

Incidental exemption for offering co-investment opportunities

If a PE firm offers investment opportunities to other persons whereby they may enter into securities transactions alongside a PE fund, the firm is generally required to be licensed for RA 1. This is because the act of offering co-investment opportunities will likely be regarded as inducing other persons to enter into securities transactions.

However, the PE firm may not need to be licensed for RA 1 if it is already licensed for RA 9 to manage the related PE fund and its act of offering the co-investment opportunities is conducted solely for the purposes of carrying on its RA 9 business.

This incidental exemption applies regardless of whether the act of offering co-investment opportunities is conducted during the fundraising stage or any other stage of the PE fund's lifecycle.



The SFC strives to perform its gatekeeping role in the Hong Kong financial markets in an efficient, transparent and consistent manner.

A PE firm in Hong Kong is likely required to be licensed if it deals in or advises on securities or manages a portfolio comprising securities (eg. shares or debentures of offshore private companies).

When considering an application for an RA 9 licence, the SFC will regard a PE firm as having the necessary discretionary investment authority if any of its ROs possesses sufficient authority and seniority to make investment decisions throughout the life cycle of the PE fund under management.

Offering co-investment opportunities to investors generally requires an RA 1 licence, but an incidental exemption is potentially available to RA 9 licensees.

The SFC assesses individual PE practitioners' competence pragmatically, recognising a broad range of experience and granting conditional exemptions from licensing examination where appropriate.

For more details,



Licensing Handbook



Quick Reference Guide Series

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Private Equity Firms

Quick Reference Guide to Licensing Requirements





Typical licences for private equity firms

It is common for a licensed private equity (PE) firm operating in Hong Kong to hold one or more of the following licences granted under the Securities and Futures Ordinance:

- Type 9 (asset management) (RA 9) if the firm is delegated with discretionary investment authority to manage a PE fund;
- Type 1 (dealing in securities) (RA 1) if the firm negotiates or executes securities transactions for a PE fund, markets a PE fund or offers co-investment opportunities to investors; and
- Type 4 (advising on securities) (RA 4) if the firm provides non-discretionary investment recommendations or research reports to investors.

Where incidental exemptions apply, RA 9 licensees may carry on certain RA 1 and RA 4 activities without being licensed for them. There are also licensing exemptions applicable to the provision of investment advisory services to group companies only.

Discretionary investment authority for RA 9

In general, the SFC expects that asset managers licensed for RA 9 are delegated with, and exercise, discretionary authority to make investment decisions for the funds they manage.

When considering whether a firm has this authority, the SFC will consider, amongst other things, the investment decision-making process and the specific involvement of the firm's responsible officers (ROs).

The SFC may regard a PE firm as having discretionary investment authority if any of its ROs has sufficient authority and seniority to make investment decisions throughout the life cycle of the PE fund under management.



Individual practitioners

The SFC recognises a broad range of experience for individual PE practitioners, including:

- conducting research, valuations and due diligence on companies in related industries;
- providing management consulting and business strategy advice to companies in related industries;
- managing and monitoring a PE fund's underlying investments for the best interests of fund investors; and
- structuring corporate transactions, such as management buyouts and privatisations.

The SFC also accepts PE experience gained in non-regulated situations. For instance, it will take into account experience in an overseas jurisdiction where the PE activities are not regulated, as well as relevant experience in a PE firm which operates in Hong Kong and is exempted from the licensing requirement.

Experienced investment professionals may request exemption from taking licensing examination under the SFC's pragmatic, risk-based licensing approach.

