Securities and Exchange Commission
PHILIPPINES

SEC MEMORANDUM CIRCULAR NO. 1
Series of 2020

SUBJECT: **REVISED IMPLEMENTING RULES AND REGULATIONS OF REPUBLIC ACT NO. 9856, OTHERWISE KNOWN AS THE REAL ESTATE INVESTMENT TRUST (REIT) ACT OF 2009**

Pursuant to Section 22 of Republic Act No. 9856, An Act Providing the Legal Framework for Real Estate Investment Trust, the following Implementing Rules and Regulations are hereby promulgated.

Rule 1 – Title of Rules

These Rules shall be referred to as the "Implementing Rules and Regulations of Republic Act No. 9856, otherwise known as the Real Estate Investment Trust (REIT) Act of 2009" or the "REIT Rules."

Rule 2 - Objectives

These Rules are promulgated consistent with the declared policy of the State to promote the development of the capital market, democratize wealth by broadening the participation of Filipinos in the ownership of real estate in the Philippines, use the capital market as an instrument to help finance and develop infrastructure projects, and protect the investing public.

The implementation and application of these Rules shall adhere as closely as possible to the attainment of the foregoing policy objectives.

Rule 3 – Definition of Terms Used in the Rules

When used in these Rules and Regulation, the term –

a. "Act" means Republic Act No. 9856 otherwise known as the Act Providing the Legal Framework for Real Estate Investment Trust.

b. "Adviser" means a lawyer, accountant, auditor, financial or business consultant, and such other persons rendering professional advisory services to the REIT.

c. "Affiliate" means a corporation that directly or indirectly, through one or more intermediaries, is controlled by, or is under the common control of, another corporation, which thereby becomes its parent corporation.

d. "Associate" of a person includes:

Published:
Philippine Daily Inquirer, January 23, 2020
Philippine Star, January 23, 2020

Filed with UP Law Center: January 23, 2020
Effectivity: February 07, 2020

i. Any relative of such person within the fourth (4th) degree of consanguinity or affinity; and

ii. Any company in which he/she and his/her relative within the fourth (4th) degree of consanguinity or affinity, directly or indirectly, has an interest of twenty-five percent (25%) or more.

e. "BIR" means the Bureau of Internal Revenue.

f. "BSP" means the Bangko Sentral ng Pilipinas.

g. "Cash Equivalent Items" means instruments or investments that are highly liquid and marketable and are considered good as cash, including savings and/or time deposits (peso or foreign currency denominated) maintained with any duly licensed universal, commercial or thrift bank that has passed the accreditation process of the Fund Manager.

h. "Code of Corporate Governance" refers to the applicable Code of Corporate Governance and such other relevant regulations as may be defined by the Commission.

i. "Commission" or "SEC" means the Securities and Exchange Commission of the Philippines.

j. "Constitutive Documents" means the Articles of Incorporation and By-Laws of a REIT.

k. "Control" exists in favor of a parent corporation when it has the power to direct or govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control is presumed to exist when the parent owns, directly or indirectly, through subsidiaries, more than one half (1/2) of the voting power of an enterprise, unless, in exceptional circumstances, it can clearly be demonstrated that such ownership does not constitute control. Control also exists even when the parent owns one half (1/2) or less of the voting power of an enterprise when there is power:

i. Over more than one half (1/2) of the voting rights by virtue of an agreement with investors;

ii. To direct or govern the financial and operating policies of the enterprise under a statute or an agreement;

iii. To appoint or remove the majority of the members of the board of directors or equivalent governing body; or

iv. To cast the majority votes at meetings of the board of directors or equivalent governing body.

l. "Deposited Property" means the total value of the REIT's assets reflecting the fair market value of total assets held by the REIT.

m. "Distributable Income" means net income as adjusted for unrealized gains and losses/expenses and impairment losses, and other items in accordance with internationally accepted accounting standards. Distributable income excludes proceeds from the sale of the REIT's assets that are re-invested in the REIT within one (1) year from the date of the sale.

n. "DST" means Documentary Stamp Tax imposed under Title VII of the NIRC

o. "Exchange" means any entity registered with the Commission as a stock exchange pursuant to the Securities Regulation Code.

p. "Fund Manager" refers to the person engaged by the REIT to perform such functions enumerated in these Rules.

q. "Income-generating Real Estate" means real property which is held for the purpose of generating a regular stream of income such as, but not limited to, rentals, toll fees, user's fees, ticket sales, parking fees and storage fees.

r. "Independent Director" means a director who has the qualifications and none of the disqualifications of an independent director as specified in the Securities Regulation Code and its Implementing Rules and Regulations.

s. "Infrastructure Projects" as defined in R.A. No. 6975, as amended by R.A. No. 7718, and in the Constructors' Performance Evaluation System Implementing Guidelines for Infrastructure Projects, refers to construction, improvement or rehabilitation of roads and highways, airports and air navigation facilities, railways, ports, flood control and drainage, water supply and sewerage, irrigation systems, dams, buildings, communication facilities, dredging and reclamation, power generating plants, power transmission and distribution facilities and other related construction projects.

t. "Investible Funds" refers to funds of the REIT that can be placed in investment vehicles other than income-generating real estate, as allowed under these Rules.

u. "Investor" means the owner of Investor Securities.

v. "Investor Securities" means shares of stock issued by a REIT or derivatives thereof.

w. "Managed Funds" means any arrangement whereby funds are solicited from the investing public and pooled for the purpose of investing in securities duly registered and/or approved by the appropriate regulatory agency of the government for investment and/or reinvestment by the REIT.

x. "Material Contract" refers to an agreement or arrangement where the amount involved is at least five percent (5%) of the Deposited Property of the REIT or which is not entered into in the ordinary course of business of the REIT: *Provided, however,* That the following shall be deemed a Material Contract regardless of the amount:

    i. Related Party Transactions as defined in these Rules;

    ii. Agreements between the REIT and Fund Manager;

    iii. Agreements between the REIT and Property Manager;

    iv. Agreements between and among shareholders relating to the transferability of the shares of stock of the REIT, control of the REIT and voting rights over shares of stock of the REIT, such as but not limited to, voting trust agreements, pooling agreements,

joint venture agreements, option agreements, and agreements granting rights of first refusal or conversion rights;

v. Any acquisition or disposition of real estate by the REIT;

vi. Contracts relating to investments of the REIT;

vii. Any contract creating mortgages, encumbrances, liens or rights on the real estate of the REIT;

viii. Contract of any nature that limits the declaration or distribution of dividends by the REIT;

ix. Any contract relating to joint venture, spin off, consolidation or merger, take-over or change in Control involving the REIT;

x. Any contract that may be expected to materially affect the market activity and/or the price of the Investor Securities.

y. "Net Asset Value" or "NAV" means the adjusted net asset value reflecting the fair market values of total assets and investible funds held by the REIT, less total liabilities. NAV per share shall be computed by dividing NAV by the total outstanding shares of the REIT.

z. "Net Income" means net income as determined under the Philippine Financial Reporting Standards (PFRS).

aa. "NIRC" means the National Internal Revenue Code of 1997, as amended, and the pertinent amendments introduced by the Tax Reform for Acceleration and Inclusion (TRAIN) Act.

bb. Overseas Filipino Investor" refers to an individual citizen of the Philippines who is working abroad, including one who has retained or re-acquired his Philippine citizenship under Republic Act No. 9225, otherwise known as the "Citizenship Retention and Reacquisition Act of 2003".

cc. "PAS" means Philippine Accounting Standards.

dd. "Parent" means a corporation which has control over another corporation, directly or indirectly, through one or more intermediaries.

ee. "PFRS" means Philippine Financial Reporting Standards.

ff. "Principal Officer" means the chairman of the board of directors, president, chief executive officer, chief operating officer, treasurer, chief financial officer, corporate secretary, vice president, executive vice president, senior vice president, compliance officer, chief accounting officer, chief investment officer and their equivalent positions, including consultants with similar rank or position.

gg. "Property Valuer" means an independent entity engaged by a REIT to value its real estate in accordance with these Rules.

hh. "Principal Stockholder" means a stockholder who is, directly or indirectly, the beneficial

owner of more than ten percent (10%) of any class of Investor Securities of the REIT.

ii. "Public Shareholder" means a shareholder of a REIT other than the following persons (non-public shareholders):

i. The Sponsor/Promoter of the REIT;

ii. A director, Principal Officer or Principal Stockholder of the Sponsor/Promoter of the REIT;

iii. A director, Principal Officer or Principal Stockholder of the REIT;

iv. An associate of a director, Principal Officer or Principal Stockholder of the REIT or its Sponsor/Promoter;

v. A Related Corporation to the REIT or its Sponsor/Promoter; and,

vi. Any person who holds legal title to the shares of stock of the REIT for the benefit of another for the purpose of circumventing the provisions of this Act.

jj. "Property Manager" refers to a professional administrator of real properties who is engaged by the REIT to provide the property management services defined under these Rules.

