Section 13: Property Entities

Key Amendment Schedule

For ease of reference, the key amendments have been addressed under three main headings:

A) Key Amendments: Financial Information, Valuations, Transactions and REITs;

B) Technical Amendments; and

C) General Amendments.

Please note that Section 13 is treated a complete rewrite and as such no mark-up is available, as it would serve no value. A Key Amendments Schedule and General Amendments Schedule were prepared to guide readers through the approach taken by the JSE.

A KEY AMENDMENTS

FINANCIAL INFORMATION

Item 1: Where Section 8 historical financial information is available and presented (for both new listings and transactions), rely on that information and remove the obligation to also produce a forecast and obtain the special reporting accountants pro forma sign off (on the adjustment column)

It is an onerous requirement to require a forecast when there is full historical financial information. Shareholders are familiar with using historical financial information for making investment and voting decisions for other entities and property entities should be treated no different. (for example if Growthpoint were to list today we would require forecasts of them) The board is still free still produce a forecast if they believe it is necessary/adds value to their investment proposition. Flexibility has also been introduced to allow for a forecast on a disposal. Our international peer markets do not require forecasts.

Where historical financial information is available there is no need for any special requirements and the normal provisions to Section 8 will apply. The current provisions of imposing the additional 13.16(e) sign off on the pro forma information is unnecessary.

Item 2: Removing the obligation to have a special reporting accountants report on the forecast. Default to the general auditing standards

The special property forecast report was introduced by the JSE during 2005 when Section 13 was overhaled. This was before we introduced the auditor accreditation model (2009). As detailed in our explanatory memo of 2023, given the significant improvements in the auditor environment intern alias, the auditor accreditation model has been removed. Therefore, there is no need to direct the auditors' assurance work. The international auditing standards are robust enough to guide the reporting accountant and coverage of 70% of the leases do not necessarily add value or strengthen their opinion. Auditors will exercise their professional judgement through the application of the auditing standards and still provide the same level of assurance on the forecast.

Item 3: When the forecast route is followed, removing the obligation to obtain an audit opinion on full "carve out accounts" for a business acquisition - rather rely on the special reporting accountants pro forma sign-off

It is an onerous obligation to create a full set of carve out financial statements to then be audited, when that information is not required for inclusion in the listing particulars/circular. The 13.16(e) report provides assurance on the assets and liabilities involving a business acquisition. The distinction of the acquisition of a business vs. assets/liabilities does not warrant obtaining an audit opinion in one instance and not the other. The requirement for an audit for a company acquisition remains as secondly the legal nature of a company vs specified assets/ liabilities obligation necessitates the preservation of the assurance provided by an audit.

VALUATIONS

Item 4: Removing the obligation for a valuation report for a new listing and transactions, save for limited circumstances. Valuations are now only required for a new listing or category 1 transaction (cat 2 related party are removed) where the property doesn't have 12 months rental revenues in terms of arms-length lease agreements , with less than 10% vacancy level [ie undeveloped property and owner occupied properties still need valuation reports].

But there must be disclosure/ transparency around any voluntary valuation reports

Properties held to produce rental income are no different to other businesses that use their assets to produce income, which then present financial information reflecting those activities. Shareholders are familiar with using financial information and property entities should be treated no different.

An independent valuation for properties that do not produce "independent" rental income streams (e.g. vacant land for development or an own use building) is useful information. Given the specialist nature of such an exercise, it is likely that the board would seek to obtain a valuation in any event.

Furthermore, **if** the property is carried at fair value, advances in International Financial Reporting Standards ("**IFRS**") are such that reporting around fair values has improved in terms of rigour and disclosures. IFRS 13 *Fair Value Measurement* became effective in 2013. This ensures that the measurement and disclosures for the fair values of properties are of a high standard. These IFRS 13 disclosures are also included in the pro forma balance sheet.

Even though there is no detailed financial information in a category 2 related party circular, a fairness opinion provides the necessary regulatory safeguards removing the need for a mandatory valuation report.

Please note: If the issuer believes that a valuation is useful and is obtained, that information must be made available to investors.

Item 5: Even if a valuation is required, the need to prepare a separate summary report is removed

Drafting a summary of a valuation in line with the specific disclosure obligations of the JSE creates an unnecessary administrative burden and time delays for issuers to effect transactions. Advances in technology (in terms of access to information) means that investors can easily access the detailed valuation reports and extract the information relevant to them.

