
Companies entering the industry for the purposes of managing real estate investment trusts (“REITs”)

Does a REITs management company need to obtain a licence from the SFC?

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1.1 A REITs management company is required to be licensed for **Type 9** regulated activity (asset management). Whether it needs to be licensed for other type(s) of regulated activity depends on its mode of operation. For instance, if the management company also undertakes matters in relation to the listing application of the scheme itself (without appointing a listing agent), the company will need to be licensed for Type 6 regulated activity (advising on corporate finance), or if the company also involves in distributing REITs or other securities, it will need to be licensed for Type 1 regulated activity (dealing in securities) in addition to Type 9.

For property developer intending to engage in REITs management business, it is suggested that it establishes a **new company** to carry out the proposed business. The new company shall be either incorporated in Hong Kong or an overseas company registered with the Companies Registry of Hong Kong.

What form of business structure is preferable for a REITs management company set up by a property developer?

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1.2 To obtain a licence, the new company should have **proper business structure, adequate internal control systems and qualified personnel** to ensure the proper management of the proposed business. For more information, please refer to the following publications issued by the SFC:-

- Code on Real Estate Investment Trusts;
- Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC;
- Guidelines on Competence;
- Fund Manager Code of Conduct;
- Corporate Finance Adviser Code of Conduct; and
- Code of Conduct for Persons Licensed by or Registered with the SFC.

It is expected that the new company **engages professional services** in setting up the business and it shall **appoint qualified management personnel as its responsible officers** to oversee the entire process (see Question 1.3). Such personnel should be familiar with the local regulatory framework, the fund management industry and able to oversee issues arising out of the listing of the REIT concerned and the property management team.

Such listing matters and the day to day property management functions can be either carried out by the new company internally or delegated to external parties.

What are the requirements pertaining to the management personnel of a REITs management company?

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1.3 A REITs management company should appoint at least **2 responsible officers** to directly supervise each regulated activity that it is licensed for. To facilitate the application process, it is desirable that the new company established by a property developer would **recruit its responsible officers from the existing pool of fund management experts who are already approved by the SFC as responsible officers** conducting Type 9 regulated activity.

What experience is expected of an individual proposed to become a responsible officer of a REITs management company?

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1.4 In addition to the general competence requirements (see Table 1 in Appendix B of the Guidelines on Competence), the individual should possess at least **5 years' track record** in investment management and/or property portfolio management.

Is it necessary that all directors of a REITs management company be approved as responsible officers by the SFC?

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1.5 Only **executive directors** as defined under the Securities and Futures Ordinance (see the next paragraph) are required to be approved as responsible officers of the company. However, the company should have at least one responsible officer being an executive director of the company.

“Executive director”, in relation to a licensed corporation, means a director of the corporation who –

- (a) actively participates in; or
- (b) is responsible for directly supervising,

the business of a regulated activity for which the corporation is licensed.

What are the capital requirements for a REITs management company?

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1.6 The minimum paid-up share capital and liquid capital that the company needs to maintain vary depending on the type of regulated activities it is licensed to carry out and whether it is subject to specified licensed conditions. If the company conducts solely REITs management business and it is subject to the licensing condition of not to hold client assets, it will only be required to maintain **liquid capital of not less than \$100,000** and there is no requirement on paid-up share capital applicable to it. However, if the company intends to hold client assets, it will need to maintain **paid-up share capital of at least \$5 million and liquid capital of at least \$3 million.**

Detailed requirements are set out in the Securities and Futures (Financial Resources) Rules.

Will the SFC impose any licensing condition on a new company set up to become a REITs management company?

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1.7 For a new company set up solely for managing REITs, the SFC is likely to impose a licensing condition to **confine its business activity to REITs management only.** In other words, the company would not be allowed to carry out any other business activities.

How to lodge a licence application with the SFC?

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1.8 To lodge a licence application, the applicant company should complete Form 1 and Supplements 1, 6, 7 and 8. An individual applying to become a responsible officer of the company should complete Form 3 and Supplement 10. All forms and supplements can be downloaded from the SFC's web site at <http://www.hksfc.org.hk> (under "Forms specified by the Commission" of the SFO section) or obtainable via fax through the SFC's 24-hour Infoline at 2840-9393 (press 2 3 4 after connecting to the Infoline). The applicants may be asked to complete other supplements and provide additional information to the SFC where appropriate.

Among other supporting information, the company is required to accompany details of the experience of its key personnel, if any, who will be discharging the property management responsibilities. If the company proposes to delegate related functions to another party, it has to supply information pertaining to such arrangement including the delegate's experience.

How much is the application fee?

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1.9 Each applicant (including the company and the individuals proposed to become its responsible officers) is required to pay an application fee of \$4,740 per type of regulated activity applied.

How long does it take to process an application?

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1.10 It takes approximately 15 weeks to process the licence applications of a new company and its responsible officers.