kk. "Real Estate Investment Trust" or "REIT" is a stock corporation established in accordance with the Revised Corporation Code of the Philippines and the rules and regulations promulgated by the Commission principally for the purpose of owning income-generating real estate assets. For purposes of clarity, a REIT, although designated as a "trust", does not have the same technical meaning as "trust" under existing laws and regulations but is used herein for the sole purpose of adopting the internationally accepted description of the company in accordance with global best practices.

ll. "Real Property" shall have the same definition as "Immovable Property" under Article 415 of the Civil Code of the Philippines. Real estate, when used in this Act, shall have the same meaning as real property.

mm. "REIT Plan" refers to the plan, including its amendments, of the REIT registered with and approved by the Commission.

nn. "Real Estate Appraiser" means a duly registered and licensed natural person who, for a professional fee, compensation or other valuable consideration, performs or renders, or offers to perform services in estimating and arriving at an opinion of or acts as an expert on real estate values, such services of which shall be finally rendered by the preparation of the report in acceptable written form.

oo. "Real Estate Assessor" means a duly registered and licensed natural person who works in a local government unit and performs appraisal and assessment of real properties, including plants, equipment, and machineries, essentially for taxation purposes.

pp. "Real Estate Consultant" means a duly registered and licensed natural person who, for a professional fee, compensation or other valuable consideration, offers or renders

professional advice and judgment on: (i) the acquisition, enhancement, preservation, utilization or disposition of lands or improvements thereon; and (ii) the conception, planning, management and development of real estate projects.

qq. "Real Estate-Related Assets" mean:

i. Debt securities and listed shares issued by listed property companies; or

ii. Other funds and assets, including personal property, incidental to the ownership of real estate.

rr. "Related Corporation" means the Parent, Subsidiary or Affiliate of the REIT.

ss. "Related Party" includes:

i. A director, Principal Officer or Principal Stockholder of the REIT or associate of such persons;

ii. The Sponsor/Promoter of the REIT;

iii. The Fund Manager of the REIT;

iv. The Adviser of the REIT;

v. The Property Manager of the REIT;

vi. A director, Principal Shareholder or Principal Officer of the Sponsor/Promoter of the REIT, Fund Manager or Property Manager, or associate of any such persons; and

vii. Related Corporation to the REIT, the Fund Manager or the Property Manager.

tt. "Revised Corporation Code" refers to Republic Act No. 11232, otherwise known as the Revised Corporation Code of the Philippines.

uu. "Securities Regulation Code" or "SRC" refers to Republic Act No. 8799, otherwise known as the Securities Regulation Code of 2000, and its Implementing Rules and Regulations as amended.

vv. "Sponsor/Promoter" means any person who, acting alone or in conjunction with one or more other persons, directly or indirectly, contributes cash or property in establishing a REIT.

ww. "Subsidiary" means a corporation more than fifty percent (50%) of the voting stock of which is owned or controlled, directly or indirectly, through one or more intermediaries, by another corporation, which thereby becomes its parent corporation.

xx. "Synthetic Investment Products" are derivatives and other securities created exclusively out of one or more financial instruments to simulate the returns of the underlying assets or indices of asset values, including, but not limited to warrants, options, interest rate derivatives, currency derivatives, equity derivatives and credit derivatives such as credit-

linked notes, collateralized debt obligations, total return swaps, credit spread options and credit default options.

yy. "Taxable Net Income" means the pertinent items of gross income specified in Section 32 of the NIRC, less all allowable deductions enumerated in Section 34, of the NIRC, less the dividends distributed by a REIT out of its Distributable Income as of the end of the taxable year as: (a) dividends to owners of the common shares; and (b) dividends to owners of the preferred shares pursuant to their rights and limitations specified in the Articles of Incorporation of the REIT.

Rule 4 - Real Estate Investment Trust

SEC. 1. *Investment in the REIT.*

1.1 Investment in a REIT shall be by way of subscription to or purchase of shares of stock of the REIT.

1.2 A REIT may provide in its Articles of Incorporation different classes of shares of stock enumerating therein their respective features.

1.3 No shares of stock of the REIT shall be offered for subscription or sale to Public Shareholders except in accordance with a REIT Plan registered with and approved by the Commission. The REIT Plan shall take the place of a prospectus. It shall contain the following information:

a. investment policy, restrictions and strategy of the REIT;

b. discussion on the business plan for property investment and management covering the scope and type of investments made or intended to be made by the REIT, including the type(s) of real estate (e.g. leisure, residential, commercial, or industrial);

c. general character and competitive conditions of all real estate now held or intended to be acquired by the REIT and how such real estate meets the established criteria for selection;

d. nature and risks of making property investments in each of the relevant locations, including:

i. demographics;

ii. state of the economy, economic risks and foreign exchange risk;

iii. political risks;

iv. legal risks and tax considerations;

v. policies that affect property investments and property sales;

vi. overview of the property market;

vii. analysis of the specific property sector and the competitive dynamics in the rental market;

viii. operational requirement; and

ix. rules and regulations governing property ownership and tenancy matters;

e. terms and conditions of the arrangements or agreements that have been entered into by the REIT for it to own legal and beneficial title over specific property, and the benefits and risks of such arrangements including but not limited to, any agrarian-related issues, if any;

f. transaction history of the relevant property in the three (3) years immediately preceding the date of the valuation report included in the REIT Plan;

g. any proposed program with timetable for renovation or improvement to the real estate, including the estimated costs thereof and the method of financing to be used;

h. the operating date of each of the real estate, including the occupancy rate, number of tenants and its mix in terms of occupation or business, principal provisions of the leases, average annual rental per square meter, and schedule of lease expirations for the next three (3) years;

i. the borrowing policy and the method or proposed method of operating and financing the real estate investments of the REIT;

j. where real estate to be acquired are to be financed (wholly or in part) through borrowings, details of the borrowings must be disclosed including, but not limited to, the source, type, term/period and nature of the borrowings and the interest rate to be paid by the REIT and the risks involved with respect to borrowings;

k. the measures in place to mitigate or minimize risks relating to the investment and management of real estate owned by the REIT;

l. the dividend policy;

m. the insurance arrangement for the assets of the REIT;

n. the exit strategy in the event of divestment (including the exit from any joint ownership arrangement), factors and risks which may impact or act as an impediment to an exit, and the contingency plan;

o. details of transactions or agreements entered into with related parties;

p. full particulars of the nature and extent of the interest, if any, of any director of the REIT, the Fund Manager, the Property Manager or any Related Parties to the REIT, in the property owned or proposed to be acquired by the REIT; and where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest in the firm, with a statement of all sums paid

or agreed to be paid to him or the firm for services rendered to the REIT;

q. functions, duties and responsibilities of the Property Manager and the Fund Manager and, where applicable, shareholding of the Property Manager and/or the Fund Manager in the REIT;

r. corporate information on the Property Manager, including number of years in real estate/property management or alternatively, information on two (2) responsible officers who have at least five (5) years track record in real estate/property management, total assets under management, staff strength, resources, internal controls and risk management system;

s. information on the directors and Principal Officers of the Property Manager, highlighting the academic and/or professional qualification as well as experience possessed by the respective personnel;

t. corporate information on the Fund Manager, including number of years in fund management, total assets under management, staff strength, internal controls and risk management system;

u. information on the directors and Principal Officers of the Fund Manager, highlighting the academic and/or professional qualification as well as experience possessed by the respective personnel;

v. details on substantial fees to be paid by the REIT, such as property management fees and fund management fees. The fees paid to the Property Manager and the Fund Manager must be clearly stated and shall include: (i) the percentage rate to be paid by the REIT; (ii) the basis on which the property management fee is calculated; and (iii) an illustration on how the fee is calculated.;

w. names, designation and the direct and indirect shareholdings in the REIT of Promoters, Principal Shareholders, directors, Principal Officers and principal officers of the Property Manager and the Fund Manager;

x. disclosure on how the proceeds of the public offering and any other funds raised in connection with the public offering will be utilized with timetable; and

y. pro-forma financial statements which shall include information on Net Asset Value and Net Asset Value per share before listing and after the proposed public offering.

1.4 In order to be valid, any material amendment to the REIT Plan shall be approved by the Commission. Any amendment to the Plan shall be effective only upon compliance with the requirements relative to said amendment/s.

SEC. 2. ***Registration and Listing.*** The shares of stock of the REIT shall be registered with the Commission in accordance with the SRC and listed in accordance with the rules of the Exchange.

SEC. 3. ***Nationality Requirement.*** A REIT that owns land located in the Philippines must comply with foreign ownership limitations imposed under Philippine law.

