

Date: 22 February 2014

Mr. Ashley Alder  
Chief Executive Officer  
Securities and Futures Commission  
35/F Cheung Kong Center,  
2 Queen's Road Central,  
Hong Kong

Dear Mr. Alder,

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

I refer to the consultation paper on amendments to the Code on Real Estate investment Trusts ("Consultation Paper") issued by SFC on 27 January 2014. My views and concerns are submitted as follows:

**I do not support introducing flexibility in respect of investments in properties under development or engagement in property development activities.**

1. It is no doubt that the risks and uncertainties associated with property development are far more than investment in real estate that generates recurrent rental income. Such risks include construction risk, time delay risk, legal risk and other concerns. Given the nature of property development, some of the other risks such as policy risk or event like global financial crisis may not be identifiable at the time of entering into the contract.
2. REIT, as an investment scheme, is distinguished clearly from property companies by its defensive nature and high certainty in distribution. To permit a REIT to participate or engage in property development will not only cause competitions between the property companies and REITs in the property development market in Hong Kong, but also blur the clear distinctions between the REITs and property companies.
3. Without prejudice to my above stance of opposing this proposal, I am of the view that taking gross asset value as a basis for calculation of threshold limit is too high. Taking net asset value as a basis for calculation of threshold limit will reduce the risk associated with property development and serve as better safeguards to investors' interest.

**I do not support Introducing flexibility in respect of investments in financial instruments.**

4. Investment in financial instruments requires completely different skills, knowledge and expertise, which will put unnecessary burden on REIT managers.
5. Furthermore, investment in such financial instruments may, directly or indirectly, encourage the REIT to engage in the investments of speculative nature, or high risk investments and allow the REIT to raise capital blindly by investing in those non-real estate assets which may not require unitholders' approval.

6. I am of the view that the proposed varieties of Relevant Investments and the proposed threshold limits are definitely too wide and I worry that REITs will eventually lose its fundamental essence of maintaining a well-defined and focused investment strategy.

## **Conclusion**

7. I am not supportive of the above two proposals under the Consultation Paper because it will expose REITs to the risks and uncertainties associated with property development and thus jeopardize investors' interest. Also, I do not observe that there have been overwhelming demands from most of the REITs and the investment community for permitting the REITs to participate in property development.
8. REITs are characterized by its defensive nature as well as its income stability and visibility. It was introduced as a scheme for investors' participation in the real estate market as an alternative to property developers and landlords. I therefore submit that such clear distinction between REITs and property companies should be well maintained. I do not see the rationale why SFC should contradict the fundamental principles of REITs by introducing such flexibility to participate in property development and invest in financial instruments. Therefore, I respectfully request SFC to re-consider the appropriateness of such proposals.

Thank you for the opportunity to comment. I look forward to SFC's response and follow-up to the Consultation Paper.

Yours sincerely,

*Paul Tsang*  
REIT Investor