



香港財經分析師學會

THE HONG KONG SOCIETY OF FINANCIAL ANALYSTS

26<sup>th</sup> February 2014

Sent by Email and by Post

The Securities and Futures Commission  
35/F Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

Dear Sirs/Madams,

**Re: Consultation Paper on Amendments to the Code on Real Estate Investment Trusts**

The Hong Kong Society of Financial Analysts (HKSFA) is pleased to comment on the amendments to the Code on Real Estate Investment Trusts in Hong Kong. The HKSFA advocates for the continued development of Hong Kong as an international asset management center by reviewing the existing regulatory regime, keeping abreast of changes to the market landscape and equally important ensuring the protection of market integrity and unitholders' interests. Hence, the HKSFA is generally supportive of the proposed changes as they are practical oriented and are restricted to very low percentage of the value of the REITs.

Based on our positions, we state our comments to the specific questions set out in the Consultation Paper as follows:

Q1. Do you consider that flexibility in respect of property development investments and related activities should be introduced for REITs?

Yes, we believe that greater flexibility in respect of property development investments and related activities should be introduced for REITs to facilitate long-term growth of the Hong Kong REIT market. In addition, it brings HK's practice in line with other regional centres.

Q2. Do you consider that the 10% GAV Cap is set as an appropriate threshold?

10% GAV Cap should be the minimal as it would be in line with Singapore. However, most HK REIT could easily breach the limit. There is a case for higher limit, say 15%.

Q3. Do you have any comments on how the Property Development Costs should be calculated?

The Property Development Costs should be calculated by using the total project costs including the costs for the acquisition of land, the development or construction costs of the project and any other costs borne and to be borne by REIT.

Q4. Do you have any comments on the frequency of the periodic updates that should be provided to unitholders on the status of property development investments and related activities?

We believe an update should be provided to unitholders every 6 months, or preferably every quarter if practicable.

Q5. What additional safeguards do you consider appropriate to ensure there will not be any material change to overall risk profile of a REIT despite the flexibility to engage in a limited extent of property development investments and related activities?

A sub-cap on vacant land to, say, 5% GAV Cap.

The SFC may consider listing comprehensive information requirements with regard to notes 4 and 5 to paragraph 7.2A. There would be greater transparency if the detailed qualitative and quantitative disclosure is made to shareholders about these points at the very outset.

Q6. Do you have any comments on the proposed scope of the Relevant Investments and the proposed Maximum Cap?

- Recommend permitting only 'government & other public securities' as Relevant Investments.
- REITs are supposed to maintain a generally income-generating profile from property investments. They should use funds for property investments, not seeking financial returns. Government securities should allow some flexibility for REIT to earn higher yields than bank deposits. Other financial instruments are more speculative.
- If there are concerns on REIT managers' expertise on property development, a similar (if not greater) concern should be placed on REIT managers' ability to manage financial investments.
- 5% GAV Cap is appropriate for Relevant Investments.

Q7. What other safeguards do you consider appropriate to be put in place corresponding to the proposal to allow for the Relevant Investments?

In keeping with the principle that the financial investment should be made to manage the cash position rather than to speculate, the SFC may consider qualifying the further the profile of permitted investments (e.g. main board listed securities but not secondary board listed securities, minimum credit rating for debt securities) to further limit the possibility of the manager undertaking speculative investments. This will help provide further safeguards to help maintain the risk profile.

Yours sincerely,  
For and on behalf of  
The Hong Kong Society of Financial Analysts

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Chair, Advocacy Committee

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