Debt and Derivatives Disclosure Notes

Background and Summary

Professional Standards

Introduction

The INREV Debt and Derivatives Disclosure Notes ("the Notes") provide investors with detailed information about an investment vehicle's financing and hedging arrangements in a standardised disclosure format. Investment managers can present this information alongside the material disclosures required by the respective GAAP of the vehicle.

The accompanying templates and basis of presentation do not represent a requirement for compliance with the INREV Guidelines. These were developed to provide consistency of content and approach when investment managers report specific information about debt and derivatives to investors.

Latest update

The Notes were updated in response to investor expectations, the evolution of the financing and investment markets, and the increasing demand for ESG-related information such as risk assessments and covenants.

Compared to the previous 2017 version, the Notes include additional templates for several sections such as Loans and Borrowings (eg ESG-related covenants), Derivative Financial Instruments and Other information. Further clarity was also provided on the rationale behind these tables and examples.

See Change Log on page 11.

The new 2024 version of the Notes is divided into two parts:

1. Background and summary:

Describes the main topics, content and rationale, along with a mapping to the relevant INREV Reporting Guidelines. Additionally, a checklist is included to assist users verify the debt and derivatives-related information when reporting to investors.

2. Practical Templates:

Contains detailed tables and examples (in MS Excel format) illustrating how debt and derivative information can be effectively presented to investors.

While this information is expected to adhere to widely recognised GAAP standards, other disclosures may be required based on the vehicle's specific financing structure and regulatory obligations.

To avoid double counting, an initial assessment should be performed to determine whether the information provided in the Notes has already been included in the vehicle's financial statements. The information could be disclosed both in the year-end accounts and quarterly reporting to investors.

This document does not cover all mandatory IFRS requirements as they can vary based on factors such as the vehicle's domicile and regulatory restrictions, accounting standards, and materiality, which can also change over time.

It is recommended to include explanatory text alongside the Notes for further clarity.

Background and Summary

Financing categories

Financing for real estate and real estate vehicles can take various forms and structures. These different categories should be disclosed separately. Disclosure on a detailed, loan-by-loan basis is preferred. However, in the case of a large number of debt and derivate arrangements, such as more than 20 arrangements, an aggregation may be more appropriate.

Examples of financing categories (types):

- Debt from credit institutions
- Shareholder loans
- Mezzanine
- Bonds
- Convertible loans or notes
- Index rate financing
- Loans from associate /JVs and other related parties
- Contingent considerations
- Credit facilities
- Redeemable preferences shares
- Other loans

Counterparty names or specific loans may be anonymised (eg Counterparty 1, Counterparty 2, etc.), or aggregated in categories, if this information is deemed to be sensitive.

It is also recommended to provide information on facilities or loans regarding amounts drawn vs commitments, as well as information on potential funding available from external and related-party sources.

Sections and explanations

The sections included in the Notes are as follows:

A. Loans and Borrowings

B. Foreign Currency

C. Derivative Financial Instruments

D. Other Information

A. Loans and Borrowings

A.1 Analysis by category short and long term

This overview gives investors an insight into the current debt position on a detailed level, per category, with a direct tie into the financial statements.

Investment managers should consider providing an analysis of the vehicle's loans and borrowings, divided into long term obligations (more than one year after financial reporting period end) and short term obligations (less than one year after financial reporting period end).

A.2 Analysis of secured borrowings per category

This overview gives investors an insight into the secured debt measurements as well as the carrying value of the respective assets.

Investment managers should consider providing an analysis of the vehicle's secured loans and borrowings at both fair value and amortised cost, including carrying values of the respective assets securing these loans.

A.3 Analysis of maturity for each loan

This overview gives investors an insight into the vehicle's respective category maturity profile based on contractual undiscounted payments including interest payments and excluding the impact of netting arrangements, if applicable.

Investment managers should consider providing a maturity analysis for each debt category of the vehicle at period-end, including both, the used and unused loan facilities.