Item 6: Information previously contained in the summary valuation report:

- **Now largely included in the property specific information disclosures; and**
- **New obligation introduced for the board to confirm legal title for a new listing**

It is understood that investors found the additional disclosure set out in the summary valuation report to be useful. These disclosure obligations have therefore been largely maintained for the purposes of a new listing and transactions. Only disclosure requirements around leases in paragraphs 13.23(a)(ix) (high level summary of accrual tenants' leases and sub-lease) and 13.23(xi) (the terms of intra-group leases on the property occupied by the group) have been removed for practical reasons.

The independent valuer would historically have inspected the title deed. With the removal of a valuation report (in most instances) it is necessary to introduce a new requirement, placing an obligation on the issuer to demonstrate legal title to the JSE and to include details of the deeds in the listing partculars This approach also now aligns property entities with another specialist sector-mining entities.

Item 7: Financial Reporting: Removing the obligation to obtain valuation reports on a rolling three-year basis

Given the abovementioned advances in IFRS there is no regulatory necessity for the JSE to intervene. Through its proactive monitoring processes, the JSE does monitor compliance with the application of IFRS 13. Furthermore, the JSE has found that this requirement can cause confusion as to the responsibility for and timing of valuations. It is the board's responsibility to ensure the accuracy of the values and for compliance with IFRS.

Item 8: Changing the threshold for when a non-property entity needs a valuation report (for the same limited instances) from 25% to 50%, limited it to an asset test, and repositioning the wording of this requirement outside of Section 13

Valuation reports were required for non-property entities in the following instances, (i) they were doing a "*property transaction*" and (ii) for a new listing where the property accounted for 25% of the total asset value. In practice, the JSE applied the 25% contained in the definition of substantial to also identify a "*property transaction*" and a "*transaction involving property*".

Many (non-property) issuers hold properties for their own use. The worth to the business is not tied to a market value that they could obtain on disposal, but rather on the use of the assets within their operations (examples for this concept include factories, warehouses or hotels). The increase of the threshold from 25% to 50% provides a better level to distinguish between transactions of "*property*" and "*businesses that use properties*". The 50%- significance test is somewhat in the middle between our market peers.

The revenue test has also been removed to simplify matters and the requirement repositioning of the requirement in Section 7 (PLS Disclosures) and Section 9 (Transaction) makes it easier for issuers to navigate the requirement.

Item 9: Amending the JSE process around appointment of independent valuers

The board has always signed-off on the independence of the valuers. Clear detailed criteria for independence in Section 13 (aligned with those applicable to sponsors) and a public statement to that effect in the listing particulars/circular is a more effective manner of regulating this aspect.

TRANSACTIONS

Item 10: Increase the threshold for a category of 2 property transaction from 5% to 10%

Whilst property entities will periodically dispose/acquire properties (in terms of managing their capital base), such transactions do not fit within the ambits of the JSEs "*ordinary course of business*" test, which focusses on revenue/cost streams. Announcements of such smaller (arms- length) transactions are not necessarily price sensitive. For example, a small acquisition of a property in a sector/geographical region that the issuer is already active in.

The proposal to increase the category 2 threshold to 10% will provide relief to property entities where the transaction is not price sensitive information. Property entities must still consider the applicability of the general obligation of disclosure regarding price sensitive information of such smaller property transactions.

REITS

Item 11: Removing the complexities of the adjustments around the 60% gearing test

Restrictions on excessive gearing are important to ensure a REIT can pay distributions and have not been changed. When the allowable adjustments were drafted in the REIT requirements in 2013, the intention was to provide some flexibility to an issuer to cure temporary breaches of the 60% gearing test. The wording has been tested during covid and it created practical challenges for both issuers and the JSE in its application and does not necessarily achieve its objectives. The revised wording still preserves that 60% level but is easier to apply and whilst slightly more onerous for issuers better addresses the objective of the obligation and is therefore favourable for investors.

Item 12: Change the waiting period to reapply for REIT status to encourage good leavers

The previous provisions spoke of a 24-month waiting period for a REIT to reapply for REIT status. The provisions did not however deal wholistically with all the circumstances of REIT removal. The proposed amendments therefore firstly provide clarity and secondly provide an incentive to a good leaver (i.e. company initiated) where the waiting period to reapply is less.

B 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) A principle-based approach is proposed for deciding on property portfolio disclosures at a sector level linked to the characteristics of the building; and

c) A risk-based approach is proposed for tenant information disclosures on the property portfolio as opposed to the JSE defined "A", "B" and "C" categories and to also include the grading of the building.

C GENERAL AMENDMENTS

The remaining amendments dealing with general amendments can be found in the **General Amendment Schedule**.

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