.
- 4) Summary of the offer
- 5) Name and type of the fund.
- 6) Address of the head office and the website of the fund manager.
- 7) Fund duration, indicating any extension period, if any.
- 8) A description of the fund's purpose and objectives, with a clarification of the dividends distribution policy to the unitholders.
- 9) A summary of the fund's strategies to achieve its objective, which includes at least the following:
 - a) Description of the sector or sectors in which the fund will invest.
 - b) A detailed statement of the real estate assets to be owned.
 - c) A schedule of the following information for each real estate:
 1. The name of the real estate;
 2. The owner(s) Information;
 3. real estate type;
 4. State / city;
 5. The neighborhood / street;
 6. Location map;
 7. The land area;
 8. Building area (according to the building permit);
 9. Number of floors;
 10. Types and numbers of units;
 11. Occupancy rate of the real estate;
 12. Completion date of building (according to completion certificate);
 13. Cost of purchasing the real estate;
 14. Brief description of the current leases;
 15. Revenues for the last (3) years of the real estate, if any; and
 16. Any additional information.
 - d) Any policy that may result in concentrating investment in a certain type of real estate assets or specific geographical region, provided that it includes a provision that includes the information on the deed of ownership of the real estate(s) subject in the investment, where applicable.
 - e) Previous and targeted rental proceeds for each real estate/ usufruct.
 - f) Borrowing rights for the fund and the fund manager policy in the exercise of these rights.
 - g) Methods and ways to invest the cash available in the fund.
 - h) Disclosure of the utilisation details of the fund's offering proceeds.

- i) Unitholders and the percentage of cash and in-kind contributions in the fund to the fund's net asset value.

10) Risks of investing in the fund

- a. Setting out a description of the main risks related to investing in the fund, which could affect the fund investments or any other circumstances that could affect the net assets of the fund and any investment proceeds; and
- b. A statement that investment in the fund does not guarantee profits and does not protect against losses.

11) Subscription

- a. A timetable showing the offering expected dates;
- b. Providing sufficient information on the subscription, including subscription and termination dates;
- c. A detailed statement of real estate owners intending to subscribe in the fund with in-kind contributions and their ownership percentage, in addition to a table stating the ownership percentage of all subscribers;
- d. A detailed statement of the fund manager's subscription amount in the fund during the offer period;
- e. A statement that includes an undertaking by the fund manager of his commitment to the Non-Saudis Real Estate Ownership and Investment Law;
- f. A detailed statement of the minimum and maximum amount of subscription.
- g. The means of applying for subscription;
- h. A detailed explanation of the subscription method in the fund;
- i. A detailed explanation of the subscription method of minors and dependents in the fund;
- j. The mechanism that will be followed by the fund manager to allocate the units among subscribers;
- k. The mechanism of increasing the fund's total assets value by accepting in-kind contributions or cash contributions, or both, if any; and
- l. A timetable outlining the dates upon which is expected to start offering the units until the trading of such units .

12) Trading of the fund's units

- a. A statement specifying the procedures of trading the REIT units on the Exchange.
- b. The events that result in suspension of the fund and/or the cancelation of listing.

13) Dividend Policy

Without prejudice to sub-paragraph (2/b) of part 4 of these Instructions, this section must include an explanation of the REIT's dividend policy regarding the distribution of its profits to the unitholders and maturity and distribution dates.

14) Termination of the fund

- a. Statement of any events which will result in the termination of the fund.
- b. Statement of information regarding the procedures followed to terminate and liquidate the fund, in addition to the liquidation timetable.

15) Fees, services charges, commissions and management expenses

- a. It must include a detailed disclosure of all fees and charges that will be incurred by the fund's assets, by clarifying the amounts of fees and charges and their percentage of the total assets of the fund with indicating the maximum limit for all the charges and fees. It should also contain a table showing all fees, charges, commissions and management expenses, whether paid by the unitholders or from the fund's assets, and shall include:
 - 1. Fees and expenses of the board of directors.
 - 2. Any charges imposed on the unitholders for subscription in the fund units.
 - 3. Any charges from the fund's assets to the fund manager in exchange for its management.
 - 4. all custody services fees, or any other service provided by the custodian.
 - 5. Fees paid to the accountant.
 - 6. Any commission resulting from loans made to the fund.
 - 7. Any fees related to the registration of fund's units, or any other administrative service.
 - 8. Fees paid to the property manager.
 - 9. Any other payment made by the unitholders, or any amount deducted from the investment fund assets.
 - 10. Ratio of fund costs to the fund's assets total value.

All cases or circumstances in which the fund manager has the right to waive or deduct any of the aforementioned requirements must be stated.