Sec. 4. *Dividend Distribution.* A REIT shall distribute annually, a total of at least ninety percent (90%) of its Distributable Income as dividends to its shareholders, not be later than the last working day of the fifth (5th) month following the close of the fiscal year of the REIT subject to the following:

a. The dividends shall be payable only from the unrestricted retained earnings of the REIT as provided for under Section 42 of the Revised Corporation Code. However, the retained earnings of the REIT may only be restricted and not available for distribution under the circumstances enumerated under Section 42 of the Revised Corporation Code and when approved by at least a majority of the entire membership of the board of directors, including the unanimous vote of all Independent Directors of the REIT; provided finally, once the purpose of the restriction is accomplished, the REIT shall immediately cancel the restriction and distribute the corresponding retained earnings upon majority vote of the members of the board of directors.

b. The percentage of dividends with respect to any class of stock to be received by the Public Shareholders to the total dividends with respect to that class of stock distributed by the REIT from out of its Distributable Income must not be less than such percentage of their aggregate ownership of the total outstanding shares of the REIT with respect to that class of stock. Any structure, arrangement or provision which would have the effect of diminishing or circumventing in any form this entitlement to dividends shall be void and of no force and effect.

c. The income distributable as dividend by the REIT shall be based on the audited financial statements for the recently completed fiscal year prior to the prescribed distribution. The audited financial statements of the REIT shall present a computation of its distributable dividend taking into consideration requirements under the provisions of the Act and this Rule. However, the audited financial statements shall not be required before the REIT can distribute quarterly and/or semi-annual dividends; provided, the REIT has reasonable grounds to believe that the maximum dividends that it may distribute in such fiscal year shall not be more than its Distributable Income based on its audited financial statements for such fiscal year, as provided above.

d. A REIT may declare either cash, property or stock dividends. Provided that, in addition to the requirements of the Revised Corporation Code, the declaration of stock dividends must be approved by at least a majority of the entire membership of the board of directors, including the unanimous vote of all Independent Directors of the REIT and subject to the approval of the Commission within five (5) working days from receipt of the request for approval. If the Commission does not act on said request within such period, the same shall be deemed approved.

e. Distributable Income excludes proceeds from the sale of REIT's assets that are re-invested by the REIT within one (1) year from the date of the sale. Gain from the said sale shall, however, form part of the distributable income.

f. The income distributable by the REIT shall be adjusted by deducting the following unrealized or non-actual gains and losses:

i. Unrealized foreign exchange gains, except those attributable to cash and cash equivalents;

ii. Fair value adjustment or the gains arising from marked-to-market valuation which are not yet realized;

iii. Fair value adjustment of investment property resulting to gain;

iv. The amount of recognized deferred tax asset that reduced the amount of income tax expense and increased the net income and retained earnings, until realized;

v. Adjustment due to a deviation from any of the prescribed accounting standard which results to gain;

vi. Other unrealized gains or adjustments to the income as a result of certain transactions accounted for under the Philippine Financial Reporting Standards.

g. Non-actual expenses / losses that are allowed to be added back to distributable income shall be limited to the following items:

i. Depreciation on revaluation increment (after tax);

ii. Adjustment due to from any of the prescribed accounting standard which results to a loss;

iii. Loss on fair value adjustment of investment property (after tax).

SEC. 5. ***Requirements.*** The REIT shall comply with the following requirements:

5.1 Body Corporate.

a. Minimum Public Ownership. A REIT shall be a public company and to be considered as such, a REIT shall: (a) maintain its status as a listed company; and (b) upon and after listing, have at least one thousand (1,000) Public Shareholders each owning at least fifty (50) shares of any class of shares, and who, in aggregate, own at least one-third (1/3) of the outstanding capital stock of the REIT.

A REIT may, from the time of incorporation, issue shares to, or record the transfer of all its shares into the name of shareholders, investors or, securities intermediary in the form of uncertificated shares. It shall engage the services of a duly licensed transfer agent to monitor subsequent transfers of the shares. Said registrar shall ensure that the shares are traceable to the names of the shareholders or investors and for their own benefit and not for the benefit of any of the non-public shareholders.

The shares may be registered under a nominee and the nominee shall make available to the transfer agent the names of the shareholders in such frequency as may be necessary for the transfer agent to perform its basic functions.

Compliance with the minimum public ownership requirement under this section shall be duly certified by the transfer agent upon listing, as of record date for any dividend declaration or any corporate action requiring shareholder approval and other relevant times as may be required by the Commission.

b. Capitalization. A REIT shall have a minimum paid-up capital of Three Hundred Million Pesos (Php300,000,000.00) at the time of incorporation which can either be in cash and/or property.

c. Independent Directors. At least one-third (1/3) or at least two (2), whichever is higher, of the board of directors of a REIT shall be independent directors.

d. Organization and Governance. As a public company, the REIT shall have such organization and governance structure that is consistent with the Revised Code of Corporate Governance and pertinent provisions of the SRC and its IRR. The REIT shall hold such meetings as provided for in its Constitutive Documents pursuant to the Revised Corporation Code.

e. Reinvestment in the Philippines. In line with the policy to promote the development of the capital market and Filipino participation in the real estate industry, democratize wealth by broadening the participation of Filipinos in the ownership of real estate in the Philippines, use the capital market as an instrument to help finance and develop infrastructure projects in the Philippines, reinvestment in the Philippines shall be an indispensable requisite for any Sponsor/Promoter who contributes income-generating Real Estate to a REIT.

The relevant listing rules shall be issued which primarily requires the submission of a Reinvestment Plan with a firm undertaking to reinvest (a) any proceeds realized by the Sponsor/Promoter from the sale of REIT shares or other securities issued in exchange for income-generating Real Estate transferred to the REIT and (b) any money raised by the Sponsor/Promoter from the sale of any of its income-generating Real Estate to the REIT, in any Real Estate, including any redevelopment thereof, and/or Infrastructure Projects in the Philippines. This reinvestment shall be made within one (1) year from the date of receipt of proceeds or money by the Sponsor/Promoter.

The exchange shall furnish the Commission and the Department of Finance with a copy of the Reinvestment Plan in no more than three (3) days from receipt thereof. The Commission shall furnish the Department of Finance all REIT-related reports within fifteen (15) days from due date of submission of quarterly reports by the REIT.

The exchange shall also adopt in its rules the appropriate mechanism, internal controls, and procedures to include, among others, requiring the Sponsor/Promoter to be a party to the Listing Agreement and prescribing reporting requirements to monitor the REIT.

5.2 Executive Compensation. The total annual compensation of all directors and Principal Officers of the REIT shall not exceed ten percent (10%) of the net income before regular corporate income tax of the REIT during the immediately preceding taxable

year, and shall be governed by the disclosure requirements of PAS 24.

5.3 Fund Manager and Property Manager Fees. The REIT shall engage a Fund Manager and a Property Manager in accordance with these Rules. The fees received by the Fund Manager and the Property Manager from the REIT shall not exceed one percent (1%) of the Net Asset Value of the assets under their respective management.

SEC. 6. *Functions of the REIT.* Unless otherwise stated in these Rules, the REIT shall have all of the powers of a corporation under the Revised Corporation Code, and shall perform all of the functions of a corporation, except those expressly delegated under these Rules to the Fund Manager and to the Property Manager, and those that are necessary such as but not limited to the following:

a. appoint a Fund Manager, a Property Manager and a Property Valuer;

b. ensure that the financial and economic aspects of the REIT are professionally managed in the interest of the shareholders and creditors;

c. formulate the annual investment strategy and policy of the REIT in accordance with the REIT Plan;

d. determine the annual borrowing limit of the REIT, in accordance with the REIT Plan;

e. determine the acquisition and disposition plan of real estate properties in accordance with the investment objective indicated in the REIT Plan;

f. implement appropriate policies and conduct due diligence reviews such that investments are made only after careful and diligent investigations by the REIT;

g. formulate dividend payment schedules of the REIT;

h. maintain or cause to be maintained proper books and records of the REIT and cause the preparation of the REIT's financial statements;

i. ensure that all documents in relation to the REIT (excluding documents containing commercially sensitive information) are made available for inspection by the shareholders and creditors of the REIT in the Philippines, during normal office hours, at the place of business of the REIT and ensure that copies of such documents are available upon request by any shareholder or creditor upon payment of a reasonable fee;

j. ensure compliance with any applicable laws, rules, codes or guidelines issued by governmental departments, regulatory bodies, exchanges or any other relevant organizations regarding the activities of the REIT or its administration; and

k. maintain and implement investor relations procedures whether online or otherwise to handle queries and complaints.

In no case shall the REIT perform quasi-banking functions without the requisite license issued by the BSP.

Rule 5 – Allowable Investments of the REIT

SEC. 1. ***Allowable Investments.*** A REIT may only invest in:

1.1 Real estate.

a. A REIT may invest in real estate located in the Philippines, whether freehold or leasehold. At least seventy-five percent (75%) of the Deposited Property of the REIT shall be invested in, or consist of, income generating real estate. Deposited Property that should be invested in Income-generating Real Estate located in the Philippines shall in no case be less than 35% of the Deposited Property.

b. A REIT may invest in income generating real estate located outside of the Philippines; *Provided,* that such investment does not exceed forty percent (40%) of its Deposited Property and only upon special authority from the Commission. The Commission in issuing such authority shall consider, among others, satisfactory proof that the valuation of assets is fair and reasonable.

c. An investment in real estate may be by way of direct ownership or a shareholding in a domestic special purpose vehicle constituted to hold/own real estate, subject to the conditions provided under these Rules.

d. Acquisition of a real estate shall include the ownership of all rights, interests and benefits related to the ownership of the real estate.

e. The real estate to be acquired by the REIT should have a good track record for three 3 years from date of acquisition.

