

March 23, 2005

Investment Products Department
The Securities and Futures Commission
8/F Chater House
8 Connaught Road Central
Hong Kong

Dear Sir,

Re: Response to the Consultation Paper on Investments in Real Estate Investment Trusts (“REITs”) by Collective Investment Schemes Authorized Under the Code on Unit Trusts and Mutual Funds (“Code”)

On behalf of the Hong Kong Investment Funds Association, we welcome the proposal put forward by the Securities and Futures Commission (“SFC”) in the captioned consultation paper. The proposal would enable Hong Kong to move in line with international practices and further reinforce Hong Kong’s position as a leading asset management centre.

However, there are certain areas that would require clarifications:

1. Under the proposal, an authorised fund may invest in any REITs listed on a stock exchange. However, the proposal is silent on the treatment of REITs' initial public offerings (“IPOs”) - at the time of offering, such interests are not yet listed. As such, does that mean IPOs will not be permissible? We believe that the proposal should also cover REITs’ IPOs, and would exhort the SFC to consider expanding the definition of “interests in REITs” to cater for this.
2. Some members opine that by stating that the investment limits applicable to each listed REIT should be equivalent to those applicable to securities in which authorised schemes are currently allowed to invest, the proposal seems to imply that interests in listed REITs will no longer be classified as holdings in units or shares in other collective investment schemes (i.e. holdings may not in aggregate exceed 10% of its total net asset value – Chapter 7.11). For clarity, it would be helpful if the SFC can confirm that listed REITs will no longer be captured by Chapter 7.11.
3. The proposal permits authorized funds to invest in overseas-listed REITs. Will the SFC consider allowing authorized funds to have exposure to unlisted REITs as well? It has been proposed that as long as investments in unlisted REITs are limited to a certain percentage, for instance 10% or 15%, the ability of funds to meet redemption requests should not be impaired.
4. Some authorized funds which have already obtained waivers for overseas listed

REITs, such as those listed in Australia, pursuant to Chapter 7.11. Such investment limit has already been included in the investment policy of their funds. When the new Code comes into effect, these rules would be removed. It would be useful if the SFC can clarify whether:

- the relaxation will amount to a change in investment policy which would require share/unitholders' approval; and
- advance notice to existing investors would be required for such a change.

We welcome opportunities to discuss this and please do not hesitate to contact me on 2537 9912.

Yours faithfully,

Sally Wong
Executive Director