- b. A table containing the following:
 - 1. Type of fee;
 - 2. Imposed percentage, if any;
 - 3. Imposed amount, if any;
 - 4. Calculation method; and
 - 5. Recurrence of the fee payment.
- c. A table containing hypothetical investment of the unitholder.
- d. A declaration by the fund manager stating that the fees mentioned in this paragraph consist of all fees imposed on the fund, and that it shall incur any other fees not stated herein.

16) Insurance

This section must include the assets that have been insured, the details of the insurance and the extent of its coverage.

17) The fund's assets

- a. A statement of registration mechanism of the fund's assets.
- b. A detailed statement of each:
 - 1) Names of the accredited valuers to the fund's assets.
 - 2) Method of assessing each asset owned by fund
 - 3) Cost of assessment for each asset to be invested in.
 - 4) Number of assessments and their timing.
- c. Announcing the net assets value for each unit.
- d. A table indicating the following:
 - 1. Real estate subject to acquisition.
 - 2. Names of the accredited valuers.
 - 3. Date of each assessment report.
 - 4. Assessment cost for each real estate.
 - 5. Average assessment costs.
 - 6. Purchase price of each real estate.

18) Fund board

- a. Names of the Board members of the Fund and a statement of their qualifications, and a disclosure of independent fund directors of the fund board.
- b. Details on the expected total remunerations to be paid to the fund board members during the term of the fund.
- c. Description of the roles and responsibilities of the fund board.
- d. A statement of any other investment fund managed by any member of the fund's board.
- e. A declaration by the fund manager that all board members of the fund fulfill the following eligibility requirements:
 - 1) the member must not be bankrupt or subject to any bankruptcy or insolvency proceedings;
 - 2) the member must not have committed an offense involving fraud or acted in breach of integrity and honesty; and
 - 3) the member must possess the necessary experience and expertise.
- f. Declaration by the fund manager that the definition of an independent fund director in the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority applies to the independent fund board members.

19) Fund manager

- a. Name and address of the fund manager.
- b. A statement that the fund manager is an authorised person in accordance with the Authorized Persons Regulations, and the number and date of the authorization issued by the Authority.
- c. A letter from the fund manager regarding the due diligence report, as set forth in Annex (4) of these Instructions.
- d. Functions, duties and responsibilities of the fund manager.
- e. Provisions governing the removal/replacement of fund manager.
- f. Any other business activities or interests of the fund manager or its board members, that are of significance or could potentially conflict with those of the investment fund.
- g. Description of any conflict of interest that could potentially affect the fund manager in performing its duties toward the fund.
- h. Functions and powers that have been delegated to a third party by the fund manager related to the fund, with a detailed statement of such.

- i. Disclosure if the fund manager intends to invest in the fund's units, and the value of such investments.
- j. A summary on the fund manager, including information on the team under its management, the fund manager's structure of assets management and the total assets value under its management. In addition to the number of public funds and their size and the number of the asset management employees.

20) Legal Advisor

A letter issued by the legal advisor, licensed to practice in the Kingdom, regarding the legal due diligence report, as set forth in Annex (3) of these Instructions.

21) Custodian

- a. Name of the custodian, address and the authorization number granted to it by the Authority.
- b. Functions, duties and responsibilities of the custodian.
- c. Functions related to the real-estate investment traded fund in which the custodian has appointed a sub-custodian.
- d. Provisions governing the removal/replacement of custodian.

22) The real estate management company

- a. The name of real estate management company, and its address.
- b. Statement of the real estate management company's tasks, duties and responsibilities.
- c. Disclosure of whether the real estate management company intends to invest in the fund's units, and the value of these investments.

23) Auditor

- a. The name and address of the auditor of the fund.
- b. A statement of the auditor's tasks, duties and responsibilities.

24) Financial Statements

A statement that indicates that the fund's financial statements will be available to unitholders free of charge and the means of obtaining them. Additionally, the date of the fund's financial year end shall be indicated.

25) Conflict of Interest

Detailed disclosure of any conflict of interest in the fund, and including a statement indicating that the policies and procedures to be followed to resolve a case of actual and/or potential conflict of interest will be provided upon request free of charge.

26) Reporting to unitholders

Description of the periodic reports and financial statements that will be published and the means of publishing such reports and statements.

27) Meeting of unitholders

- a. Statement of the circumstances in which a meeting of unitholders is called.
- b. Statement of the procedures for calling a meeting of unitholders, and the minimum attendance number.
- c. Statement clarifying the manner in which unitholders would vote and their voting rights at the unitholders meetings.