1.2 Real estate-related assets, wherever the issuers, assets, or securities are incorporated, located, issued, or traded.

1.3 Evidence of indebtedness of the Republic of the Philippines and other evidence of indebtedness or obligations, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines, such as, but not limited to, treasury bills, fixed rate treasury notes, retail treasury bonds, (denominated either in Philippine or in foreign currency) and foreign currency linked notes.

1.4 Bonds and other evidence of indebtedness issued by:

a. the government of any foreign country with which the Philippines maintains diplomatic relations, with a credit rating obtained from a reputable credit rating agency or a credit rating agency acceptable to the Commission that is at least two (2) notches higher than that of ROP bonds; and

b. supranationals (or international organizations whose membership transcends national boundaries or interests, e.g. International Bank for Reconstruction

and Development, Asian Development Bank).

1.5 Corporate bonds of non-property privately-owned domestic corporations duly registered with the Commission with a current credit rating of at least "A" by an accredited Philippine rating agency.

1.6 Corporate bonds of a foreign non-property corporation registered in another country provided that said bonds are duly registered with the Commission and the foreign country grants reciprocal rights to Filipinos.

1.7 Commercial papers duly registered with the Commission with a current investment grade credit rating based on the rating scale of an accredited Philippine rating agency at the time of investment.

1.8 Equities of a non-property company listed in a local or foreign stock exchange, provided that these stocks shall be issued by companies that are financially stable, actively traded, possess good track record of growth and have declared dividends for the past three (3) years.

1.9 Cash and Cash Equivalent Items.

1.10 Collective investment schemes duly registered with the Commission or organized pursuant to the rules and regulations of the BSP; provided however that: (i) the collective investment scheme must have a track record of performance at par with or above the median performance of pooled funds in the same category as appearing in the prescribed weekly publication of the Net Asset Value Per Unit of the Collective Investment Scheme units; and (ii) new collective investment schemes may be allowed provided that its fund manager has at least a three (3)-year track record in managing pooled funds.

1.11 Offshore mutual funds with ratings acceptable to the Commission.

1.12 Investments of the REIT shall be recognized and measured in its financial statements in accordance with the requirements of PFRS and the applicable interpretations or any amendments thereto, as follows:

a. Investment Property (PAS 40 and related standards);

b. Financial Assets (PAS 39, PFRS 7 and related standards);

c. Investments in Associates (PAS 28);

d. Investments in Subsidiaries (PAS 27);

e. Interests in Joint Ventures (PAS 31);

f. Non-current Assets Held for Sale and Discontinued Operations (PFRS 5);

g. Leases (PAS 17).

1.13 Synthetic Investment Products, provided that: (i) Synthetic Investment Products shall not constitute more than five percent (5%) of the Investible Funds of the REIT; (ii) the

REIT shall avail of such Synthetic Investment Products solely for the purpose of hedging risk exposures of the existing investments of the REIT; (iii) the Synthetic Investment Products shall be accounted for in accordance with PFRS; (iv) the Synthetic Investment Products shall be issued by authorized banks or non-bank financial institutions in accordance with the rules and regulations of the BSP and/or the SEC; and (iv) the use of Synthetic Investment Products shall be disclosed in the REIT Plan and under special authority from the SEC.

SEC. 2. ***Property Development.*** A REIT shall not undertake property development activities whether on its own, in a joint venture with others, or by investing in unlisted property development companies, unless: (i) it intends to hold in fee simple the developed property for at least three (3) years from date of completion; (ii) the purchase agreement of the said property is made subject to the completion of the building with proper cover for construction risks; (iii) the development/construction of real estate shall be carried out on terms which are the best available for the REIT and which are no less favorable to the REIT than an arm's length transaction between independent parties; and (iv) the prospects for the real estate upon completion can be reasonably expected to be favorable.

The total contract value of property development activities undertaken and investments in uncompleted property developments should not exceed ten percent (10%) of the Deposited Property of the REIT.

SEC. 3. ***Leasehold Property***. Where a leasehold property is acquired, the consent of the regulatory authority to transfer the lease shall be obtained. The lease shall be a registered lease.

SEC. 4. ***Encumbrances.*** Unless otherwise disclosed, all real estate shall be free from all encumbrances at the time of acquisition, except for charges entered by financial institutions in relation to loan facilities extended for the construction or acquisition of the real estate.

SEC. 5. ***Insurance.*** All real estate acquired by the REIT shall be insured for their full replacement value, including loss of rental, where appropriate, with insurance companies approved by the Fund Manager.

SEC. 6. ***Single Entity Limit.*** Not more than fifteen percent (15%) of the Investible Funds of the REIT may be invested in any one issuer's securities or any one managed fund, except with respect to Philippine government securities where the limit is twenty-five percent (25%).

SEC. 7. ***Foreign Assets.*** A REIT may invest in local or foreign assets, subject to the terms of its Constitutive Documents and specific provisions of these Rules. Where an investment in a foreign real estate asset is made, the REIT should ensure that the investment complies with all the applicable laws and requirements in that foreign country, such as, but not limited to, foreign ownership restrictions, if any, and requisites of having good and valid title to the real estate.

SEC. 8. ***Aggregate Leverage Limit.*** The total borrowings and deferred payments of a REIT should not exceed thirty-five percent (35%) of its Deposited Property; provided, however, that the total borrowings and deferred payments of a REIT that has a publicly disclosed investment grade credit rating by a duly accredited or internationally recognized rating agency may exceed thirty-five percent (35%) but not more than seventy percent (70%) of its Deposited Property. Provided, further, that in no case shall a Fund Manager, borrow for the REIT from

any of the funds under its management.

SEC. 9. ***Related Party Transactions.*** Any contract or amendment thereto, between the REIT and Related Parties, including contracts involving the acquisition or lease of assets and contracts for services, shall comply with the following minimum requirements:

a. Full, fair, timely and accurate disclosures on the identity of the parties, their relationship with the REIT, and other important terms and conditions of the transaction have been made to the Exchange and the Commission;

b. Be on fair and reasonable terms, including the contract price;

c. Approved by at least a majority of the entire membership of the board of directors, including the unanimous vote of all independent directors of the REIT;

d. Must also be approved by the Related Party Transactions Committee which is constituted with the sole task of reviewing related party transactions. Majority of its members must be independent directors who shall vote unanimously in approving such related party transactions.

e. Compliance with SEC Memorandum Circular No. 10, series of 2019 on the Rules on Material Related Party Transactions for Publicly-Listed Companies, or such other relevant regulations that may be issued by the Commission.

f. Accompanied by a fairness opinion by an independent appraiser done in accordance with the valuation methodology prescribed by the Commission, in the case of an acquisition or disposition of real estate assets and property or share swaps or similar transactions; and

g. Any other matter that may be materially relevant to a prospective investor in deciding whether or not to invest in the REIT.

SEC. 10. ***Valuation.*** A full valuation of a REIT's assets shall be conducted by an independent Property Valuer, duly accredited by the Commission, at least once a year. No valuer shall value the same REIT for more than three (3) consecutive years. Subject to a curing period of three (3) years, the REIT may, however, re-engage the services of said property valuer. The Valuation Report, including the standards of asset valuation and valuation methodology shall be disclosed in the Annual Report of the REIT.

SEC. 11. ***Records.*** All procedures and processes followed, and decisions made in relation to whether or not to invest in a particular property shall be fully, properly and clearly documented by the REIT, the Fund Manager and the Property Manager, as may be applicable.

SEC. 12. ***Reportorial and Disclosure Requirements.***

12.1 Requirements. The REIT shall comply with the reportorial and disclosure requirements prescribed by the Revised Corporation Code, the SRC and the relevant Exchange. The BIR shall likewise be furnished copies of the reports herein prescribed. At the minimum, the REIT shall disclose the following information in its Annual, Quarterly or Current Report:

a. Material Contracts as defined under Rule 3(v);

b. Breach of the borrowing limit of the REIT and how and when to address said breach;

c. Investments of the REIT;

d. A proposed change in the Fund Manager, Property Manager, Property Valuer or auditor of the REIT, and the reasons therefore;

e. Valuation of the real estate properties of the REIT, including the valuation methodology used therefore;

f. Material changes in the income stream of the REIT;

g. Material changes in the REIT's financial forecast;

h. Any fee received by any party relating to the acquisition or disposition of the real estate of the REIT;

i. Giving or receiving a notice of intention to undertake a merger, consolidation, joint venture, takeover or spin-off involving the REIT;

j. Any modification of the rights of the holders of any class of securities issued by the REIT and the corresponding effect of such modification upon the rights of the holders;

k. Any declaration of cash dividend, stock dividend, property dividend and pre-emptive rights by the REIT;

l. Appointment of a receiver or liquidator for the REIT;

m. Losses or potential losses which amount to at least five percent (5%) of the value of the Deposited Property of the REIT;

n. Occurrence of any event of dissolution with details in respect thereto;

o. Acts or facts that might seriously impair the business activities of the REIT;

p. Any development activity undertaken by the REIT, including the essential details thereof;

q. Direct and indirect ownership of directors and Principal Officers in the securities of the REIT;

r. Any amendment to the Constitutive Documents of the REIT;

s. Any major change in accounting policy of the REIT; and

t. Any planned acquisition of outstanding shares or disposition of treasury shares of the REIT.

u. Summary of all real estate transactions entered into during the period, including the identity of the parties, the contract price and their valuations, including the methods of valuation;

v. Summary of all the REIT's real estate assets, including the location of such assets, their purchase prices and the latest valuations, rentals received and occupancy rates and/or the remaining terms of the REIT's leasehold properties; and

w. Comparative summary of the financial performance of the REIT for the same periods.

x. Any other disclosures as may be required by the Commission or the relevant Exchange including, where applicable, compliance by the Sponsor/Promoter with its Reinvestment Plan.

