

LEGISLATIVE COUNCIL BRIEF

**REVIEW OF THE CAPITAL INVESTMENT
ENTRANT SCHEME**

INTRODUCTION

At the meeting of the Executive Council on 5 October 2010, the Council ADVISED and the Chief Executive ORDERED that with effect from 14 October 2010 (commencement date), -

- (a) the threshold of investment (and personal asset requirement) to become eligible for admission under the Capital Investment Entrant Scheme (CIES) be raised from \$6.5 million to \$10 million and be reviewed once every three years;
- (b) real estate be suspended temporarily as a class of Permissible investment asset (PIA) under the CIES; and
- (c) insurers authorized to carry on Class C business as specified in Part 2 of the First Schedule to the Insurance Companies Ordinance be allowed to act as financial intermediaries (FI) for the purpose of the CIES.

JUSTIFICATIONS

Increase in the Investment Threshold

2. At present, to become eligible for admission under the CIES, an applicant must meet, among others¹, two criteria: (a) possessing net assets of no less than \$6.5 million to which he is absolutely beneficially entitled throughout the two years preceding the date he lodged the application (personal asset requirement); and (b) investing no less than \$6.5 million net in PIA (investment threshold).

3. The existing personal asset requirement and investment threshold have been in force since the introduction of the CIES in October 2003. They were set then taking into account the thresholds stipulated by similar schemes overseas and with a view to providing a proper balance between making Hong Kong attractive to overseas investors and ensuring that these investors are of an appropriate quality.

4. The CIES has been well received. By the end of September 2010, the CIES has admitted around 8 200 entrants, bringing in a total of around \$58 billion investment. The average investment per entrant stands at \$7.07 million. Breakdown on the number of entrants and types of investment over the years is at the **Annex**.

5. Since 2003, there have been changes in the investment thresholds adopted in similar overseas schemes. For example, Canada plans to raise its threshold by 100%

¹ The entrant must –

- (a) be aged 18 or over;
- (b) have no adverse immigration records and meet normal immigration and security requirements; and
- (c) be able to demonstrate that he is capable of supporting and accommodating himself and his dependants, if any, on his own without relying on any return on the PIA, employment or public assistance in Hong Kong.

whereas Singapore has decided to increase its threshold by 66.6% in early 2011. Having regard to the change in economic indicators, i.e. GDP and exchange rate index, since 2003² and the level of threshold adopted by similar overseas schemes, we decide to increase the investment threshold (and personal asset requirement) to \$10 million (up 54%). After the increase, the CIES threshold is still competitive vis-à-vis similar overseas schemes³.

6. Since the introduction of the CIES in October 2003, the number of CIES entrants has grown considerably from 272 in 2004 to 2 606 in 2009. We believe the CIES would remain attractive with our increased threshold. We further decide that the investment threshold (and personal asset requirement) will be reviewed once every three years to preserve its attractiveness whilst ensuring it brings appropriate benefits to Hong Kong.

Temporary Suspension of Real Estate As a Class of Permissible Investment Asset

7. The CIES accepts two classes of PIA, namely real estate and specified financial assets (SFA). CIES entrants are free to invest in either or both classes of PIA. The proportion of real estate among the total CIES investment is about 30% between 2004 and 2009⁴. As at end September 2010, the accumulated real estate investment under the CIES amounts to \$19.0 billion, of which \$17.7 billion (93%) is invested in residential properties. Nevertheless, in the first nine months of 2010, the proportion of real estate among the total CIES investment has soared to 42%.

8. There is a general perception that CIES real estate

² The combined effect of the change in GDP and exchange rate index between Q4 2003 and Q2 2010 is an increase of 46%.

³ For reference, the current and anticipated investment threshold of Canada, Australia, Singapore and United Kingdom is \$5.9 million, \$9.6 million, \$14 million and \$8.5 million respectively in Hong Kong dollar terms.