28) A list of unitholders rights

A list that contains the rights of unitholders.

29) Other information

Include any other information known to, or that ought reasonably to be known to, the fund manager or the fund board at the time of issuing the fund's terms and conditions .

30) Amending the fund's terms and conditions

A statement of the provisions governing changes of the fund's terms and conditions, and the specified approvals and notices under the Real-Estate Investment Funds Regulations and the Real-Estate Investment Traded Funds Instructions.

31) The fund manager's declarations

In addition to the declarations referred to in these Instructions and in Annex 2 of these Instructions, the fund manager must include all declarations related to the fund which may affect the decisions of investors for subscribing or trading in the fund.

32) Governing Laws

A statement that the real-estate investment traded fund and the fund manager are subject to the Capital Market Law and its Implementing Regulations as well as other relevant laws and regulations applicable in the Kingdom of Saudi Arabia, and that the competent judicial body to consider any dispute arising as a result of investing in a real-estate investment traded fund is the Committee for Resolution of Securities Disputes.

Annex 2

The Fund Manager's Declarations

- 1- The Fund Manager declares that the terms and conditions of the "Fund Name" have been prepared in accordance with the Real Estate Investment Funds Regulations and the Real Estate Investment Traded Funds Instructions issued by the Capital Market Authority of Saudi Arabia.
- 2- The fund manager declares, after making all reasonable inquiries and to the best of its knowledge and beliefs, that there are no other facts that the non-inclusion of which in this document may render any statement contained therein as misleading. The Capital Market Authority and the Saudi Stock Exchange Company shall not be liable for the content of the terms and conditions.
- 3- The fund manager declares that the property is free of any regulatory violations that prevent or may result in the non-utilization or operation of the building, and that the assets are technically intact and free of any major engineering faults or defects that may prevent or may result in the non-utilization or operation of the building, or that may in turn cause costly repairs and major changes.
- 4- The fund manager declares that there is no direct / indirect conflict of interests (other than what is disclosed) between any of the following:
 - Fund manager.
 - Manager(s) of properties associated with the fund.
 - Owner(s) of properties associated with the fund.
 - Tenant(s) of Real estate assets which their returns constitute 10% or more of the annual rental income of the fund.
 - Accredited valuer.
- 5- The fund manager declares that it took the necessary care to ensure that there is no direct / indirect conflict of interest between the property seller and the accredited valuers.
- 6- The fund manager declares that all members of the fund board of directors have not been subjected to any bankruptcy or insolvency claims or any bankruptcy or liquidation proceedings, nor have they committed any fraudulent, dishonest or deceitful acts. In addition to not having performed any violation involving fraud, deceit or dishonesty. The fund manager further declares that they have the necessary skills and experience to qualify as board members.
- 7- The fund manager declares that the definition of the independent member included in the Glossary of defined terms used in the Regulations and Rules of the Capital Market Authority apply to the independent members, and that it will be

applicable to any independent member appointed by the fund manager throughout the period of the fund.

- 8- The fund manager declares that no other significant business activities or other interests for the fund manager's board of directors , which is likely to conflict with the interests of the fund.
- 9- The fund manager declares that there are no conflict of interest that would affect the fund manager in the performance of its duties for the fund.
- 10- The fund manager declares that there are no fees other than those mentioned in the Fees and Expenses section mentioned in the terms and conditions.
- 11- The fund manager declares that the fund will only be listed upon the completion of the transfer of ownership of the real estate in favor of the fund or the transfer of its interest. If this is not completed after completion of the offer period specified in the terms and conditions, the full subscription amount will be returned to the investors.
- 12- The fund manager declares that no member of the board of directors may have a direct or indirect interest in the business and contracts made for the fund.
- 13- The fund manager declares that all contracts and agreements relating to the fund which may affect the investors' decisions to subscribe or trade in the fund have been disclosed in the terms and conditions, and that there are no contracts and agreements other than those mentioned in the terms and conditions.
- 14- The fund manager declares that unitholders are entitled to vote on matters raised at meetings of unitholders. In addition, the approval of a fundamental change to the fund shall be passed by obtaining the approval of the majority unitholders (owning more than 50% of the total units), holders of which are attending fundamental changes include the following:
 - Significant change in the fund's objectives;
 - A change that may have a material adverse effect on the unitholders or their rights with respect to the fund;
 - Change that may have an effect on the risk position of the fund;
 - Any increase in the net assets of the fund.
- 15- The fund manager declares that it will take all necessary steps in the benefit of the unitholders to the best of its knowledge and beliefs with due diligence and reasonable consideration. The fund manager, directors, officers, employees, agents, consultants, affiliates, custodian, shariah advisor and board of directors shall exercise reasonable diligence and effort and act in good faith in order to meet the interests of the unitholders. If the fund, however, is subject to loss in any way, in the event of any unintentional action by any of the aforementioned parties

in connection with the management of the fund, then such parties shall not be held liable for such loss provided that they have acted in good faith and in a manner serving the interest of the fund. Good faith shall be proved in the absence of any conduct, decision or correspondence indicating prior knowledge of the negative consequences of such conduct. Moreover, such act shall not involve gross negligence, fraud or deliberate misconduct.

