Ontario Securities Commission

OSC Staff Notice 51-724
Report on Staff's Review of REIT Distributions Disclosure

January 26, 2015

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SECURITIES
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Table of Contents

1. Purpose

Real Estate Investment Trusts (REITs) are companies that own, and may also operate, income producing real estate assets. While many REITs may generate capital appreciation, the ability to receive a dividend or distribution is of most importance to investors. As flow through entities, REITs are required to distribute taxable income to unitholders and do not incur tax. As a result, a key attribute of the REIT structure as an investment vehicle is to provide investors with an expectation of a predictable cash flow stream.

Given the importance of distributions to investors, a REIT's continuous disclosure record should provide investors with transparent information to assess the source of funding for distributions paid and, in turn, the sustainability of those distributions.

National Policy 41-201 *Income Trusts and Other Indirect Offerings* (NP 41-201)[1] governs certain disclosure expectations for REITs. Staff of the Ontario Securities Commission (we) recently reviewed the disclosure provided by 30 Ontario head office REITs, to assess the quality and sufficiency of disclosure provided by those REITs relating to the sustainability of their distributions, in light of NP 41-201.

While REITs were generally fulsome in their disclosures, our review identified the following four areas where disclosure should be improved. These concerns were heightened in instances where REITs provided excess distributions (ie. when distributions paid exceeded the cash flows generated by the REIT's underlying real estate properties):

- The content of disclosure where excess distributions are paid.
- Consistency of disclosure about excess distributions.
- Timely disclosure where a reduction or termination of distributions occurs.

[1] Part 1.2 of NP 41-201 specifically states that REITs are included in the scope of this policy.

- Presentation of metrics common to the real estate industry such as adjusted funds from operations (AFFO).

2. Introduction

The opportunity to receive stable and recurring distributions provides investors with an incentive to invest in REIT units. Investors may compare distribution yields across REITs in pursuit of the highest returns available in exchange for the level of risk assumed.

REITs are subject to a variety of risk factors which may negatively impact their distributions. Such risk factors include, but are not limited to, the following:

- Increases in market interest rates may eventually lead to a REIT's debt being refinanced at higher rates, placing downward pressure on the net operating cash flows used to finance distributions.
- Distributions financed by increasing levels of debt (as opposed to increases in underlying income or rents) are not sustainable.
- The population of potential investment properties which meet REIT investment objectives and strategy may be limited.

Since REIT distributions are typically characterized by a distribution of income, which exempt a REIT from the payment of income taxes as a flow through entity, investors will generally regard REIT distributions as a return on capital. In practice, a REIT which distributes more cash than it generated in the period from its operating activities may be using financing activities, such as the incurrence of additional debt, in order to provide distributions. Such distributions represent a return *of* capital, rather than a return *on* capital, since they ultimately decrease the value of the REIT's remaining net assets and therefore also decrease the value each unitholder will receive when they ultimately dispose of their units. REITs which consistently obtain cash flows from other financing sources aside from operations have a higher risk profile. For example, incurring additional debt to finance distributions creates additional interest expense, which further reduces a REIT's ability to pay ongoing distributions. Additionally, incremental sources of financing may not be available in the future.

As a result, REITs need to provide investors with sufficient information to help them evaluate how much cash is available for distribution and, if distributions exceed this amount, to provide clear disclosure acknowledging that a return of capital has occurred. Given the importance of distributions to investors, it is critical for investors to understand if the source for distributions is a REIT's own capital.

3. Disclosure Expectations

Item 2.1 of NP 41-201 states that "*the amount of cash distributed by [a real estate investment trust] may sometimes be greater than what it can safely distribute without eroding its productive capacity and threatening the sustainability of its distributions… We are concerned that disclosure by [real estate investment trusts] has not always been sufficiently plain to allow an investor to assess whether a possible concern exists in this respect.*" The following is a summary of expected disclosure, as outlined in NP 41-201, which is intended to address this concern:

- Item 2.5 of NP 41-201 discusses disclosure expectations related to any non-GAAP measure that a REIT may use to describe the amount of net cash it has generated during the period which is available for distribution[2]. This may include distributable cash, funds from operations or adjusted funds from operations.
- Item 6.5.2 of NP 41-201 discusses additional disclosure expectations which are applicable only in circumstances where a REIT's distributions exceed its cash flow from operations.

[2] Part 2.5 of NP 41-201 specifically refers to this non-GAAP measure as 'distributable cash' however part 2.1 of the policy further clarifies that disclosure expectations about distributable cash extend to any other non-GAAP measure which a REIT may use to describe the amount of net cash it has generated during the period which is available for distribution (such as funds from operations or adjusted funds from operations).