12.2 Failure of Compliance. Failure to comply with reportorial and disclosure requirements shall subject the REIT to the applicable penalties under the Securities Regulation Code and the rules of the relevant Exchange, without prejudice to the filing of the appropriate administrative, civil and/or criminal action under the REIT Act of 2009 or existing laws.

Rule 6 - Fund Manager

SEC.1. ***Fund Manager.*** A REIT shall appoint a Fund Manager who shall be independent of the REIT, its promoter/s or sponsor/s. To ensure independence of the Fund Manager from the REIT, the following shall be complied with:

1.1 Majority of the members of the board of the REIT Fund manager must be independent directors, at least one (1) of whom must have a working knowledge of the real estate industry, fund management, corporate finance, or other relevant finance-related functions;

1.2 The directors (including the independent directors) of the REIT and its Sponsors/Promoters cannot jointly occupy more than 49% of the board of directors of the REIT Fund Manager.

SEC. 2. ***Organization and Requirements.***

2.1 An entity may only engage in the business of a REIT Fund Manager once it has obtained the necessary license to act as such, in accordance with the rules and regulations of the Commission.

2.2 A REIT Fund Manager can either be a registered domestic corporation, a trust entity with an existing BSP license, or a foreign corporation duly licensed to do business in the Philippines, subject to the following minimum requirements:

a. duly licensed under these Rules to engage in the business of fund management for REIT. If the Fund Manager is a trust entity with an existing BSP license, it shall

be covered by existing BSP rules and regulations governing trust entities and regulations which the BSP may from time to time issue.

i. A Fund Manager that is a BSP registered trust entity is no longer required to secure a separate license for a REIT Fund Manager from the Commission, *Provided:* that the REIT has sufficiently established with the Commission that its appointed Fund Manager has complied with all the requirements under the REIT Act and this Implementing Rules and Regulations.

ii. Notwithstanding the immediately preceding paragraph, all REIT Fund Managers shall be supervised by the Commission.

b. with at least three (3)-year track record in the area of fund management, corporate finance, other relevant finance-related functions, property management in the real estate industry or in the development of real estate industry.

c. with a minimum paid-up capital of Fifty Million Pesos (Php 50,000,000.00). This capitalization shall remain unimpaired at any given time, otherwise, an additional capital infusion shall be made within three (3) working days from such impairment, *Provided:* that the Fund Manager shall comply with the additional paid-up capital, and/or other guidelines that may be prescribed by the Commission, in consideration of the nature, scale, and complexity of the Fund Manager's operations;

d. with sufficient human, organizational and technical resources for the proper performance of its duties, including two (2) responsible officers or a trust officer, in case of a trust entity, each of whom shall have at least three (3) years track record in fund management. At least one (1) of the responsible officers or a trust officer, in case of a trust entity, shall be available at all times to supervise the business of the Fund Manager;

2.3 Its physical office in the Philippines shall have a meaningful role in its business activities and must perform accounting, compliance and investor relations services in the Philippines. The following non- exhaustive factors are relevant to the assessment of the role of the Fund Manager in its business activities:

a. the composition and mandate of the Fund Manager's board of directors or trust committee and management committees;

b. the extent to which the chief executive officer or its equivalent, or its trust officer, and directors, or trust committee members who are resident of the Philippines participate in the formulation of investment strategies and financing activities of the Fund Manager; property acquisition; leasing; operational and financial reporting (including operating budgets); appraisals; audits; market review; accounting and reporting procedures, as well as refinancing and asset disposition plans;

2.4 Its chief executive officer or any equivalent officer, or trust officer must have two (2) full-time and qualified professional employees, who shall have a track record and

experience in financial management as well as experience in the real estate industry for at least three (3) years.

A Fund Manager is deemed to have complied with the track record requirement of the REIT Act if its chief executive officer and not less than two (2) of its full-time professional employees have a track record and experience in financial management as well as experience in the real estate industry for at least three (3) years prior to their employment. The chief executive officer and the 2 full-time qualified professional employees shall all be residents of the Philippines;

2.5 It must comply with the requirements on the number of independent directors, as provided under Sec. 1 hereof and under relevant law or appropriate regulatory authority, such as but not limited to pertinent provisions of the SRC and the Revised Code of Corporate Governance;

2.6 The qualifications and disqualifications of the directors of the Fund Manager must comply with the provisions of the Revised Code of Corporate Governance and the fit and proper rule prescribed in this IRR.

2.7 Must comply with the additional requirements or qualifications for a Fund Manager in accordance with the Fit and Proper Rule, the Revised Code of Corporate Governance, and such relevant regulations, which the Commission may prescribe from time to time.

SEC 3. ***Functions of the Fund Manager.*** The Fund Manager shall perform the following functions:

3.1 Implement the investment strategies of the REIT by: (i) determining the allocation of the Deposited Property to the allowable investment outlets in accordance with the REIT Plan and the investment strategy of the REIT; and (ii) selecting income-generating real estate in accordance with the investment strategy of the REIT.

Notwithstanding the written instructions of the REIT, it shall be the fiduciary responsibility of the Fund Manager to objectively evaluate the desired investments, and formally advise the REIT of its recommendation, even if contrary to the instruction;

3.2 Oversee and coordinate the following activities: property acquisition; leasing; operational and financial reporting (including operating budgets); appraisals; audits; market review; accounting and reporting procedures, as well as refinancing and asset disposition plans;

3.3 Cause a valuation of any of the real estate and other properties of the REIT to be carried out by the Property Valuer once a year and whenever the Fund Manager believes that such valuation is appropriate;

3.4 Take all necessary measures to ensure: (i) that the Net Asset Value per unit of a REIT is calculated as and when an annual valuation report is issued by the Property Valuer for the relevant period, and that such Net Asset Value per unit shall be disclosed in the annual reports; (ii) that the investment and borrowing limitations set out in the REIT Plan and the conditions under which the REIT was authorized are complied with; (iii) that all transactions carried out by or on behalf of the REIT are conducted at arm's

length; (iv) that at all times a REIT has proper legal title to the real estate it owns, as well as to the contracts (such as property contracts, rental agreements, joint venture or joint arrangement agreements, and any other agreements) entered into on behalf of the scheme with respect to its assets and that each such contract is legal, valid and binding and enforceable by or on behalf of the REIT; and (v) that the Property Manager obtains adequate property insurance for the real properties of the REIT from insurance companies approved by the Fund Manager. It shall take custody of all relevant documents supporting the insurance taken on real properties of the REIT.

3.5 Perform all such functions necessary and incidental to asset management.

SEC. 4. *Minimum Documentary Requirements.*

4.1 The arrangement between the REIT and the Fund Manager shall be covered by a written document entered into by the parties, accompanied by a Secretary's Certificate attesting to the approval by the board of directors of the REIT of the appropriate resolutions for the: (i) appointment of the Fund Manager, (ii) the establishment of the account, and (iii) designation of signatories to the account.

4.2 The contract between the REIT and the Fund Manager shall comply with the disclosure and other requirements prescribed for Related Party Transactions. The arrangement between the REIT and the Fund Manager shall be covered by a written document stating the following:

a. title or nature of contractual agreement in noticeable print;

b. legal capacities, in noticeable print, of parties sought to be covered;

c. purposes and objectives;

d. funds and/or properties subject of the arrangement;

e. distribution of the funds and/or properties;

f. duties and powers of the Fund Manager;

g. liabilities of the Fund Manager;

h. reports to the REIT, Commission, BIR and Exchange;

i. details of any custodianship arrangement;

j. terms, including period of engagement, termination of contractual arrangement and, in appropriate cases, provision for successor Fund Manager;

k. the exact amount or rate of the compensation of the Fund Manager, provided that the amount of fees that shall be charged to the REIT shall cover the fair and equitable share of the REIT in the total routine administrative expenses of the Fund Manager such as salaries and wages, supplies, credit investigation, collateral appraisal, security, messengerial and janitorial services, supervision fees imposed by the relevant regulatory agency and internal audit fees.

However, the Fund Manager may charge the REIT for special expenses in case such expenses are: (1) necessary to preserve or enhance the value of the fund; (2) payable to a non-related third party covered by a separate contract, and (3) disclosed to the REIT shareholders. *Provided,* however, that in no case shall the fees collected by the Fund Manager exceed 1% of the net asset value of the assets under management;

l. if the Fund Manager is a trust entity, a statement in noticeable print to the effect that the funds and properties are not covered by the Philippine Deposit Insurance Corporation and that losses, if any, shall be for the account of the REIT; and

m. disclosure requirements for transactions requiring prior authority and/or specific written investment directive from the REIT, court of competent jurisdiction or other competent authority.

