

JF Asset Management Limited
Responses to the SFC's Consultation Paper - Draft Practice Note on
Overseas Investments by SFC-Authorised Real Estate Investment Trusts
(REITs)

General

We welcome the proposal put forward by the SFC in respect of the lifting of the geographical restrictions for REITs. In light of the additional risks inherent to the geographical locations of the real estate, we agree with the SFC's proposed approach of setting out specific requirements, by way of a Practice Note, on the management company and other relevant REIT operators in managing investments in overseas properties. However, we have set out below the areas which require the SFC's consideration and clarification.

Comments on the Draft Practice Note

1. General – It is noted from page 5 of the SFC's Consultation Paper that the draft Practice Note is applicable to all REITs, regardless of whether the REITs invest in overseas real estate or solely in HK properties. Having gone through the entire Practice Note, however, we note that most of the provisions of the Practice Note appear to set out the regulatory framework for REITs that invest in overseas properties, while only a minority portion of the Practice Note (notably paragraphs 14, 15, 16 (first part only), 20, 21, 34, 35 and 44) is applicable to REITs that invest in HK real estate. To promote clarity and avoid confusion to the industry, would the SFC re-consider whether it is desirable to separate those provisions in the Practice Note that apply to REITs investing in HK real estate only from those that apply to REITs investing in HK and/or overseas real estate.

2. Paragraph (13) – It is suggested that conditions might be imposed in licensing a REIT management company such that the company will generally be permitted to manage one REIT only. The SFC is urged to consider the difference between (a) managing one REIT which invests in properties located in different jurisdictions; and (b) managing more than one REIT, each of which invests in properties in

the same jurisdiction. In the latter case, the risk factors associated with investment in overseas properties as set out in Paragraph (1) of the draft Practice Note should be largely the same for all those REITs managed by the same management company as long as the properties are located in the same jurisdiction. In practice, a management company may set up various REITs, which invest in different property sectors in the same jurisdiction with an aim of providing investors with a spectrum of diversified investments with different investment objectives/risk-return profiles. In this regard, the proposed licensing condition that a management company should manage only one REIT would therefore appear to be too restrictive. In addition, on the strict reading of Paragraph (13), it is unclear as to whether the SFC will permit a management company to manage a REIT that invests in HK properties as well as a REIT that invests in HK and/or overseas properties at the same time.

3. Paragraph (17), Notes (1)(b), (c) and (f) – We suggest that the required provisions as set out in Notes (1)(b), (c) and (f) could be set out in the delegation contract between the management company and the delegate rather than in the compliance plan. The rationale is that under the current suggestion put forward by the SFC, every revision of these operational issues would necessitate a revision of the compliance plan, which therefore might not be practical.
4. Paragraph (17), Notes (2)(a) and (b) – Given that the management company will be ultimately responsible for all actions of its delegates and that the management company's accountability to investors shall never be diminished or comprised by reason of appointing the delegates, Notes (2)(a) and (b) seem to be redundant.
5. Paragraph (19), Notes (1) and (2) – On the basis that the trustee is the safekeeper of the assets of the REIT, we consider that the trustee should at least be jointly responsible for the said provisions.

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