The following chart summarizes the disclosure expectations presented by NP 41-201 in each of the two aforementioned areas:

Disclosure	Subtopic	Disclosure Expectation[3]
Disclosure expectations when distributions exceed cash flow from operations (Item 6.5.2)	Quantify 'excess' distributions	Quantify the amount of distributions which were funded by sources of cash other than operating activities.
	Discuss any implications of 'excess' distributions	Acknowledge that a return of capital has been provided and discuss why a decision was made to provide distributions partly representing a return of capital.
		Discuss the specific sources of cash, such as debt, mortgages or other financing instruments, which were used to finance distributions in excess of operating activities. Quantify the amount of distributions financed by each instrument and summarize the repayment terms of each instrument, if any.
		Disclose whether a material contract was amended in order to fund distributions in excess of cash flow from operations.
		Disclose any risk factors related to providing distributions in excess of cash flow from operations and discuss whether such 'excess' distributions are expected to continue. Discuss any impact on the sustainability of distributions.
		Disclose whether cash distributions may be suspended in the foreseeable future.
Disclosure expectations regarding non-GAAP measures used to describe cash available for distribution (Item 2.5)	Purpose of the non-GAAP measure	Explain that the non-GAAP measure does not have a standard meaning and may not be comparable to other issuers.
		Explain why the non-GAAP measure provides useful information, and how management uses it as a financial measure.
	Reconciliation to the nearest GAAP measure	Reconcile the non-GAAP measure to the nearest GAAP measure, which is assumed to be cash flow from operations (not net income) since a non-GAAP measure which describes cash available for distribution is a cash flow measure.
		Present cash flow from operations (the nearest GAAP measure) with equal or greater prominence to the non-GAAP measure when providing any reconciliation to the non-GAAP measure.
	Changes in the non-GAAP measure	Explain any changes in the composition of the non-GAAP measure during the reporting period.

[3] The disclosure expectations outlined by NP 41-201 items 6.5.2 (including notes (i) through (vi)) and 2.5 (including subpoints (i) through (v)) are referred to in this column.

4. What We Found

4.1 Overall Results

We found generally that most REITs provide adequate disclosure about their distributions. However, our review did identify a significant number of REITs which distribute more than they generate in cash, without sufficiently highlighting this increased risk. Given the importance of maintaining distribution levels, we are concerned that management of REITs may face inherent pressure to hold or increase distribution yields over time, even if their ability to generate the cash needed to finance these distributions from underlying properties is not aligned. We are also concerned that investors may be potentially misled if these risks are not appropriately disclosed.

We sent comment letters to 50% of the REITs that we reviewed. The remaining REITs were not sent a letter because their distributions did not exceed cash flow from operating activities or because they provided adequate disclosures. Of the REITs that we sent comment letters to, staff requested 67% of these issuers to enhance their disclosure prospectively, which they did. None of the reviews identified the need to refile or restate continuous disclosure documents.

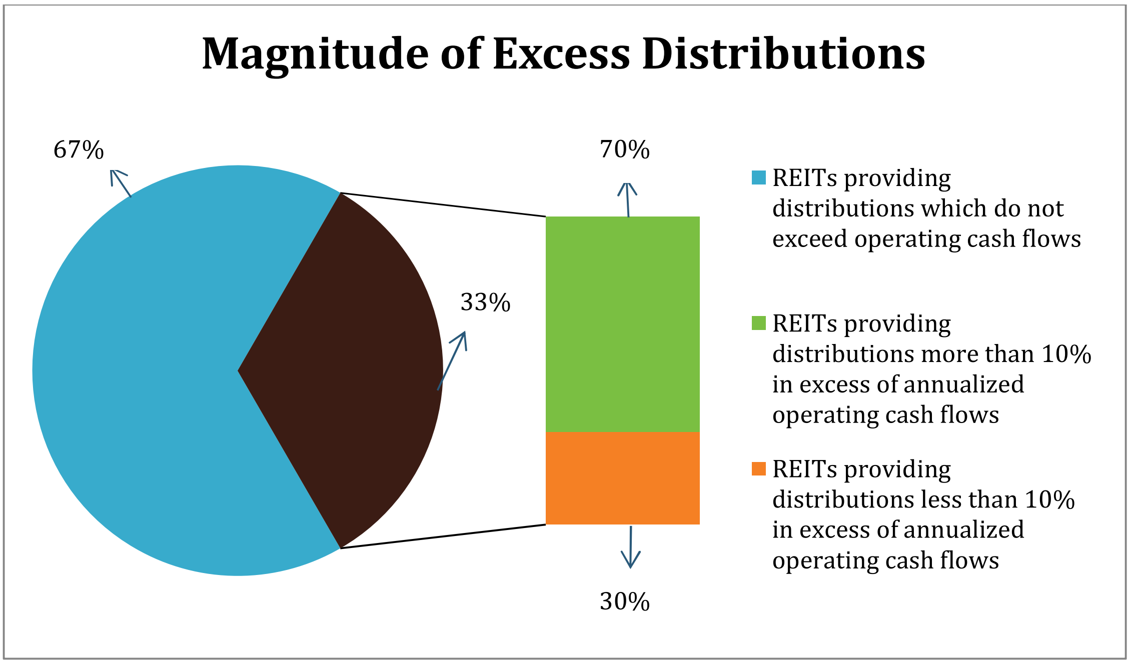
During the course of our review, we identified the following areas where improved disclosure is needed.