The following periods could be relevant:

< 1year	1-2Years	2-3 years
3-4 years	4-5 years	> 5 years

A.4 Analysis of interest and fair value for loans and derivatives

Investment managers should consider providing an interest and fair value analysis for each debt category of the vehicle at period-end. This includes the fair value of all loans, even if these are presented at (amortised) cost in the vehicle's financial statements.

Additionally, investment managers should consider describing the methodology used, specify any underlying curves used, and consider disclosing if a sophisticated model or external service provider was involved.

Reference to IFRS 13 Fair Value Measurements which defines "fair value" and sets out in a single framework for measuring fair value along with the disclosures is necessary to understand what underpins the fair value measurements.

For further guidance on how to calculate the fair value of debt obligations, and what are the most common methodologies used, please refer to the INREV NAV-Q13 Q&A section.

A. Loans and Borrowings

Fair value sensitivity

This information can assist investors in understanding the potential impact of changes on the respective items and the quantitative effects on the financial position.

Investment managers should consider providing an analysis of the effect of an [X]% increase or decrease in margin and the effect of an [X]% increase or decrease in the spot rate or interest curve, holding all other variables constant.

A.5 Overview of quantitative covenants applicable for loans and borrowings

Investment managers should consider providing an overview of quantitative loan covenants and disclose qualitative information on the effects of a breach of the loan covenants and whether and how a breach can be remediated/cured.

If loan agreements have been breached, the disclosure should include details of the default, along with the carrying amount of loans in default at the balance sheet date. Additionally, the investment manager should consider clarifying whether the default was remedied, or if the loan terms were renegotiated before the financial statements were approved by the vehicle's board.

For illustration purposes, the Notes include three ratios as examples, LTV (Loan to Value), ICR (Interest Coverage Ratio), and DSCR (Debt Service Coverage Ratio). These may be calculated according to the specific details of the loan or financial instrument. Users may reference the industry definitions as outlined in the Global Definition Database and the INREV SDDS.

A.6 Overview of ESG covenants applicable for loans and borrowings

Investment managers should consider providing an overview of ESG-related loan covenants, detailing both quantitative measures and qualitative factors.

The Notes present several key performance indicators (KPIs) as examples. These could be adjusted based on the entity specific covenants, as relevant. Additionally, if the loans qualify as an ESG (green) loan based on specific requirements or rationale, such details should be disclosed.

Investment managers should consider disclosing the effect of (non-)adherence to the non-financial covenants and clarifying whether non-adherence impacts only interest rates or if it could potentially lead to a default scenario.

Additional disclosures

Other items to be considered by investment managers include, but are not limited to:

- Cross guarantee and collateralisation arrangements, as relevant
- Other covenants, as relevant
- Financial guarantees and loan commitments to related parties
- How covenants are calculated, if not clearly stated.

B. Foreign Currency

B.1 Analysis of foreign currency exposure

Investment managers should consider providing an analysis of the vehicle's foreign currency exposure. This includes, but is not limited to, the following examples:

- Exposure before (foreign currency forward contracts)
- Foreign currency forwards contracts
- Net exposure

C. Derivative financial instruments

C.1 Analysis of derivative financial instruments

Investment managers should consider providing an analysis of the vehicle’s derivative financial instruments. This includes a breakdown of the vehicle's interest derivatives where hedge accounting is used and those where it is not being used.

Additionally, investment managers should consider disclosing information regarding hedge ineffectiveness recognised in the Profit or Loss statement from cash flow hedges during the reporting period.

Investment managers should also consider disclosing details of the prices paid and received for derivatives over the reporting period.

C.2 Interest rate sensitivity analysis

Investment managers should consider analysing how different percentage points increase or decrease in interest rates, for example 1%, impacting the financial position, assuming all other variables, particularly foreign currency rates, remain constant.

The Notes provide examples of how a 1% change in interest rates as of the balance sheet date could increase or decrease the equity and the net result by the specified amounts. This calculation assumes that the change occurred at the balance sheet date and was applied to risk exposures existing at that date.