⁴ Excluding the entrants of 2003 as the CIES only commenced operation in October 2003.

investment might have fuelled the property prices. There are calls for the Government to stipulate a higher threshold in respect of real estate or to exclude it from the CIES altogether.

9. We have considered the merits of stipulating an exclusive and higher threshold for real estate under the CIES. As explained in paragraph 3 above, to keep the CIES simple, the investment threshold is set with regard to the general level of thresholds adopted in similar overseas schemes, without distinguishing between different specific PIA items. Stipulating an exclusive and higher threshold for real estate investment will complicate the administration and enforcement of the CIES substantially, not to mention the difficulty in deriving any evidence-based and objective threshold for this specific type of PIA.

10. In this regard, we decide to suspend, for the time being, real estate from being a class of PIA. We are mindful that some overseas schemes (including Canada, Australia, United Kingdom) do not accept real estate investment for admission of investors. Singapore has announced its plan to disallow real estate investment with effect from January 2011⁵. Macao has also suspended its Property Investment Residency Scheme since April 2007. The temporary suspension of real estate from the scope of PIA should not undermine the attractiveness of the CIES vis-à-vis similar overseas schemes.

11. In recent years, CIES real estate investment accounts for only around 1% in terms of the value of total real estate transactions; hence the temporary suspension of real estate from the CIES is unlikely to have significant impact on the overall market. On the other hand, genuine CIES applicants are likely to continue to purchase residential properties even though the properties will not be counted for the purpose of the CIES, given the residence requirement for successful applicants to stay in Hong Kong for the purpose of applying for right of abode.

⁵ At present, under the Singapore scheme, an applicant is allowed to invest in one self-occupied property and such investment may only account for 50% of his/her total investment. The applicant is required to also invest in other types of assets.

12. We shall review the need to reinstate real estate as a class of PIA from time to time in the light of changing circumstances, including public sentiments, situation in the real estate market, overseas practices, etc. The suspension will be reviewed at the next regular review in three years' time, or earlier as necessary.

Implementation Arrangements

13. Under the existing Scheme Rules of the CIES, applicants are allowed to take into account the required investment made within six months prior to the date of lodging an application or within six months after being granted the approval-in-principle. According to past statistics, around 11% of the CIES entrants actually made the required investment before submitting an application.

14. In view of the above, as a transitional arrangement, new applications involving investment (including real estate) of no less than \$6.5 million made within six months before the commencement date will be eligible for approval, subject to the applicant meeting the other criteria.

15. Any investment in real estate completed on or after the commencement date, irrespective of the amount, will not be accepted as PIA for new applications under the CIES.

16. The amendments to investment threshold (and personal asset requirement) and suspension of real estate as a class of PIA will not affect applications received by the Immigration Department (ImmD) before the commencement date, whether already approved or still under processing.

Inclusion of Insurers as Financial Intermediary (FI)

17. The existing Scheme Rules require, inter alia, that the investment must be held in an account operated by a single FI, which must be: (a) an authorised institution as defined in the

Banking Ordinance; or (b) a licensed corporation licensed to perform Type 1, 4, or 9 regulated activities⁶ under the Securities and Futures Ordinance. The current scope of FI does not include insurers unless they fall under the aforementioned (a) or (b)⁷.

18. The scope of SFA includes equities, debt securities, certificates of deposits, subordinated debt and eligible collective investment schemes. Investment-Linked Assurance Schemes (ILAS) products, being a type of collective investment scheme, are capable of being recognised as SFA, subject to the existing CIES Scheme Rules. Given that ILAS products are within the scope of SFA, we decide to allow insurers authorized to carry on Class C business⁸ as specified in Part 2 of the First Schedule to the Insurance Companies Ordinance to act as FI. This will provide a better level-playing field among providers of different types of permissible investment products. CIES entrants will also enjoy greater flexibility in the choice of investment products as well as FI.

19. Apart from the above amendments, the existing Scheme Rules of the CIES have worked well and no further alterations are required.