4.2 The Content of Disclosure Where Excess Distributions Are Paid

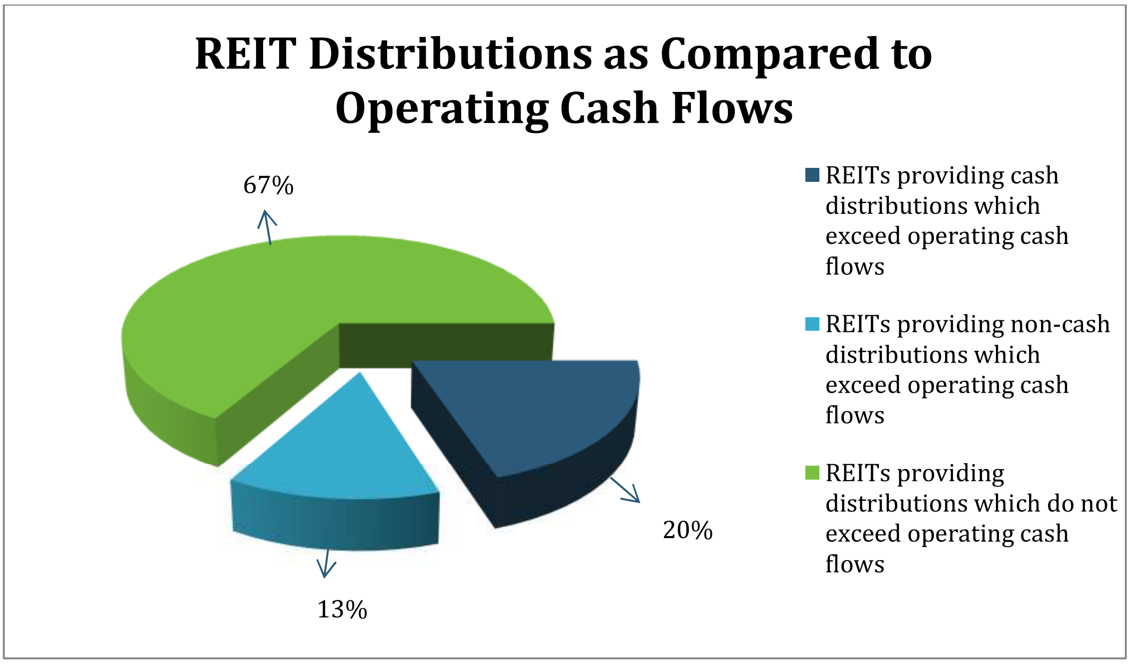
When distributions exceed cash flow from operations, it is important that REITs adequately provide disclosures which are necessary for investors to understand risks relevant to a REIT and its distributions.[4]

[4] Disclosure expectations in such instances are outlined by item 6.5.2 of NP 41-201.

Based on our review, 33% of REITs paid distributions which exceeded cash flow from operations. None of these REITs provided the expected disclosures in relation to their excess distributions, though some may have provided boilerplate disclosure. Distributions were in excess by more than 10% of annualized cash flows in 70% of the REITs whose total distributions (including both cash and non-cash distributions) exceeded cash flow from operations, signaling the magnitude by which other sources were used to finance distributions.



It is critical that investors receive prominent and transparent disclosure about the heightened risk profile which results from distributions in excess of cash flow from operations. REITs declaring distributions in excess of cash flow from operations should include relevant disclosure in their MD&A and in their Annual Information Form, in accordance with Part 1 *General Provisions* of Form 51-102F1 and Part 5.2 *Risk Factors* of Form 51-102F2 respectively.