4.3 A copy of the written agreement shall be submitted to the Commission together with the REIT Plan and the registration statement, and shall be available at the principal office of the REIT and the Fund Manager during regular office hours, for inspection by any shareholder of record of the REIT. Upon request, a copy of the written agreement shall be furnished such shareholder of record, and the cost of reproduction shall be at his own expense.

SEC. 5. ***Degree of Care and Diligence.*** The Fund Manager shall observe the care and diligence required under these Rules, as follows:

5. 1 The Fund Manager shall administer and manage the assets of the REIT with the skill care, prudence and diligence necessary under the circumstances then prevailing that a prudent man, acting in the same capacity and familiar with such matters, would exercise in the conduct of an enterprise of a like character and similar aims.

5.2 The Fund Manager shall have reasonable and adequate basis for preparing the investment recommendation.

5.3 The Fund Manager shall establish, maintain and implement written policies and procedures that ensure "best execution" of trades. To show proof of best execution, the Fund Manager shall maintain records or quotes from two (2) alternate providers, whenever applicable, or data from any reputable source that can best provide a basis for the asset's fair value. Such records shall be made available to the Commission upon request.

5.4 Funds or properties of a REIT managed by a Fund Manager shall not be commingled with the funds of other clients.

5.5 The Fund Manager may only outsource activities confined to backroom/accounting and securities custodianship arrangements.

5.6 When required under the Rules, the Fund Manager shall obtain the required approval for specific transactions prior to its implementation.

5.7 The Fund Manager shall provide the REIT with full and accurate information in order

to make an informed investment decision when approving a transaction or investment recommendation.

The Fund Manager shall promptly transmit/relay to investors all material facts necessary for them to protect their interest with the knowledge of or reasonably discoverable by the Fund Manager, particularly, information that could enable clients to make well-informed decisions.

SEC. 6. ***Conflict of Interest.***

6.1 Where a Fund Manager has a material interest in a transaction with or for the REIT, or a relationship which gives rise to an actual or potential conflict of interest in relation to such transaction, it shall neither advise, nor deal in relation to the transaction unless it has disclosed in writing that material interest or conflict to the REIT and has taken all reasonable steps to ensure fair treatment of the REIT.

It shall establish, maintain and implement written policies and procedures on conflict of interest, particularly to identify and deal with conflicts of interest situations.

6.2 The Fund Manager shall establish, maintain and implement written policies and procedures to ensure that its research is independent and impartial in order to provide a reasonable and adequate basis for making investment decisions and taking investment action.

SEC. 7. ***Lending and Investment Disposition.***

7.1 Management of the Funds. Assets received by the Fund Manager shall be administered in accordance with the terms of the written instrument signed by the parties.

7.2 Investment Strategy. Prior to making any investment recommendations or carrying out any transactions for or on behalf of the REIT, the Fund Manager shall establish and understand the investment objectives, instructions, risk profile and investment restrictions of the REIT. For this purpose, the REIT shall, on an annual basis, prepare a three (3)-year investment strategy consistent with the REIT Plan covering, among others, intended purchases and divestments of real and other properties. The REIT shall submit the investment strategy for the succeeding years to the Fund Manager in October of each year.

7.3 Discretionary Powers. When the Fund Manager is granted discretionary powers in the investment disposition of REIT funds, and unless otherwise specifically enumerated in the agreement or indenture and directed in writing by the REIT, court of competent jurisdiction or other competent authority, loans and investments of the fund shall be limited to:

a. Evidence of indebtedness of the Republic of the Philippines and any other evidence of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines; and

b. Loans fully guaranteed by the Republic of the Philippines as to the payment of principal and interest.

The specific directives required under this subsection shall consist of the following: (i) the transaction to be entered into; (ii) the party's name; (iii) amount involved; and (iv) collateral, if any.

7.4 Transactions Requiring Prior Authority. In addition to requirements of Related Party Transactions as provided in these Rules, a Fund Manager shall not undertake any of the following transactions for the account of the REIT, unless prior to its execution, such transaction has been fully disclosed and specifically authorized in writing or by official electronic correspondence by the REIT, court of competent jurisdiction or other competent authority:

a. Lend, sell, transfer or assign money or property to any of the departments, directors, officers, stockholders or employees of the Fund Manager or their relatives within the first degree of consanguinity or affinity, or to the related interest of such directors, officers and stockholders, or to any corporation where the Fund Manager owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right as Fund Manager or in a representative capacity or to any corporation which owns at least fifty percent (50%) of the subscribed capital or voting stock of the Fund Manager;

b. Purchase or acquire property or debt instruments from any of the departments, directors, officers, stockholders, or employees of the Fund Manager, or their relatives within the first degree of consanguinity or affinity, or to the related interest of such directors, officers and stockholders, or from any corporation where the Fund Manager owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity or to any corporation which owns at least fifty percent (50%) of the subscribed capital or voting stock of the Fund Manager;

c. Invest in equities of, or in securities underwritten by, the Fund Manager or a corporation in which the Fund Manager owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right or to any corporation which owns at least fifty percent (50%) of the subscribed capital or voting stock of the Fund Manager;

d. Sell, transfer, assign, or lend money or property from one managed fund to another, except when the investment is in evidence of indebtedness of the Republic of the Philippines or loans fully guaranteed by the Republic of the Philippines as to the payment of principal and interest.

The disclosure required by this subsection shall consist of the following minimum information: (i) the transactions to be entered into; (ii) identities of the parties involved in the transactions and their relationships; (iii) amount involved; and (iv) collateral securities, if any.

7.5 Funds Awaiting Investments or Distribution. Funds held by the Fund Manager awaiting investment or distribution shall not be held uninvested or undistributed any longer than is reasonable for the proper management of the account.

7.6 Order Allocation.

a. The Fund Manager shall establish, maintain and implement policies and procedures to ensure fair and equitable allocation of orders among its clients, including the REIT.

b. The Fund Manager shall ensure that the amount of commission or management fee earned from any particular client or transaction shall not be the determining factor in the allocation of orders.

c. Where the Fund Manager undertakes proprietary trading, the Fund Manager shall, in its agreement with the REIT, disclose to the REIT the method of selection and determination of securities transacted for the proprietary accounts and clients' accounts. The Fund Manager shall ensure that trades are not directed to benefit its proprietary accounts or any preferential clients and, for this purpose, shall establish information barriers or firewalls, closely supervise internal communication to prevent flow of information and maintain the confidentiality of pending transactions and the holdings of the REIT. Proprietary orders shall be conducted through a separate licensed representative of the Fund Manager who shall not be managing the REIT's funds.

d. Where the Fund Manager is part of a group of companies, which undertake other financial or real estate/property activities, the Fund Manager shall ensure that there is an effective system of functional barriers (firewalls) in place to prevent the flow of information that may be price sensitive or material and non- public, between the different areas of operations.

e. The Fund Manager shall establish, maintain and implement written policies and procedures to ensure that the interest of Related Parties shall not supersede the interests of the REIT. The Fund Manager shall disclose such policies to the REIT.

SEC. 8. ***Prohibition on Insider Trading/Misuse of Information***

8.1 The Fund Manager shall not effect or cause to be effected any transaction based on material non-public or price sensitive information, or where prohibited from dealing by statutory restrictions on insider trading.

8.2 The Fund Manager shall establish, maintain and implement written policies and procedures to prevent the misuse of material non-public or price sensitive information relating to the REIT by persons having access to such information. The Fund Manager shall ensure that persons having access to such information are aware of such restrictions.

8.3 The Fund Manager shall disclose all interests in securities as required by all applicable statutory requirements and shall ensure that its staff is aware of such requirements.

SEC. 9. ***Confidentiality of Information.***

9.1 The Fund Manager shall establish, maintain and implement written policies and procedures to ensure confidentiality of information relating to the funds and properties of the REIT.

9.2 Any information relating to the funds or properties of the REIT shall not be disclosed to a third party or an unauthorized person, unless there is a legal or regulatory requirement to disclose such information.

SEC. 10. ***Reports.*** The Fund Manager shall submit the following reports:

10.1 The three (3)- year investment strategy prepared by the REIT, which shall be due for submission to the Commission and the relevant Exchange on or before December of every year.

10.2 Quarterly written report on the performance of the REIT's funds and properties, and of the appropriate benchmarks shall be submitted to the REIT, the Commission, the BIR and the relevant Exchange within forty (45) days after the end of each quarter.

Rule 7 – Property Manager

SEC.1. ***Property Manager.*** A REIT shall appoint a Property Manager who shall be independent of the REIT, its promoter/s or sponsor/s. To ensure independence of the property manager from the REIT, the following shall be complied with:

1.1 Majority of the members of the board of the REIT property manager must be independent directors, at least two (2) of whom must have working knowledge of the real estate industry; and

1.2. The directors (including the independent directors) of the REIT and its Sponsors/Promoters cannot occupy more than 49% of the board of directors of the property manager.