C.3 Analysis of foreign exchange derivative financial instruments

Investment managers should consider providing an analysis of the vehicle’s foreign exchange derivative financial instruments.

For detailed disclosure requirements on foreign exchanges hedging, please refer to IFRS 7.

C.4 Foreign exchange sensitivity analysis

Investment managers should consider providing an analysis of the effect of an [X]% change in vehicle currency against the respective foreign currencies, assuming all other variables remain constant.

D. Other information

D.1 Underlying debt structure and strategy

Investment managers should consider providing an analysis on the vehicle's underlying debt structure and financing strategy.

D.2 Risk exposure

Investment managers should consider providing an analysis on the vehicle's risk exposure, as outlined in IFRS 7.

D.3 Liquidity Risk forward looking exposure

Investment managers should consider providing an analysis on the liquidity risk forward looking exposure, including management's expectations regarding foreseeable future refinancing, interest rate risk, potential breaches (headroom), and respective asset risk (such as foreclosure of forced sale).

Mapping to INREV Reporting guidelines

The following table maps the relevant INREV Reporting Guidelines to the respective Debt and Derivatives Disclosure Notes:

INREV Reporting Guideline	Respective Debt and Derivatives Disclosure Note
RG61	D.2 Risk exposure D.3 Liquidity Risk forward looking exposure
RG64	All
RG65	All
RG66	All
RG67	A.4 Analysis of interest and fair value for loans and derivatives C.1 Analysis of derivative financial instruments C.2 Interest rate sensitivity analysis

Checklist

The following checklist assists users in verifying that all relevant information is included when reporting to investors:

Item	Note or page of the respective report
A. Loans and borrowings	
A.1 Analysis by category short and long term	
A.2 Analysis of secured borrowings per category	
A.3 Analysis of maturity for each loan	
A.4 Analysis of interest and fair value for loans and derivatives	
A.5 Overview of quantitative covenants applicable for loans and borrowings	
A.6 Overview of ESG covenants applicable for loans and borrowings	
B. Foreign Currency	
B.1 Analysis of foreign currency exposure	
C. Derivative financial instruments	
C.1 Analysis of derivative financial instruments	
C.2 Interest rate sensitivity analysis	
C.3 Analysis of foreign exchange derivative financial instruments	
C.4 Foreign exchange sensitivity analysis	
D. Other information	
D.1 Underlying debt structure and strategy	
D.2 Risk exposure	
D.3 Liquidity Risk forward looking exposure	

Change Log - 2017 vs 2024 version

Section	2017 version	2024 version
A. Loans and borrowings		
	A.1 Analysis by category	A.1 Analysis by category short and long term
	-	A.2 Analysis of secured borrowings per category
	A.2 Analysis of maturity for each loan	A.3 Analysis of maturity for each loan
	A.3 Analysis of interest and fair value for each loan	A.4 Analysis of interest and fair value for loans and derivatives
	A.4 Overview of quantitative covenants applicable for loans and borrowings	A.5 Overview of quantitative covenants applicable for loans and borrowings
	-	A.6 Overview of ESG covenants applicable for loans and borrowings
B. Foreign currency		
	B.1 Analysis of foreign currency exposure	B.1 Analysis of foreign currency exposure
C. Derivative financial instruments		
	C.1 Analysis of derivative financial instruments	C.1 Analysis of derivative financial instruments
	C.2 Interest rate sensitivity analysis	C.2 Interest rate sensitivity analysis
	C.3 Analysis of foreign exchange derivative financial instruments	C.3 Analysis of foreign exchange derivative financial instruments
	C.4 Foreign exchange sensitivity analysis	C.4 Foreign exchange sensitivity analysis
D. Other information		
	-	D.1 Underlying debt structure and strategy
	-	D.2 Risk exposure
	-	D.3 Liquidity Risk forward looking exposure

Legend

New or updated sections

INREV