The following example illustrates the type of boilerplate disclosure which was observed during our review in situations where excess distributions were paid, along with suggestions to improve disclosure with entity specific information.

Boilerplate excess distribution disclosure

Example #4.2(a) – Boilerplate disclosure

For the year ended December 31, 20XX the REIT's distributions paid of $25 million exceeds cash flow from operations over the same period, by $5 million. In assessing its distribution policy, the REIT considers certain items that may not be included in cash flow from operations, where the timing of cash flows may differ from the timing of payment of distributions.

Entity-specific excess distribution disclosure

Example #4.2(a) – Entity-specific disclosure

For the year ended December 31, 20XX the REIT's distributions paid of $25 million exceeded cash flow from operations, by $5 million. Distributions in excess of cash flow from operations represent a return of capital, rather than a return on capital, since they represent cash payments in excess of cash generated by the REIT's continuing operations during the period. The full excess amount of $5 million was financed by leveraging the REIT's existing revolving credit facility, which bears interest at LIBOR + 3% and is repayable on demand.

The REIT has elected to provide distributions partly representing a return of capital in order to maintain the stability of current distribution levels. Management believes that the current per share level of distributions is sustainable, given that cash flow from operations is expected to improve as the REIT continues to integrate its recently acquired European operations.

We also noted that 13% of REITs would have distributions in excess of cash flow from operations, if and only if non-cash distributions (including distributions paid in connection with a Distribution Reinvestment Plan, or "DRIP") are considered in quantifying the amount distributed. We believe that investors may be misled in the event that REITs do not provide any disclosure about excess distributions, solely because such excess distributions were non-cash. Investors may be potentially misled into believing there is no liquidity impact by the issuance of a non-cash distribution, however, recurring non-cash distributions could have an effect on the sustainability of cash distributions over time.

Non-cash distributions have the effect of increasing the number of units outstanding and therefore increase the aggregate dollar amount of distributions over time, assuming a stable cash component of distributions on a per unit basis. The following example suggests how REITs may improve their disclosure in this area.

Boilerplate disclosure regarding non-cash excess distributions

Example #4.2(b) – Boilerplate disclosure

For the year ended December 31, 20XX the REIT's cash distributions of $9 million were lower than cash flow from operations of $10 million.

Entity-specific disclosure regarding non-cash excess distributions

Example #4.2(b) – Entity-specific disclosure

For the year ended December 31, 20XX the REIT's total distributions paid of $13 million, consist of cash distributions of $9 million and non-cash distributions of $4 million provided under the DRIP.

Total distributions ($13 million) exceed cash flow from operations ($10 million) over the period. Distributions in excess of cash flow from operations do not represent an economic return of capital because the excess portion of distributions is non-cash in nature.

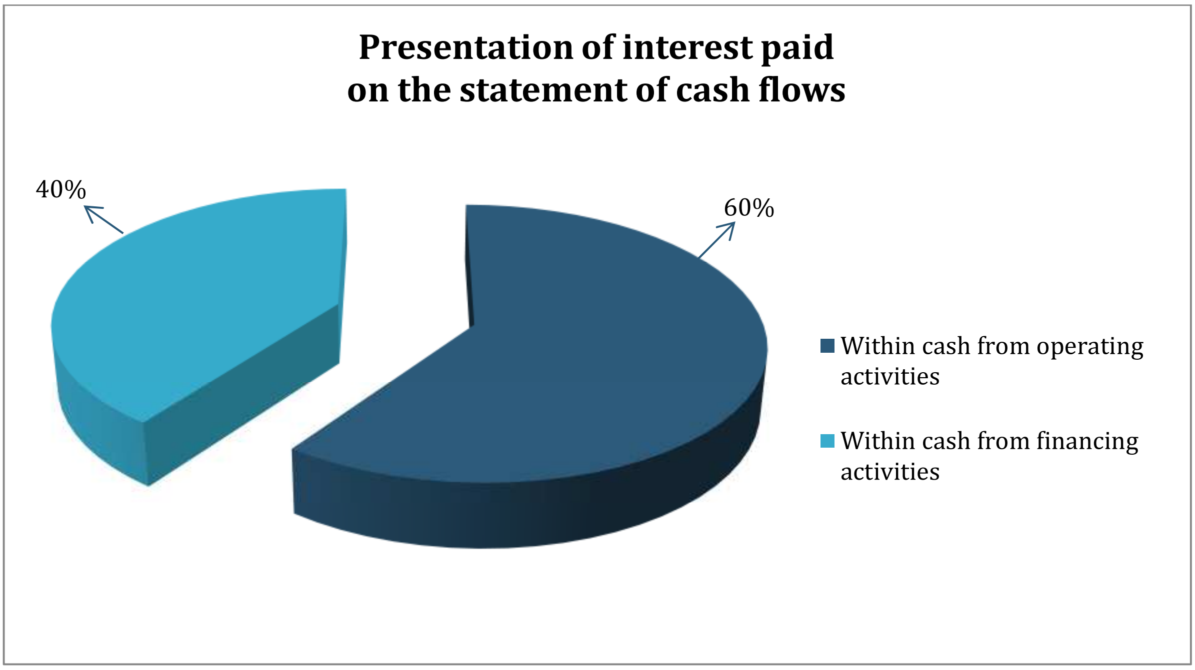
Non-cash distributions have the effect of increasing the number of REIT units outstanding, which will cause cash distributions to increase over time assuming stable per unit cash distribution levels. Management will continue to assess the sustainability of cash and non-cash distributions in each financial reporting period.

