

**[By Email \(listedcis-consultation@sfc.hk\)](mailto:listedcis-consultation@sfc.hk)**

27 May 2024

Securities and Futures Commission  
54/F, One Island East  
18 Westlands Road  
Quarry Bay, Hong Kong

Dear Sir/Madam,

**[RE: Consultation on proposals to \(i\) introduce a statutory scheme of arrangement and compulsory acquisition mechanism for real estate investment trusts and \(ii\) enhance the SFO market conduct regime for listed collective investment schemes \(the “Consultation Paper”\)](#)**

CFA Society Hong Kong (the "Society" or "we") appreciates the opportunity to respond to the Consultation Paper issued by the Securities and Futures Commission (the "Commission"). As an organization committed to promoting fair and transparent financial markets and safeguarding investors' interests, we are pleased to provide our comments aligned with our mission.

We acknowledge the primary objective of the proposals, which is to complete the legal framework for the privatization transactions of Hong Kong REITs (“H-REITs”) and to align with practices in other jurisdictions. However, we express concerns regarding Part I of the proposals, particularly its proposed implementation timelines and the need for enhanced protections for minority unitholders, given the distinct investment landscape in Hong Kong.

### **Bond-like Characteristics of H-REITs**

Research from Newell (2010)<sup>1</sup> has demonstrated that H-REITs offer higher risk-adjusted returns to investors. Furthermore, Wong (2018)<sup>2</sup> notes that H-REITs exhibit more bond-like characteristics than other equities, attracting long-term investors seeking stable dividend income. This unique risk profile underscores the need for a regulatory approach that regulates H-REITs differently from other listed issuers.

### **Timing and Implications of Legislative Changes**

The unique risk profile of H-REITs, coupled with recent high interest rate environment resulting in low valuations, necessitates a cautious approach to implementing legislative changes. In particular, we are concerned that introducing a squeeze-out/sell-out provision

<sup>1</sup> Newell, G., Wu, Y., Wing, C. K., & Kei, W. S. (2010). The development and performance of REITs in Hong Kong. *Pacific Rim Property Research Journal/Pacific Rim Property Research Journal*, 16(2), 190–206.

<sup>2</sup> Wong, W.W., 2018. The equity and fixed income characteristics of Asian REITs: Evidence from Japan, Singapore and Hong Kong. *RELAND: International Journal of Real Estate & Land Planning*, 1, pp.155-177.

under current market conditions may lead to a 'winner-takes-all' scenario. This would allow offerors under the compulsory acquisition mechanism to benefit excessively at the expense of minority unitholders who are forced to accept buyout offers that may not fairly reflect the true market value of their investments.

### **Our Perspectives**

While we acknowledge the objectives of the Consultation Paper to establish a clear legal pathway for the privatization of H-REITs, we urge the Commission to re-consider the implementation timelines and the broader market impacts of the proposed legislative changes. Additionally, we support in principle the introduction of statutory schemes of arrangement that include court oversight, which offers a more robust mechanism for protecting minority unitholders compared to the compulsory acquisition mechanism. Furthermore, we suggest that the Commission impose additional safeguards under the compulsory acquisition mechanism to ensure the protection of minority unitholders.

Thank you for considering our views and perspectives. We have set out our detailed comments and suggestions in the response section of this letter. We welcome and appreciate the opportunity to meet and provide more details as outlined in our letter. Should you have any questions or seek further elaboration on the responses, please contact our Mr. Matthew Chan, the Managing Director of the Society at [matthew.chan@cfahk.org](mailto:matthew.chan@cfahk.org).

Sincerely,  
For and on behalf of  
CFA Society Hong Kong

Matthew Chan  
Managing Director

*Response Section*

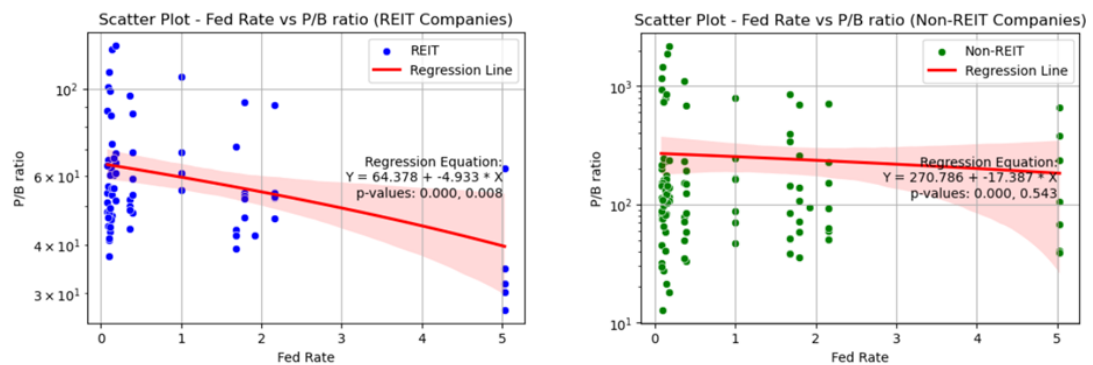
**Q1. Do you agree with the proposal to introduce a statutory arrangement or compromise mechanism similar to that under the CO with the proposed features and modifications for REITs? Please explain your view.**

We support in principle the introduction of a statutory scheme of arrangement. This mechanism provides court oversight as an additional layer of scrutiny and protection for minority unitholders.

