

Accounting for REITs

By LO MUN WAI and THAM SAI CHOY

If Singapore is aligning accounting standards to be fully consistent with International Financial Reporting Standards (IFRS), why then are Real Estate Investment Trusts (REITs) still using Statement of Recommended Accounting Practice 7 (RAP 7): Reporting Framework for Unit Trusts instead of IFRS?

To answer this question, we have to understand the unique nature of REITs.

REITs in Singapore, being investment funds, are regulated by the Monetary Authority of Singapore under the Code of Collective Investment Schemes. The Code mandates that property funds adopt RAP 7 in preparing their financial statements.

RAP 7, it should be said, is a proudly-made-in-Singapore standard, one part of many different initiatives that together have created a viable capital market for REITs in Singapore.

A burgeoning market

Over the last two decades, the Singapore REIT market has grown to attract a global following of investors and, increasingly, a global relevance for foreign property assets too. There are over 35 REITs listed on the Singapore Exchange, with a total market capitalisation of over S\$90 billion. A list of the listed REITs with over S\$1 billion in market cap is shown in the table, "Singapore REITs".



Name	Market cap (S\$m)	Type
CapitaLand Mall Trust	8,925.71	REIT
Ascendas Real Estate Investment Trust	8,740.63	REIT
CapitaLand Commercial Trust	7,198.43	REIT
Suntec Real Estate Investment Trust	5,146.63	REIT
Mapletree Commercial Trust	5,143.65	REIT
Mapletree Logistics Trust	4,994.11	REIT
Keppel REIT	4,187.18	REIT
Mapletree Industrial Trust	4,008.23	REIT
Mapletree North Asia Commercial Trust	3,967.36	REIT
Fortune Real Estate Investment Trust	3,205.14	REIT
SPH REIT	2,636.05	REIT
Ascott Residence Trust	2,454.99	REIT
Frasers Logistics & Industrial Trust	2,206.68	REIT
Frasers Centrepoint Trust	2,138.57	REIT
Keppel DC REIT	1,987.35	REIT
CDL Hospitality Trust	1,937.38	Stapled Securities
Parkway Life Real Estate Investment Trust	1,712.16	REIT
ESR-REIT	1,711.89	REIT
Cromwell European Real Estate Investment Trust	1,691.12	REIT
Starhill Global Real Estate Investment Trust	1,505.03	REIT
Manulife US Real Estate Investment Trust	1,442.46	REIT
OUE Commercial Real Estate Investment Trust	1,430.79	REIT
CapitaLand Retail China Trust	1,411.99	REIT
Frasers Hospitality Trust	1,367.11	Stapled Securities
Frasers Commercial Trust	1,326.03	REIT
OUE Hospitality Trust	1,308.29	Stapled Securities
Far East Hospitality Trust	1,218.76	Stapled Securities

Source: S&P Capital IQ, as of 27 February 2019

With the growing strength of this REIT market, RAP 7 has become accepted amongst investors to be a reliable standard for financial reporting by REITs.

Indeed, RAP 7 has become the de facto standard for Singapore-listed REITs. This is despite the fact that these financial statements prepared under RAP 7 are not aligned with IFRS.

Purpose-built investment vehicles

REITs are different from other corporate entities listed on the Singapore Exchange. Indeed, they were created to be different. The REIT structure is purpose-made for investment assets with steady cash flows, which can be entirely distributed out to investors.

This structure has a simplicity that distinguishes REITs from more complex businesses that have different types of significant expenses and reinvestment requirements, all of which investors need information on.

RAP 7 serves to highlight exactly the kind of information that investors need of these purpose-made REITs, for example, the presentation of a distribution statement, distribution per unit and a portfolio statement. In this way, RAP7 can in fact perform the report function better than IFRS.

On the other hand, IFRS is a general financial reporting framework, and stipulates reporting requirements that help investors understand all kinds of vastly different organisations.

IFRS-compliant financial statements prepared by REITs would report more information, including information that an investor conversant with Singapore REITs may not require.

So, while investors would have more information under IFRS, retrieving the more relevant information for REIT investors would be more difficult.

Global capital markets

Still, whether RAP 7 or IFRS, accounting standards serve the needs of investors. In a global capital market, investors do not all have the same needs.

While existing REIT investors are prepared to invest with information from financial statements prepared under RAP 7, there may well be other investors who would be more inclined to invest in Singapore REITs if IFRS-compliant financial statements were available. Competition in the market applies to accounting standards as much as they do for investment funds.

Indeed, several Singapore-listed REITs, particularly those with foreign assets and sponsors, have chosen not to prepare their financial statements under RAP 7 and currently report under IFRS or Singapore Financial Reporting Standards (International) – the Singapore equivalent of IFRS.

Notwithstanding the above, such REITs have chosen to incorporate useful elements of RAP 7 in their financial statements. By doing so, in addition to tapping into the Singapore capital market, these REITs place their financial statements to be comparable to those of REITs in other countries that adopt IFRS. This is important to investors who choose investments across a global portfolio of REITs.

So, going forward, will RAP 7 or IFRS prevail? In an open market like Singapore's, reporting standards will continue to evolve to meet the needs of investors. Over time they learn from each other and converge to look more similar. What matters is that the financial reporting standards support the growth of a vibrant and relevant capital market in Singapore. ■

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