4.3 Consistency of Disclosure About Excess Distributions

Long term debt, as well as any related interest expense, is often material for REITs. In virtually all cases, investment properties held by REITs are leveraged against mortgages generating significant period to period interest expense. International Financial Reporting Standards ("IFRS") allow an accounting policy choice as to where borrowing costs are recorded on the statement of cash flows.[5] As a result, a REIT's cash flow from operations may include or exclude interest paid. The purpose of the cash flow from operations caption on a REIT's statement

[5] See paragraph 33 of International Accounting Standard 7 *Statement of Cash Flows*.

of cash flows is to illustrate the net amount of cash generated from, or used by, its principal revenue generating activities during the period.



NP 41-201 outlines additional disclosure expectations for REITs whose distributions exceed their cash flow from operations (see item 4.2 of this notice). However, for 10% of REITs reviewed, distributions did not exceed cash flow from operations only because the REIT has made an accounting policy choice to classify interest paid as a financing activity on the statement of cash flows. If these REITs had instead elected to classify interest as an operating cash flow item, then their distributions would have exceeded cash flow from operations.

While IFRS permits REITs an accounting policy choice relating to the classification of interest paid on the statement of cash flows, we are concerned that investors may be misled if the disclosure expectations outlined by item 6.5.2 of NP 41-201 are not provided soley as a result of this accounting policy choice.

By way of background, this accounting policy choice under IFRS represents a change from Canadian GAAP which previously required interest paid to be included within cash flow from operations on the statement of cash flows. United States Generally Accepted Accounting Principals also state that cash flow from operations is generally considered to represent the cash effects of transactions and other events that enter into the determination of net income, specifically including cash payments to lenders and other creditors for interest.[6]

During the course of our review, we examined the financial statements of certain REITs prior to and during the year of conversion to IFRS. We confirmed that five REITs did change their classification of interest paid from operating activities to financing activities on transition from Canadian GAAP to IFRS. These REITs typically did not disclose a reason for the change in policy on transition, since such disclosure is not required by IFRS.

While an accounting policy choice is available to REITs, the principal intent of NP 41-201 was the inclusion of interest within cash flow from operations. Now that REITs have a policy choice for the classification of interest under IFRS, we are of the view that if interest were reclassified from a financing activity (as this was the policy choice made under IFRS) to an operating activity, and if distributions would now exceed cash flow from operations, then disclosure under item 6.5.2 of NP 41-201 should be provided. This was and continues to be the principal intent of NP 41-201.

The following example illustrates two different situations in which the 'excess distribution' disclosures outlined by item 6.5.2 of NP 41-201 should be presented in a manner consistent with item 4.2 of this notice. The only difference between the two situations is the classification of interest paid on the IFRS statement of cash flows which, as discussed, should have no bearing on whether or not excess distribution disclosures are expected.

[6] See FASB Accounting Standards Codification 230-10-20 and 230-10-45-17(d)

Example #4.3(a) – Interest paid within operating activities

In the statement of cash flows shown, the REIT has made an accounting policy choice under IFRS to classify interest paid as an operating cash flow item. In this situation, distributions clearly exceed cash flow from operations (ie. the absolute value of [**B**] exceeds the absolute value of [**A**]) and therefore the 'excess distribution' disclosures outlined in item 4.2 of this notice should be provided in the REIT's AIF and MD&A.