- 16- The fund manager declares that it has confirmed to the accredited valuer that the scope of work on evaluating report must be appropriate for the purpose of the Fund Manager's application to the Saudi Stock Exchange and is valid for use for public offering and including the market rental value if it is different from the contractual rental value in the property leases the fund's units.

Annex 3

FORM OF A LEGAL ADVISOR'S LETTER

[To be provided on the legal advisor's letterhead]

To: The Capital Market Authority

We, acting as legal advisor to (-----) [name of the fund manager] "Fund Manager" in respect of the fund manager's request to offer real estate investment traded funds units and list them in the in the Saudi Stock Exchange (details of the REIT). We further refer to the Terms And Conditions prepared in relation with the fund [details of the offer], and more specifically, in connection with the application submitted to the Capital Market Authority (the "Authority") for the offer of real estate investment traded fund's units and listing them in the Exchange, and in line with the requirements of the Capital Market Law, fthe Investment Funds Regulations and the Real-Estate Investment Traded Funds Instructions, we particularly advised the fund manager of the requirements that should be included in the legal sections of the terms and conditions, the fulfillment of the assets to all regulatory requirements and the soundness of the title deeds of such assets in possession. In this respect, we have carried out such further review and enquiries as we consider appropriate in the circumstances.

In this advisory capacity, we confirm that we are not aware of any material matter consisting a violation by the fund manager toward its compliance with the requirements of the Capital Market Law or any conditions required under Real-Estate Investment Funds Regulations and the Real-Estate Investment Traded Funds Instructions, in relation to the offering and listing of the units of a Real-Estate Investment Traded Fund application, including the requirements of the content of the terms and conditions as is at the date of this letter.

ANNEX 4

FORM OF A FUND MANAGER'S LETTER

[To be provided on the Fund Manager's letterhead]

To: The Capital Market Authority

In our capacity acting as the fund manager of (name of the fund) in respect of offering a Real Estate Investment Traded Fund under the name (name of the fund), and registering and listing its units in the in the Saudi Stock Exchange, we, (name of the fund manager) confirm, to the best of our knowledge, and through conducting due diligence and making enquiries of the fund, that the fund has satisfied all conditions required for registration and listing of its units and has satisfied all other matters required by the Capital Market Authority (the "Authority") as of the date of this letter. (name of the fund manager) further confirms that it has, to the best of its knowledge and within its capacity as fund manager, provided to the Authority any information or clarifications in such form and within such time limit as the Authority required for the purpose of verifying whether (name of the fund manager) and the fund have complied with the Capital Market Law, the Real Estate Investment Traded Funds Instructions, the Investment Funds Regulations.

In particular, (name of the fund manager) confirms that:

- It has provided all the relevant services required by the Real Estate Investment Traded Funds Instructions and the Real Estate Investment Funds Regulations, with due care and skill.
- It has taken reasonable steps to ensure that the directors of the fund understand the nature and extent of their responsibilities under the Capital Market Law and its Implementing Regulations.
- It has come to a reasonable opinion, based on due enquiries and professional experience, that:
 - The fund has satisfied all relevant requirements in the Real Estate Investment Traded Funds Instructions and the Real Estate Investment Funds Regulations (including provisions regarding the terms and conditions).
 - All nominated members of the fund's board of directors satisfy the eligibility requirements set out in the Authority's Rules and Regulations, and that the independent members of the board satisfy the definition of the fund

independent board member as provided in Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority.

- Assets are free of any regulatory violations that prevent or may result in the non-utilization or operation of the building, and that the assets are technically intact and free of any major engineering faults or defects that may prevent or may result in the non-utilization or operation of the building, or that may in turn cause costly repairs and major changes. In addition to that the main activities of the fund are sound and able to fulfil their obligations toward the fund.
- The main activities of the main potential tenants of real estate assets are intact, and they are able to meet their obligations to the fund,
- All matters known to (name of the fund manager) which must be taken into account by the Authority when considering the application for registration and listing have been disclosed to the Authority.