**Market Conditions and Implementation Timelines**

Our high-level review of H-REITs and non-REIT issuers indicates that the valuation of H-REITs is more sensitive to the changes in market interest rates compared to other equities (see Exhibit 1). H-REITs have recently experienced low valuations, with the price-to-book ratio averaging less than 0.4x, largely due to the high interest rate environment. Given the above, although we support the introduction of a statutory scheme of arrangement in principle, we remain cautious, from an investor protection perspective, about the timing of such legislative changes. The current market conditions suggest that implementing these changes may lead to suboptimal outcomes for long-term investors and/or minority unitholders, who may be compelled to sell their units at an offer price that do not reflect the true value of their investments.

Exhibit 1:



Source: the Society's analysis (details refer to appendix)

**Investor Protection Perspective**

REIT unitholders are typically long-term investors, attracted by the bond-like characteristics of REITs and their stable dividend payouts. Therefore, legislative

changes should take this investor perspective into account to ensure that the interests of the investors are not compromised.

We suggest that the Commission consider the unique nature of H-REITs and the broader impact on market confidence when considering the timing of the legislative changes.

**Q2. Do you agree with the proposal to introduce a statutory compulsory acquisition mechanism similar to that under the CO with the proposed features and modifications for REITs? Please explain your view.**

We are cautious about the proposed compulsory acquisition mechanism. In addition to our concerns on the timing of its implementation, as detailed in our response to Question 1, we suggest implementing additional safeguards for minority unitholders in the event of privatization under this mechanism. For instance, we suggest that the Commission consider raising the acceptance threshold from the current 90% to 95%. This adjustment would ensure that a broader consensus on the offer price is reached before any compulsory acquisition can proceed.

In addition to the above, we suggest that the Commission provides guidance on how the proposed scheme of arrangement and compulsory acquisition mechanism for REITs apply to REITs with stapled structure to ensure consistency with the proposed amendments.

**Q3. Do you have any comments on the proposed interpretations and definitions to be used in the new Part of the SFO which are modified from the CO to cater for the nature and features of a REIT?**

We have no comments on these proposed modifications.

**Q4. Do you have any comments on the proposed deeming provisions to be introduced in the new Part of the SFO having regard to the REIT structure?**

We support the proposed deeming provisions, as described in paragraph 36 of the Consultation Paper. However, we would like to highlight specific aspects regarding the role of the trustee and suggest an enhancement to these provisions.

Under the proposed deeming provisions detailed in paragraph 36(a) to (e) of the Consultation Paper, actions taken by the trustee or management company, as well as obligations, powers, property, and liabilities managed by them, are deemed actions, obligations, powers, property, and liabilities of the REIT. Such provisions acknowledge the roles both the trustee and the management company play in a REIT.

Despite these provisions, paragraph 36(f) of the Consultation Paper extends the concept of a “responsible person” to include only the relevant officers of the management company. We suggest to amend paragraph 36(f) to include the relevant officers of the trustee as a “responsible person” as well. This inclusion would align with the fiduciary and oversight responsibilities of trustees, ensuring that they are also accountable for their actions and decisions impacting the REIT.

**Q5. *Do you have any comments on the proposed amendments?***

In alignment with our response to Question 4, we suggest that the trustees of listed CIS not be scoped out in the various definitions as proposed in paragraph 47 of the Consultation Paper. Excluding trustees from these definitions could undermine the comprehensive fiduciary and oversight roles of the trustees.

**Q6. *Do you have any comments on the proposed implementation timelines?***

Our concerns on the implementation timelines focus on the current low valuations of H-REITs and the HKEX’s initiative<sup>3</sup> to introduce offshore Mainland China REITs in Hong Kong.

**Market Conditions**

As set out in our responses to Questions 1 and 2, the recent high interest rate environment has significantly impacted the valuation of H-REITs. We believe that without implementing additional safeguard mechanisms, the proposed amendments could adversely affect the interests of minority unitholders and undermine market confidence.