SEC. 2. ***Independence.*** A REIT Property Manager must comply with the requirements on the number of independent directors, as provided under Sec. 1 hereof and under relevant law or appropriate regulatory authority, such as but not limited to pertinent provisions of the SRC and the Revised Code of Corporate Governance;

2.1 The qualifications and disqualifications of the directors of the Property Manager must comply with the provisions of the Revised Code of Corporate Governance and the fit and proper rule prescribed in this IRR.

2.2 Must comply with the additional requirements or qualifications for a Property Manager in accordance with the Fit and Proper Rule, the Revised Code of Corporate Governance, and such relevant regulations, which the Commission may prescribe from time to time.

SEC. 3. ***Minimum Qualifications.*** A REIT Property Manager shall comply with the following minimum qualifications:

3.1 It must employ either a real estate consultant, real estate appraiser, or a real estate assessor, who must be subject to compliance with relevant laws.

3.2 It shall possess sufficient human, organizational and technical resources for the proper performance of its duties, including two (2) responsible officers each of whom shall have at least three (3) years track record in property portfolio management, and at least one (1) of the responsible officers shall be available at all times to supervise the business of the Property Manager, including asset and property management.

3.3 It shall maintain satisfactory internal controls and written compliance procedures.

3.4 It shall have sufficient financial resources at its disposal to enable it to conduct its business effectively and meet its liabilities.

SEC. 4. ***Functions of the Property Manager.*** The Property Manager shall be responsible for managing all aspects of the real estate owned by the REIT. The Property Manager shall perform the following functions in accordance with the REIT Plan and the investment strategy of the REIT including the following:

a. plan the tenant mix and identify potential tenants;

b. formulate and implement leasing strategies;

c. enforce tenancy conditions;

d. ensure compliance with government regulations in respect of the real estate under management;

e. perform tenancy administration work, such as managing tenant occupancy and ancillary amenities, and negotiating with tenants on grant, surrender and renewal of lease, rent review, termination and re-letting of premises;

f. conduct rental assessment, formulating tenancy terms, preparing tenancy agreements, rent collection and accounting, recovery of arrears and possession;

g. secure and administer routine management services, including security control, fire precautions, communication systems and emergency management;

h. maintain and manage the physical structures/real properties;

i. formulate and implement policies and programs in respect of building management, maintenance and improvement; and

j. initiating refurbishment and monitoring such activity.

k. all such functions necessary and incidental to property management.

SEC. 5. ***Written Agreement.***

5.1 The contract between the REIT and the Property Manager shall be covered by a written document entered into by the parties, accompanied by a Secretary's Certificate attesting to the approval by the board of directors of the REIT of the appropriate resolutions for the appointment of the Property Manager.

5.2 The contract between the REIT and the Property Manager must comply with the disclosure and other requirements prescribed for Related Party Transactions and must be submitted to the Commission together with the REIT Plan and registration statement. The arrangement between the REIT and the Property Manager shall be covered by a written document stating the following:

a. title or nature of contractual agreement in noticeable print;

b. legal capacities, in noticeable print, of parties sought to be covered;

c. purposes and objectives;

d. real properties subject of the arrangement;

e. duties and powers of the Property Manager;

f. liabilities of the Property Manager;

g. reports to the REIT;

h. terms including the period of engagement, termination of contractual arrangement and, in appropriate cases, provision for successor Property Manager;

i. the exact amount or rate of the compensation of the Property Manager, provided that the amount of fees that shall be charged to the REIT shall cover the fair and equitable share of the REIT in the total routine administrative expenses of the Property Manager such as salaries and wages, supplies, appraisals, security, messengerial and janitorial services, supervision fees imposed by the relevant regulatory agency and internal audit fees. However, the Property Manager may charge the REIT for special expenses in case such expenses are: (1) necessary to preserve or enhance the value of the REIT's Deposited Properties; (2) payable to a third party covered by a separate contract, and (3) disclosed to REIT's stockholders. *Provided,* however, that in no case shall the fees collected by the Property Manager exceed 1% of the net asset value of the assets under management;

j. disclosure requirements for transactions requiring prior authority and/or specific written investment directive from the REIT, a court of competent jurisdiction or other competent authority.

5.3 A copy of the contract shall be submitted to the Commission together with the REIT Plan and the registration statement, and shall be available at the principal office of the REIT and the Property Manager during regular office hours for inspection by any shareholder of record of the REIT. Upon request, a copy of the written agreement shall be furnished such shareholder of record, at his own expense.

SEC. 6. ***Degree of Care and Diligence.*** The Property Manager shall observe the degree of care and diligence provided in these rules, as follows:

6.1 The Property Manager shall exercise diligence and thoroughness in the exercise of its functions.

6.2 The Property Manager shall be liable for the acts and omissions of its nominees and agents.

6.3 The Property Manager shall obtain approval for specific transactions prior to its implementation.

6.4 The Property Manager shall provide the REIT with full and accurate information in order to make an informed decision regarding property management matters.

6.5 The Property Manager shall not make any misrepresentation in any property management recommendation.

6.6 Properties of a REIT managed by a Property Manager shall not be commingled with the properties of other clients.

SEC. 7. ***Conflict of Interest.***

7.1 Where a Property Manager has a material interest in a transaction with or for the REIT, or a relationship which gives rise to an actual or potential conflict of interest in relation to such transaction, it shall neither advise, nor deal in relation to the transaction unless he has fully disclosed that material interest or conflict to the REIT and has taken all reasonable steps to ensure fair treatment of the REIT.

7.2 The Property Manager shall establish, maintain and implement policies and procedures to ensure fair and equitable allocation of resources among its clients, including the REIT.

7.3 The Property Manager shall ensure that the amount of commission or management fee earned from any particular client or transaction shall not be the determining factor in the allocation of resources.

7.4 Where the Property Manager is part of a group of companies which undertake real estate activities, the Property Manager shall ensure that there is an effective system of functional barriers (firewalls) in place to prevent the flow of information that may be price sensitive or material and non-public between the different areas of operations.

7.5 The Property Manager shall establish, maintain and implement written policies and procedures to ensure that the interest of Related Parties shall not supersede the interests of the REIT. The Property Manager shall fully disclose such policies to the REIT.

SEC. 8. ***Prohibition on Misuse of Information.*** The Property Manager shall establish, maintain and implement written policies and procedures to prevent the misuse of material non- public or price sensitive information relating to the REIT by persons having access to such information.

The Property Manager shall ensure that persons having access to such information are aware of such restrictions.

SEC. 9. *Confidentiality of Information.*

9.1 The Property Manager shall establish, maintain and implement written policies and procedures to ensure confidentiality of information relating to the funds and properties of the REIT.

9.2 Any information relating to the properties or funds of the REIT shall not be disclosed to any third party or unauthorized person, unless there is a legal or regulatory requirement to disclose such information.

Rule 8 – Fit and Proper Rule

SEC. 1. *Fit and Proper Rule.* To maintain the quality of management of the REIT and afford better protection to REIT investors, the Commission, or the concerned regulatory agency, shall prescribe or pass upon and review the qualifications of individuals elected or appointed as directors or officers of the REIT, REIT fund managers, REIT property managers, distributors and other REIT participants and disqualify those found unfit. The appropriate regulatory agency may disqualify, suspend or remove any director or officer who commits or omits an act which renders him unfit for the position.

In determining whether an individual is fit and proper to hold the position, regard shall be given to his integrity, experience, education, training and competence.

SEC. 2. *Disqualifications.* The following persons shall in no case be allowed to serve or act as director or officer or consultant of any REIT, REIT fund manager, or REIT property manager:

2.1 Any person convicted of any crime involving any security or financial product;

2.2 Any person convicted of an offense involving fraud or embezzlement, theft, estafa or other fraudulent acts or transactions;

2.3 Any person who, by reason of any misconduct, is enjoined by order, judgment, or decree by any court, quasi-judicial body or administrative agency of competent jurisdiction from acting as a director, officer, employee, consultant, or agent occupying any fiduciary position;

2.4 Any person found by the appropriate regulatory agency to have violated, or aided, abetted, counseled, commanded, induced, or procured the violation of this Act, the Revised Corporation Code, the General Banking Law, the Insurance Code, the Securities Regulation Code, or any related laws and any rules, regulations or orders thereunder;

2.5 Any person judicially declared to be insolvent, or incapacitated to contract; and

2.6 Any person found guilty by a foreign court, regulatory authority or government agency of the acts or violations similar to any of the acts or misconduct enumerated in the

foregoing paragraphs.

A conviction in the first instance shall be considered sufficient ground for disqualification. Applicants shall submit the pertinent clearances relative thereto.

Rule 9 – Property Valuer

SEC. 1. ***Appointment of an Independent Property Valuer.*** A REIT shall appoint a duly accredited independent Property Valuer to prepare a full valuation of a REIT's assets at least once a year in accordance with the applicable rules of asset valuation and valuation methodology prescribed by the Commission.