CASH FLOW FROM OPERATIONS		
Net income	1,000,000	
Add (deduct) items not affecting cash		
Depreciation of property plant & equipment	150,000	
Stock based compensation	100,000	
Net change in non-cash working capital	(100,000)	
Interest expense	500,000	
Interest paid	(450,000)	
Cash flow from (used in) operations	**1,200,000**	**A**
CASH FLOW FROM INVESTING		
Purchase of property plant & equipment	(200,000)	
Cash flow from (used in) investing	**(200,000)**	
CASH FLOW FROM FINANCING		
Repayment of long term debt	(100,000)	
Distributions paid	(1,500,000)	**B**
Cash flow from (used in) financing	**(1,600,000)**	
Net increase (decrease) in cash during the period	(600,000)	
Cash, beginning of period	2,600,000	
Cash, end of period	2,000,000	

Summary:

Cash flow from operations (includes interest paid)	$1,200,000	**[A]**
Distributions paid	$1,500,000	**[B]**
Excess distributions	**($ 300,000)**	**[A] – [B]**

Example #4.3(a) – Interest paid within financing activities

In this statement of cash flows, the REIT has made an accounting policy choice under IFRS to classify interest paid as a financing item. Excluding the impact of that policy choice, the statement of cash flows shown in this example is identical to the previous example. However, in this example, cash flow from operating activities no longer exceeds distributions (ie. the absolute value of [**B**] no longer exceeds the absolute value of [**A**]). As discussed, we would still expect this REIT to present the 'excess distribution' disclosures outlined in item 4.2 of this notice because distributions would exceed cash flow from operations if those cash flows were adjusted to include a deduction for interest paid currently classified as a financing activity.

CASH FLOW FROM OPERATIONS		
Net income	1,000,000	
Add (deduct) items not affecting cash		
Depreciation of property plant & equipment	150,000	
Stock based compensation	100,000	
Net change in non-cash working capital	(100,000)	
Interest expense	500,000	
Cash flow from (used in) operations	**1,650,000**	**A**
CASH FLOW FROM INVESTING		
Purchase of property plant & equipment	(200,000)	
Cash flow from (used in) investing	**(200,000)**	
CASH FLOW FROM FINANCING		
Repayment of long term debt	(100,000)	
Interest paid	(450,000)	**C**
Distributions paid	(1,500,000)	**B**
Cash flow from (used in) financing	**(2,050,000)**	
Net increase (decrease) in cash during the period	(600,000)	
Cash, beginning of period	2,600,000	
Cash, end of period	2,000,000	

Summary:

Cash flow from operations	$1,650,000	**[A]**
Interest paid	($ 450,000)	**[C]**
Cash flow from operations, including interest paid	$1,200,000	**[A] + [C] = [D]**
Distributions paid	$1,500,000	**[B]**
Excess distributions	**($ 300,000)**	**[D] – [B]**

4.4 Timely Disclosure Where a Reduction or Termination of Distributions Occurs

The 'excess distribution' disclosures discussed in item 4.2 of this notice should be presented by a REIT in any period in which distributions exceed cash flow from operations. Such disclosures would include commentary about the sustainability of any excess distributions. However, there are other situations in which a REIT may need to provide disclosure about risks to the sustainability of distributions.

During our review we observed an instance where a REIT reduced or eliminated its distributions without providing sufficient advance notice to investors.

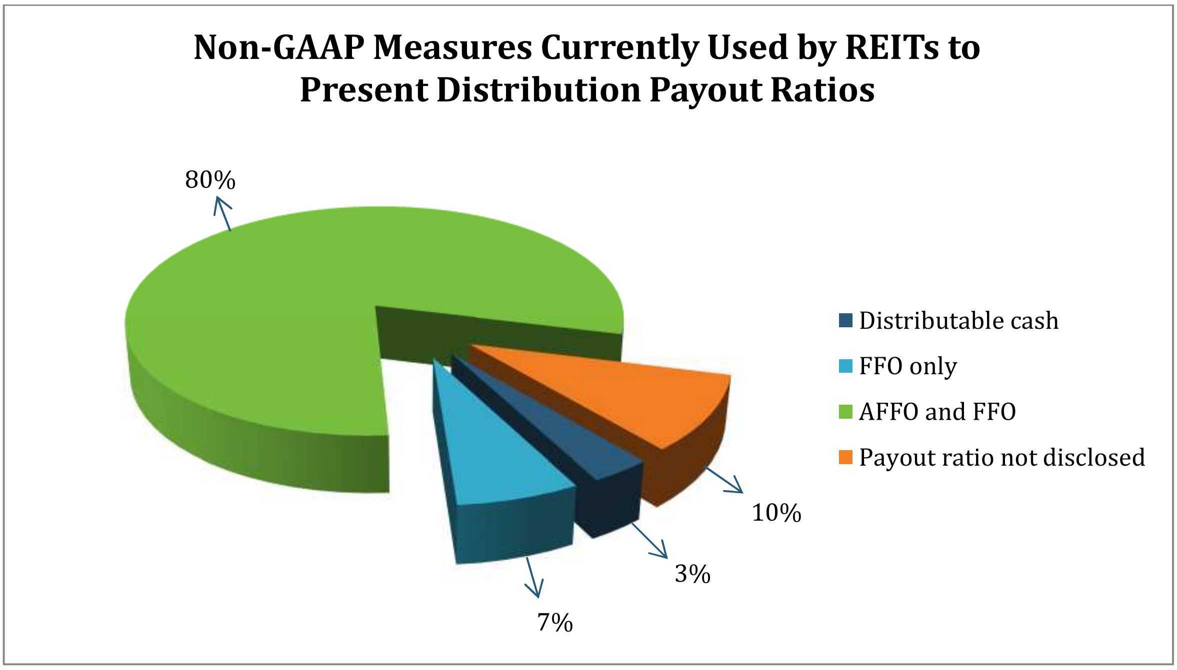
The timely disclosure policies outlined in part 2.1 of National Policy 51-201 – *Disclosure Standards* state that "*companies are required by law to immediately disclose a material change in their business. For changes that a company initiates, the change occurs once the decision has been made to implement it. This may happen even before a company's directors approve it, if the company thinks it is probable they will do so*." We are of the view that the reduction or elimination of distributions may constitute a material change.

