Relaxation from certain provisions for units allotted to an employee benefit trust for the purpose of a unit-based employee benefit scheme, Alignment of timelines for making distribution by REITs and Format of Quarterly Report and Compliance Certificate - Real Estate Investment Trusts (REITs)

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Background on the Circular

- The SEBI (Real Estate Investment Trusts) Regulations, 2014, were amended on July 13, 2024, to introduce a structured framework for Unit-Based Employee Benefit (UBEB) schemes. This framework allows the issuance of units to employee benefit trusts, aligning with preferential issue guidelines, including pricing criteria as set by SEBI. This aims to facilitate employee benefit schemes within REIT structures while ensuring regulatory compliance.

- Chapter 10 of the Master Circular for Real Estate Investment Trusts (REITs), dated May 15, 2024, outlines the guidelines for preferential issues and institutional placements of units by REITs. These provisions include specific restrictions related to lock-in periods and allotments, ensuring proper governance and market discipline in unit issuance.

- The guidelines stipulate that units allotted to non-sponsor entities through preferential issues are subject to a one-year lock-in period from the date of trading approval. Additionally, any pre-preferential issue holdings by such allottees are locked in for six months from the trading approval date. These measures aim to prevent speculative trading and ensure long-term

- Preferential issues are not allowed for individuals or entities who have sold or transferred units of the issuer during the 90 trading days preceding the relevant date. Furthermore, if any sponsor or sponsor group member has transferred units within this period, all members of the sponsor group are disqualified from receiving preferential allotments. This prevents misuse of insider information and promotes fair market practices.

- An exemption is provided in cases where the REIT acquires assets from a sponsor or sponsor group member. If units are issued as full consideration for such asset acquisitions, the restriction on preferential allotments does not apply. This ensures flexibility in asset transactions within REIT structures while maintaining transparency and fairness.

Additions in the Circular

Paragraph 10.6.4. is inserted as under

The lock-in requirement mentioned at paragraph 10.6.2. and 10.6.3. above shall not be applicable in case of units allotted to an employee benefit trust for the purpose of a unit-based employee benefit scheme in compliance with Chapter IVA of the REIT Regulations.

Following proviso is inserted under paragraph 10.7.1

"Provided further that this restriction on preferential issue of units shall not be applicable in case of units allotted to an employee benefit trust for the purpose of a unit-based employee benefit scheme in compliance with Chapter IVA of the REIT Regulations."

Quarterly Report and Compliance Certificate Requirements under REIT Regulations

Regulation 9(3) Overview

As per Regulation 9(3) of the Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014 (REIT Regulations), the trustee must oversee the manager's activities to protect the interests of unit holders. The trustee is responsible for ensuring the manager's compliance with Regulation 10 and obtaining a compliance certificate from the manager on a quarterly basis.

Regulation 10(18)(a) Overview

Regulation 10(18)(a) mandates that the manager submits quarterly reports to the trustee. These reports must include details such as receipts for all funds, payments made, compliance with specific regulations (18, 19, and 20), performance reports, and the status of under-construction properties. These reports must be submitted within 30 days after the end of each quarter.

Standardized Format for Reports and Compliance Certificate

To ensure consistency, the Indian REITs Association (IRA), in consultation with SEBI, has specified the format for the quarterly report and compliance certificate required under Regulation 10(18)(a) and Regulation 9(3). This format will be published on IRA's website. Any future changes to the format will be made by IRA after consulting SEBI.

Compliance Requirement

All REITs are required to adhere to the format specified by IRA to ensure compliance with the relevant regulations under the REIT Regulations.

Alignment of timelines for making distribution by REITs

- The REIT Regulations were amended on September 27, 2024, to revise the timelines for distributions by REITs, effective from November 27, 2024. The Master Circular for REITs, dated May 15, 2024, which includes procedural guidelines for handling unclaimed amounts, is also updated to align with these revised timelines

- Para 19.2 of Chapter 19 in the Master Circular for REITs has been revised to reflect the updated timelines for distribution, as per Regulation 18(16)(c) of the REIT Regulations. It acknowledges that distributions may remain unclaimed or unpaid due to reasons such as unitholders failing to update their account details.

- Clause A(1) in Part 1 of Annexure 14 has been updated to specify that if a distribution has been made within the timelines set by Regulation 18(16)(c), but remains unpaid or unclaimed, the manager must transfer the unclaimed amount to an Escrow Account. This transfer must be made within seven working days after the expiration of the distribution timeline. The Escrow Account, named the "Unpaid Distribution Account," must be opened by the manager on behalf of the REIT in a scheduled bank.

Impact of the Circular

To enhance ease of doing business and facilitate seamless implementation of Unit-Based Employee Benefit (UBEB) schemes within Real Estate Investment Trusts (REITs), it has been proposed that the lock-in and allotment-related restrictions typically applicable to preferential issues will not apply to units issued to employee benefit trusts. This initiative aims to simplify the process for employee benefit trusts to acquire units and subsequently transfer them to eligible employees in accordance with the terms of the UBEB scheme. By exempting such trusts from these restrictions, the framework ensures a smoother execution of employee-focused incentive programs while maintaining compliance with regulatory provisions

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