A property valuer shall not be considered independent if -

a. it is the subsidiary or holding company of:

   i. the REIT;

   ii. the Property Manager;

   iii. the Fund Manager;

   iv. any of the Principal Stockholders of the REIT; or

   v. the holding company, Subsidiary or Affiliate of the Property Manager, the Fund Manager, or any of the Principal Shareholders of the REIT; or

b. any of its partners, directors or Principal Officers is an officer, director or an associate of:

   i. the REIT;

   ii. the Property Manager;

   iii. the Fund Manager;

   iv. any of the Principal Shareholders of the REIT; or

   v. the holding company, Subsidiary or Affiliate of the Property Manager, the Fund Manager or any of its Principal Shareholders; or

c. any of its directors or Principal Officers holds or controls ten percent (10%) or more of the beneficial interest in, or the right to vote in the governing bodies of any of the entities in b(i), b(ii), b (iii) or b(iv); or

d. in case where the REIT intends to acquire or dispose of a property (the "subject property"), the Property Valuer or its associate:

   i. is engaged, whether as principal or agent, by the REIT's counterparty that intends or has agreed to sell or to purchase from the REIT the

subject property, in relation to the introduction or referral of the REIT to the subject property or vice versa;

ii. is engaged whether as principal or agent by the REIT in relation to the acquisition of the subject property;

iii. acts as a broker for the property transaction for a fee; or

iv. had, at any time during the one (1) year immediately before the date of the agreement for such intended purchase or disposal, been engaged to provide valuation of the subject property to the REIT's counterparty (or its Related Parties).

1.1 The Property Valuer shall ensure that its opinion and valuation is independent of and unaffected by its business or commercial relationship with other persons.

1.2 The directors and Principal Officers of the Property Valuer shall comply with the Fit and Proper Rule as described under these Rules.

SEC. 2. ***Qualifications Required of a Property Valuer.***

a. The appraisal company shall be registered with the Commission;

b. The certifying officer of the appraisal company shall be a professional appraiser duly licensed by the DTI or the Professional Regulatory Board of Real Estate Service pursuant to R.A. 9646 and an officer/member of good standing of any registered association of appraisal companies;

c. At the time of application, the company shall have a minimum experience of five (5) years in the appraisal business;

d. It shall have rendered professional services for at least one (1) commercial bank and two (2) public companies;

e. The appraisal company or any of its directors/officers shall have no adverse judgment on any administrative, civil or criminal case involving its appraisal business;

f. It shall be solvent and in sound financial condition.

The foregoing qualifications shall be supported by appropriate documents.

SEC. 3. ***General Obligations of a Property Valuer.***

3.1 The Property Valuer shall value all the real estate of the REIT, on the basis of a full valuation with physical inspection in respect of the site of the real estate and an inspection of the building(s) and facilities erected thereon once a year, and in any event for the purposes of issuance of new Investor Securities. The Property Valuer shall also produce a valuation report on real estate to be acquired or sold by the REIT or where new shares are offered by the REIT or in any other circumstances required by the Commission. The contents of the valuation report shall comply with these Rules.

SEC. 4. ***Criteria for Acceptability of the Property Valuer.***

4.1 The Property Valuer shall be a company that:

a. provides property valuation services on a regular basis;

b. carries on the business of valuing real estate in the Philippines;

c. possesses the requisite licenses required under relevant Philippine rules and regulations;

d. is accredited by the Commission;

e. has key personnel who possess the requisite licenses and are qualified to perform property valuations;

f. has sufficient financial resources at its disposal to enable it to conduct its business effectively and meet its liabilities;

g. has robust internal controls and checks and balances to ensure the integrity of valuation reports and that these reports are properly and professionally prepared in accordance with international best practices;

h. has adequate professional insurance to cover its usual risks; and

i. complies with the Fit and Proper Rule under these Rules.

SEC. 5. ***Valuation Report.***

5.1 The Property Valuer shall produce a valuation report which shall include, as a minimum:

a. all material details in relation to the basis of valuation and the assumptions used;

b. description and explanation of the valuation methodologies adopted;

c. overall structure and condition of the relevant market including an analysis of the supply/demand situation, the market trend and investment activities;

d. the particulars in respect of each property, such as:

i. an address sufficient to identify the property, which shall generally include postal address, lot number and such further designation as is registered with the appropriate government authorities;

ii. the nature of the interest the REIT holds in the property (e.g. if it is a

freehold or leasehold, and the remainder of the term if it is a leasehold);

iii. the existing use (e.g. shops, offices, factories, residential, etc.);

iv. a brief description of the property, such as the age of the building, the site area, gross floor area, net lettable floor area, and the current zoning use;

v. the options or rights of pre-emption and other encumbrances concerning or affecting the property;

vi. the occupancy rate;

vii. lease cycle duration;

viii. lease expiry profile;

ix. a summary of terms of any sub-lease or tenancies, including repair obligation, granted to the tenants of the property;

x. the capital value in existing state at the date the valuation was performed;

xi. the existing monthly rental before profits tax if the property is wholly or partly let together with the amount and a description of any outgoings or disbursements from the rent, and, if materially different, the estimated current monthly market rental obtainable, on the basis that the property was available to let on the effective date as at which the property was valued;

xii. the estimated current net yield;

xiii. a summary of any rent review provisions, where material;

xiv. the amount of vacant space, where material;

xv. material information regarding the title of the subject property as contained in the relevant opinion, and a discussion as to whether any and how the legal opinions have been taken into consideration in the valuation of the relevant property; and

xvi. any other matters which may affect the property or its value.

e. particulars [as set out in (c)] of any real estate for which the REIT has an option to purchase;

f. a letter stating the independent status of the Property Valuer and that the valuation report is prepared on a fair and unbiased basis;

g. an explanation of the rationale for choosing the particular valuation method, if more than one method is adopted.

5.2 Whenever a valuation report is prepared for the REIT, the date of the valuation report shall be:

a. the date the REIT is valued, if such report is prepared for the purpose of calculating the Net Asset Value of the REIT; or

b. the date which is not more than three (3) months before the date on which: (i) an offering document is issued; or (ii) a sale and purchase agreement (or other agreement to transfer legal title) is signed, if the transaction does not require shareholders' approval.

SEC. 6. ***Termination of the Services of a Property Valuer.***

6.1 The services of the Property Valuer shall be terminated after it has conducted valuations of the real estate of the REIT for three (3) consecutive years. Subject to a curing period of three (3) years, the REIT may, however, re-engage the services of said property valuer.

6.2 The Property Valuer shall be subject to removal by notice in writing from the REIT in any of the following events:

a. the Property Valuer goes into liquidation, becomes bankrupt or has a receiver appointed over its assets;

b. for good and sufficient reason, the Fund Manager states in writing that a change in the Property Valuer is desirable in the interests of the REIT shareholders; or

c. the Property Valuer violates these Rules or any other relevant law, rule or regulation.

6.3 In addition, the services of the Property Valuer shall be terminated in all other cases provided for in the Constitutive Documents.

6.4 Upon the termination or dismissal of the Property Valuer, the REIT shall appoint a new Property Valuer that meets the qualification requirements under these Rules.

Rule 10 - Taxes

SEC. 1. ***Compliance with BIR Regulations.*** The provisions on taxation of REITs provided under the REIT Act shall be subject to the relevant regulations promulgated by the BIR.

Rule 11 - Miscellaneous Provisions

SEC. 1. ***Corporate Governance.*** The Property Manager and the Fund Manager shall be subject to the principles of corporate governance adopted by the Commission.

SEC. 2. Supplemental Regulations. These rules may be supplemented by relevant regulations

which the Commission, Exchange, BIR and BSP may from time to time issue.

SEC. 3. ***Use of Registration Fees.*** To carry out the purposes of these Rules, the Commission shall retain and use fifty percent (50%) of all fees paid to it relative to the establishment of REITs and the registration of their securities in addition to its annual budget.

SEC. 4. ***Administrative Sanctions.*** The Commission shall, in its discretion, impose sanctions provided by law in the event of violation of any provision of the REIT Act, or this Rule or any applicable rules under the SRC and its respective IRR.

Sec. 5. ***Sanctions on Circumvention.*** Any circumvention of the REIT Act and this IRR shall be subject to the appropriate penalty, without prejudice to other actions which may be taken by the Commission.

SEC. 6. ***Separability Clause.*** If, for any reason, any article or provision of these Rules or any portion thereof or application of such article, provision or portion thereof to any person, group or circumstance is declared invalid or unconstitutional, the remainder of these Rules shall not be affected by such decision.

SEC. 7. ***Repealing Clause.*** All other rules and regulations or parts thereof, inconsistent with the foregoing rules and regulations are repealed, amended or modified accordingly.

SEC. 8. ***Effectivity Clause.*** These Rules shall take effect fifteen (15) days after its complete publication in the *Official Gazette* or in at least two (2) newspapers of general circulation in the Philippines.

Done this 20th day of January 2020, Pasay City

For the Commission:

EMILIO B. AQUINO
Securities and Exchange Commission
Chairperson

EPHYRO LUIS B. AMATONG
Commissioner

JAVEY PAUL D. FRANCISCO
Commissioner

KELVIN LESTER K. LEE
Commissioner

KARLO S. BELLO
Commissioner