Form 51-102F1 *Management's Discussion & Analysis* also requires a REIT to openly discuss bad news as well as good news. REITs should discuss trends and risks that are reasonably likely to affect them in the future, including any risks or events which may result in a possible reduction or elimination of distributions.

Sufficient advance notice of any prospective distribution reduction, either to conserve capital for use in future projects or because current distribution levels have become unsustainable, should be provided to investors as soon as practicable. It is critical that investors receive information required in order to understand and assess any risks related to the sustainability of distributions on a timely basis.

4.5 Presentation of Metrics Common to the Real Estate Industry Such As Adjusted Funds From Operations (AFFO)

Item 2.5 of NP 41-201 outlines disclosure expectations relating to distributable cash, however, distributable cash is infrequently used in practice by REITs today. We have observed that the REIT industry has moved towards the use of AFFO instead of distributable cash. These two terms, while not intended to be identical, in our view often both represent measures of the resources which have been generated by a REIT's operations and are available for distribution.



While industry guidance exists for FFO[7], there is currently no consensus in terms of what type of adjustments may or may not be included in the determination of AFFO. As a result there is diversity in practice amongst REITs as to what items are included in AFFO.

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[7] See 'White Paper on Funds From Operations for IFRS' dated April 2014 as issued by the Real Property Association of Canada.

While NP 41-201 does not specifically mention AFFO, part 2.1 of the national policy does indicate that "*some issuers have refered to net cash available for distribution by a term other than distributable cash… Distributable cash includes all such other terms used to describe the amount available for distribution to… securityholders.*"

REITs routinely quantify their distributions as a percent of AFFO. During the course of our review we also noted that some REITs describe the nature and purpose of AFFO as:

- A measure of cash generated by operating activities, after providing for stabilized operating capital requirements.
- An alternative measure of cash generated from operations.
- Indicative of ability to pay distributions.
- An indicator of the sustainability of cash distributions.

When AFFO represents a cash flow measure because the adjustments used to arrive at AFFO encompass adjustments for non-cash items, we are of the view that AFFO would represent a measure of the net cash available for distribution to securityholders. In such situations, REITs should ensure that they are consistent with the disclosure expectations outlined in item 2.5 of NP 41-201 for distributable cash, related to any AFFO disclosure provided.

The following example illustrates deficient AFFO disclosure which is then revised to conform to the disclosure expectations of item 2.5 of NP 41-201 for distributable cash.

Example #4.5(a) – Deficient AFFO disclosure

	Current Year	Prior Year
Net income	1,000,000	700,000
Amortization and depreciation	200,000	100,000
Straight line rent adjustment	(300,000)	(200,000)
Fair value adjustments to investment properties	10,300,000	5,500,000
Adjusted Funds From Operations	**11,200,000**	**6,100,000**

Distributions	7,000,000	4,000,000
Payout ratio (distributions / AFFO)	62.5%	65.6%

This example contains the following areas where disclosure can be improved to meet the disclosure expectations of NP 41-201:

- The non-GAAP measure AFFO has been presented in bold font whereas the nearest GAAP measure (net income) has not. Item 2.5(ii) indicates that the nearest GAAP measure should be presented with equal or greater prominence to the non-GAAP measure.
- AFFO has been reconciled to net income. Item 2.5(iv) indicates that it should be reconciled to cash flow from operations.
- No disclosure has been provided to indicate that AFFO does not have a standard meaning under IFRS and may not be comparable to AFFO as quantified by other entities (item 2.5(i)) or how it provides useful information to investors and how management uses it as a financial measure (item 2.5(iii)).

