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New CIES rules released – Takeaways for fund managers

The long-awaited new Capital Investment Entrant Scheme (the "**New CIES**") is open for application from 1 March 2024.

While this comes as great news for fund managers wishing to seize the opportunity to attract investor capital, they should take note of the requirements and restrictions imposed under rules for the New CIES issued by the Hong Kong government (the "**Rules**"). In this client alert, we highlight key points of the Rules that are most relevant to fund managers.

For a brief overview of the New CIES, please refer to our previous [client alert](#). The Rules are available on the [Invest Hong Kong website](#).

Private funds as permissible financial assets

An eligibility criterion sets out that an applicant for the New CIES must, on or after 1 March 2024, invest not less than HK\$27 million in permissible financial assets and/or non-residential real estate. Such permissible financial assets include, among other things, the following types of funds:

- (a) Collective investment schemes authorised by the Securities and Futures Commission (the "**SFC**")
 - (i) SFC-authorised funds managed by corporations licensed by or institutions registered with the SFC for Type 9 regulated activity ("**Type 9 Managers**")
 - (ii) SFC-authorised real estate investment trusts managed by Type 9 Managers
 - (iii) SFC-authorised Investment-Linked Assurance Schemes issued by insurers permitted to carry on Class C business as specified in Part 2 of Schedule 1 to the Insurance Ordinance
- (b) Private funds which are not authorised by the SFC for offering to the public
 - (i) Open-ended fund companies ("**OFCs**") managed by Type 9 Managers
 - (ii) Ownership interest in limited partnership funds ("**LPFs**")

There are no particular limitations or restrictions prescribed under the Rules in relation to the investment scope of the eligible funds (including private OFCs and LPFs).

However, the total investment amount in private OFCs and LPFs is subject to an aggregate cap of HK\$10 million, and any excess amount will not be taken into consideration for the purpose of satisfying the investment requirement. In other words, at least HK\$17 million must be invested in other types of eligible investments, such as direct investments in shares and debt securities issued by companies listed on the Hong Kong Stock Exchange, SFC-authorised retail funds and non-residential real estate.

Portfolio maintenance in designated account

The New CIES applicant is required to deposit his/her permissible financial assets into a designated account operated by an eligible financial intermediary, and must use the designated account exclusively for the transaction of permissible financial assets. All permissible financial assets must be held in the applicant's own name, and only one account per financial intermediary is permitted.

The applicant must not reduce the committed investment while permitted to stay in Hong Kong under the New CIES. However, if the market value of the investments falls below the requisite minimum level, the applicant is not required to top up the value of his investments.

It should be noted that only the following entities may qualify as an eligible financial intermediary for the purpose of operating the designated account under the New CIES:

- (a) an authorised institution as defined in the Banking Ordinance
- (b) a corporation licensed to perform type 1 or 9 regulated activities under the Securities and Futures Ordinance

- (c) an insurer permitted to carry on Class C business as specified in Part 2 of Schedule 1 to the Insurance Ordinance

The applicant may only engage one financial intermediary from each of the three categories above, with a maximum of three intermediaries in total.

Client agreement with New CIES applicants

Financial intermediaries are required to enter into an agreement with the New CIES applicant for the management and operation of the designated account (the "**Client Agreement**"), and to carry out customer due diligence and fulfil relevant anti-money laundering requirements under the Anti-Money Laundering and Counter Terrorist Financing Ordinance.

The Client Agreement will need to incorporate specific provisions set out in the Rules, which impose certain restrictions on the designated account and obligations on the financial intermediary, including the obligation to make certain notifications and periodic reports to Invest Hong Kong. A copy of the Client Agreement shall be submitted to Invest Hong Kong within 7 working days of entering into the contract.

Our team regularly advises asset managers on the formation of private funds which are tailored to accommodate specific investment needs. Should you wish to set up a private fund that caters to the New CIES or would like to know more about the scheme, please feel free to get in touch.

Contact us



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