IMPLICATIONS OF THE AMENDMENTS

20. The amendments have no significant economic, productivity, environmental, financial or sustainability implications. Any additional workload arising from the amendments will be absorbed by the ImmD. They are in conformity with the Basic Law, including the provisions

⁶ Type 1, 4 and 9 regulated activities refer to "Dealing in securities", "Advising on securities" and "Asset management" respectively.

⁷ Currently, around 20 out of 45 insurers licensed to sell investment-linked insurance products have associates/subsidiaries which are qualified to act as FI under the CIES.

⁸ Class C business refers to business of effecting and carrying out contracts of ILAS products.

concerning human rights. They do not affect the existing binding effect of the relevant legislation.

PUBLIC CONSULTATION

21. Legislative Council (LegCo) members have, on various occasions, called for an increase in the CIES threshold. Whilst some LegCo members suggested that the threshold for real estate should be raised to prevent CIES entrants from fuelling the prices of middle to lower end properties, others have urged the removal of real estate as a class of PIA. The public and media largely share these views. We have taken into account these views in formulating the relevant amendments.

PUBLICITY

22. We will issue a press release today and a spokesman will be made available to handle media inquiries. The LegCo Security Panel will be briefed at the special meeting scheduled for 19 October 2010.

ENQUIRIES

23. For enquiries about this brief, please contact Ms Maggie WONG, Principal Assistant Secretary for Security at 2810 2330.

Security Bureau
13 October 2010

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Capital Investment Entrant Scheme

**Table 1: Proportion of investment in real estate and specified financial assets
(in HK\$ million)**

Year	(A) Real Estate (HK\$ million)	Percentage	(B) Specified Financial Assets (HK\$ million)	Percentage	(A) + (B) Total (HK\$ million)
2003	75	51.7%	70	48.3%	145
2004	739	36.7%	1,276	63.3%	2,015
2005	628	28.9%	1,548	71.1%	2,176
2006	678	25.5%	1,981	74.5%	2,659
2007	1,363	23.4%	4,465	76.6%	5,828
2008	3,204	29.1%	7,820	70.9%	11,024
2009	5,617	30.8%	12,604	69.2%	18,221
2010 (Jan- Sep)	6,664	42.3%	9,091	57.7%	15,755
Total	18,968	32.8%	38,855	67.2%	57,823

Table 2: Number of entrants investing in real estate and specified financial assets

Year	Real Estate	Percentage	Specified Financial Assets	Percentage	Mixed¹	Percentage	Total
2003	7	36.8%	9	47.4%	3	15.8%	19
2004	59	21.7%	179	65.8%	34	12.5%	272
2005	58	18.9%	224	73.0%	25	8.1%	307
2006	68	17.9%	283	74.5%	29	7.6%	380
2007	120	14.6%	657	79.9%	45	5.5%	822
2008	290	18.7%	1 129	73.0%	128	8.3%	1 547
2009	526	20.2%	1 818	69.8%	262	10.1%	2 606
2010 (Jan- Sep)	639	29.0%	1 321	60.0%	241	11.0%	2 201
Total	1 767	21.6%	5 620	69%	767	9.4%	8 154

¹ Entrants who invested in both real estate and specified financial assets for the purpose of the CIES.

Table 3: Breakdown by classes and types of investment (in HK\$ million)

	2003-2006	2007	2008	2009	2010 (Jan- Sep)	Total
Real Estate	2,120	1,363	3,204	5,617	6,664	18,968
Specified Financial Assets	4,875	4,465	7,820	12,604	9,091	38,855
Equities	2,704	3,050	5,322	9,269	6,978	27,323
Debt securities	1,439	821	1,304	2,168	1,045	6,777
Collective Investment Scheme	517	545	1,046	1,146	1,010	4,264
Others ²	215	49	148	21	58	491
Total	6,995	5,828	11,024	18,221	15,755	57,823

² Including Certificates of Deposits and Subordinated Debts.