The above noted deficiencies have been amended in the following enhanced disclosure.

Example #4.5(a) – Enhanced AFFO disclosure

	Current Year	Prior Year
Cash flow from operations	**10,000,000**	**8,000,000**
Change in non-cash working capital	1,000,000	(2,000,000)
Initial direct leasing costs and lease incentives	200,000	100,000
Adjusted Funds From Operations	**11,200,000**	**6,100,000**

Distributions	7,000,000	4,000,000
Payout ratio (distributions / AFFO)	62.5%	65.6%

Management believes that AFFO is an important measure of our economic performance. As an alternate measure of cash flow from operations, AFFO is indicative of our ability to pay distributions to unitholders. AFFO is a non-GAAP measure which does not have a standard meaning as defined by IFRS and therefore it may not be comparable to AFFO as presented by other entities.

REITs should also ensure that the nature of adjustments included within AFFO is sufficiently explained and consistent from reporting period to reporting period.

The following is an example of a REIT's reconciliation of AFFO (a non-GAAP measure) to cash flow from operations (the nearest GAAP measure). This disclosure is expected by item 2.5(iv) of NP 41-201 in respect of distributable cash and, since AFFO is a measure of amounts available for distribution to unitholders, we are of the view that such disclosure should be provided for AFFO.

Example #4.5(b) – Deficient AFFO disclosure

	Current Year	Prior Year
Cash flow from operations	**5,000,000**	**4,000,000**
Change in non-cash working capital	1,000,000	(2,000,000)
Normalized lease expenditures	900,000	-
Adjusted Funds From Operations	**6,900,000**	**2,000,000**

In this reconciliation, it is not clear whether a prior year impact of the normalized lease adjustment is applicable. The REIT may not have included an adjustment for normalized lease expenditures in the prior year as it may not have had a favourable impact to AFFO. REITs should ensure that adjustments included in the determination of AFFO are included consistently from year to year. If REITs identify a new reconciling item then they should ensure that the adjustment is reflected in the prior year comparative figures as well. Additionally, the nature of the normalized lease expenditure adjustment in this example has not been explained in sufficient detail for investors to be able to understand what it relates to and/or how it was determined.

In the enhanced disclosure provided, the prior year AFFO reconciliation included the impact of the normalized lease expenditure adjustment, even though the adjustment was not favourable to AFFO. Additional detail about the nature of the adjustment has also been provided in a footnote, including the factors and assumptions related to the adjustment.

Example #4.5(b) – Enhanced AFFO disclosure

	Current Year	Prior Year
Cash flow from operations	**5,000,000**	**4,000,000**
Change in non-cash working capital	1,000,000	(2,000,000)
Normalized lease expenditures **[1]**	900,000	(1,500,000)
Adjusted Funds From Operations	**6,900,000**	**500,000**

[1] In the calculation of AFFO the REIT makes an adjustment to normalize lease expenditures incurred (such as tenant incentives and direct leasing costs) to 5% of net operating income. The 5% assumption is based on historical results and will continue to be reassessed in prospective reporting periods.

5. Conclusions

Our review identified that the majority of REITs pay their distributions in alignment with cash generated from underlying properties. However, where distributions exceed cash flow from operations, the findings of our review indicate that the quality and consistency of disclosure for REIT distributions are areas which need improvement. In large part, guidance contained in NP 41-201 which was intended to guide staff disclosure expectations where excessive distributions have been paid has been absent in REIT continuous disclosure.

REITs are an important investment vehicle for many investors and we expect a REIT's disclosure to accurately represent its current risk profile, and its ability to sustain distributions at current levels. Wherever possible, this disclosure should be available to investors as soon as relevant information becomes available so that they may assess the sustainability of distributions well in advance of any actual reduction or termination of distributions. We expect the outcome of this review to improve the transparency and completeness of REIT distribution disclosure on a prospective basis.

Given the importance of this disclosure to investors, we will continue to assess these items in our continuous disclosure and prospectus review programs. REITs who have not complied with these disclosure expectations will be expected to take corrective action.

The OSC Inquiries & Contact Centre operates from
8:30 a.m. to 5:00 p.m. Eastern Time, Monday to Friday,
and can be reached on the Contact Us page of

osc.gov.on.ca

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