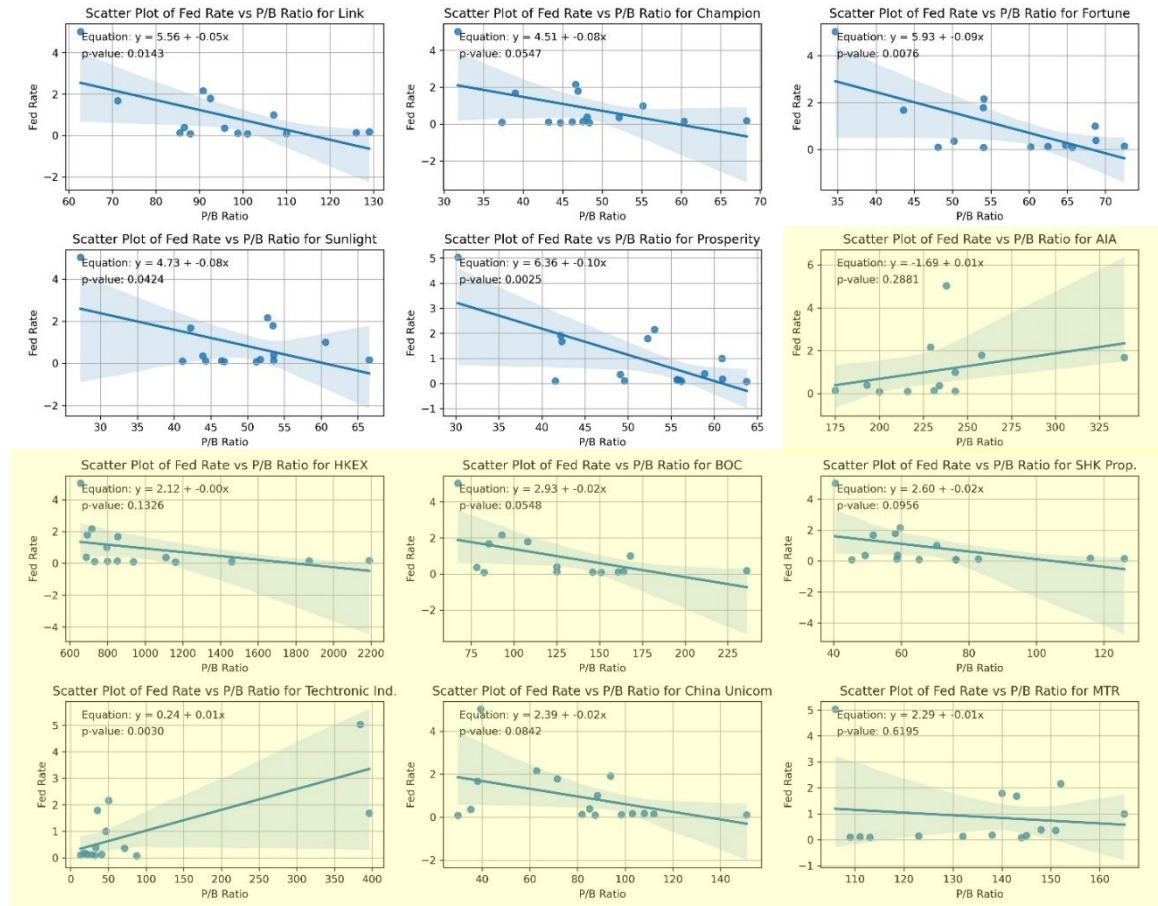
**Potential Offshore Mainland China REITs**

The HKEX’s initiative to introduce offshore Mainland China REITs in Hong Kong adds complexity to the market due to these REITs being governed under different jurisdictional laws. This regulatory discrepancy may create a dual market environment where similar investment vehicles receive divergent treatments, potentially leading to market confusion.

Given the above, we suggest that the Commission carefully consider the adequacy of protections for minority unitholders and the regulatory challenge arising from the potential introduction of offshore Mainland China REITs when determining the implementation timelines.

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<sup>3</sup> Hong Kong Stock Exchange. (2023) Research Report on Development Potential of Offshore Mainland China REITs in Hong Kong. Available at: [https://www.hkex.com.hk/-/media/HKEX-Market/News/Research-Reports/HKEx-Research-Papers/2023/CCEO\\_ML\\_REIT\\_202310\\_e.pdf](https://www.hkex.com.hk/-/media/HKEX-Market/News/Research-Reports/HKEx-Research-Papers/2023/CCEO_ML_REIT_202310_e.pdf) (Accessed: 27 April 2024).

**Appendix:**
**A High-level Review of The Relationship between P/B Ratio And Fed Rates (2009 to 2023)**

**P/B ratios summary:**
**H-REITs**
**Non-REITs (large market cap.)**

Name	mean	median	min	max	std	Name	mean	median	min	max	std
Champion	0.477127	0.46940	0.3174	0.6829	0.089921	AIA	2.332500	2.3250	1.7500	3.39	0.409526
Fortune	0.572600	0.57145	0.3470	0.7244	0.107897	BOC	1.278764	1.2500	0.6726	2.36	0.465806
Link	0.960414	0.94105	0.6264	1.2900	0.183407	China Unicom	0.803456	0.8621	0.2979	1.51	0.330268
Prosperity	0.517775	0.54370	0.3024	0.6377	0.089241	HKEX	10.340667	8.5200	6.5600	21.90	4.627180
Sunlight	0.490140	0.51150	0.2726	0.6652	0.091280	MTR	1.346667	1.4000	1.0600	1.65	0.181685
						SHK Prop.	0.689967	0.5970	0.4049	1.26	0.242670
						Technronic Ind.	0.898271	0.3819	0.1282	3.96	1.287715