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Problems and Countermeasures for the Development of Infrastructure REITs in China

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Abstract

Infrastructure construction is a powerful weapon for "stabilizing growth" in China's economy, and public REITs provide a new investment and financing channel for infrastructure construction and a new investment product for investors. Taking the limitations of the existing infrastructure investment and financing models as a starting point, this paper analyzes the current situation, practical significance and problems faced by infrastructure REITs in China, draws on the mature experience of REITs market development in developed countries and regions, and puts forward relevant suggestions to promote the development of China's infrastructure REITs market.

Keywords

Investment and Financing Models; Infrastructure Reits; Real Estate Trust Investment Funds; Capital Markets.

1. Introduction

On October 29, 2020, the Fifth Plenary Session of the 19th CPC Central Committee pointed out that "accelerate the development of modern industrial system, promote the optimization and upgrading of the economic system, coordinate and promote infrastructure construction, and actively build a modern infrastructure system that is complete, efficient and practical, intelligent and green, safe and reliable." Infrastructure investment and construction is large in scale, long in cycle, slow in value transfer, and difficult in capital recovery, etc. The requirements for investment and construction are extremely high, and only state-owned enterprises or large enterprises are capable of undertaking it at present. The existing forms of investment and financing are mainly local government bonds, BOT and PPP models, which have their own advantages, but have certain limitations in terms of issuance conditions, financing costs and fund usage. In recent years, China has actively promoted the implementation of public REITs to provide better investment and financing channels for infrastructure construction, break the barriers between real assets and financial markets, and accelerate the establishment of a market-oriented infrastructure investment and financing model. According to the National Bureau of Statistics, from 2011 to 2020, the cumulative amount of social fixed asset investment in China will reach RMB 519 trillion, of which the number of infrastructure asset stock is very large. Therefore, infrastructure REITs have unlimited development potential in the Chinese market, and the future prospects are very promising (Xu Chao, 2020).

In the past two to three decades, "securitization" has become the keynote in the global real asset investment and financing sector, playing an important role in real investment and financing. It has become an important part of the financial product structure in overseas capital markets. Now the scale of development has expanded to more than 40 countries and regions, and the total market value of the global market has exceeded USD 2 trillion. The scope of the underlying assets has also extended from commercial facilities such as hotels, shopping malls, apartments, warehouses, and office buildings to infrastructure areas such as fiber optic/communication towers, warehousing and logistics, data centers, industrial parks, water, electricity and gas

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supply, highways, etc. (Yin Yong, 2020). Throughout the world, the largest and most maturely developed REITs market is none other than the United States, which now has a development scale of more than trillions of dollars.

In 2020, the sudden outbreak of the new crown epidemic greatly impacted the domestic economic development. In this context, the steady development of infrastructure construction has become the engine of sustained economic growth recovery. With the limitations of the traditional investment and financing model for infrastructure, China has actively introduced public REITs as a way to carry out infrastructure construction. The China Securities Regulatory Commission (CSRC) officially released the Guidelines for Publicly Raised Infrastructure Securities Investment Funds (for Trial Implementation) on August 6, which means the piloting of public REITs in China has officially started. Under the current situation where the government and SOEs have very limited financial resources for investment, public REITs can use their advantages to revitalize and restructure the stock assets, relieve financial pressure, and compensate for the capital needs of infrastructure construction, which is of great significance in promoting infrastructure construction (Cheng Yu and Li Xue et al., 2020). Since 2020, in order to accelerate the development of the REITs market, China has promulgated many relevant laws and regulations to improve the market players and related mechanisms, but there are still problems in legal regulation, operation and management, asset acquisition, governance system, delisting system, etc. This paper proposes suggestions for the development of infrastructure REITs in China by drawing on the mature experience of developed countries' REITs market in related aspects.

2. The Main Investment and Financing Model of China's Infrastructure

2.1. The Main Investment and Financing Model

2.1.1. Local Government Special Debt

Local government special bonds are created under the condition that the financial resources of local governments are insufficient to support infrastructure construction. The adoption of special debt form by local governments can reduce their financial burden and debt risk, avoid the outbreak of debt crisis, improve the multi-level structure of the bond market, and promote the stable development of local economy.

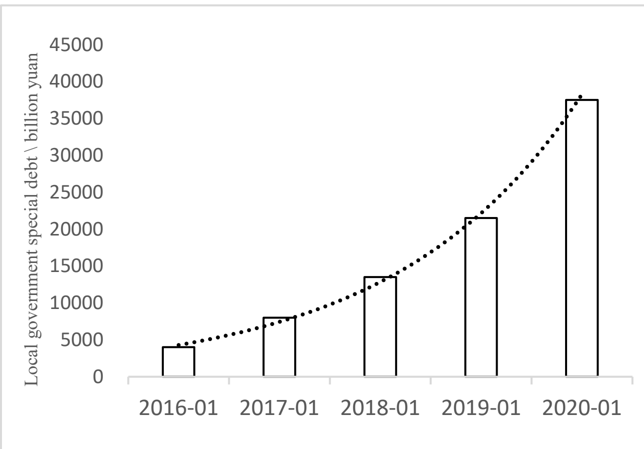

Figure 1. 2016-2020 Government Local Debt Issuance Scale
Data source: Ministry of Finance

Figure 1 shows that the scale of local government special debt grows year by year from 2016 to 2020 and keeps growing in the future. the expected scale of local special debt grows from

400 billion yuan to 375 billion yuan from 2016 to 2020, with a growth rate of more than 8 times in just 4 years. It is worth noting that the main area of special debt investment is infrastructure construction, as can be seen from Figure 2, in October 2020 special debt investment areas, accounting for a larger share of urban and rural infrastructure transformation (34%), municipal construction and industrial parks (23%) and transportation infrastructure construction (17%).

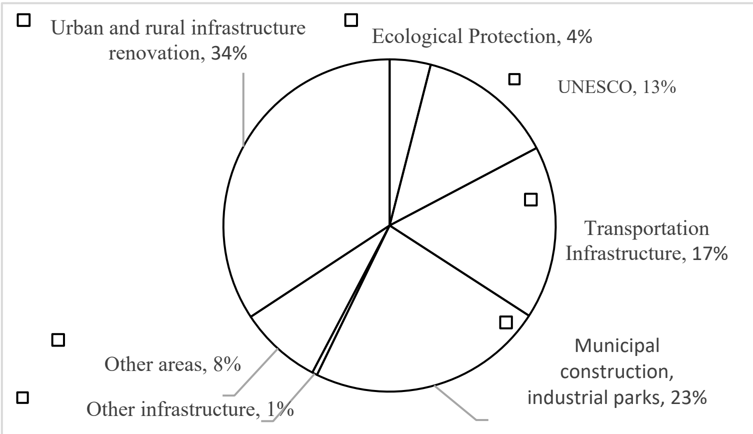

Figure 2. Investment structure of special bonds in October 2020

Data source: Ministry of Finance

2.1.2. BOT(Build-Operate-Transfer)Model

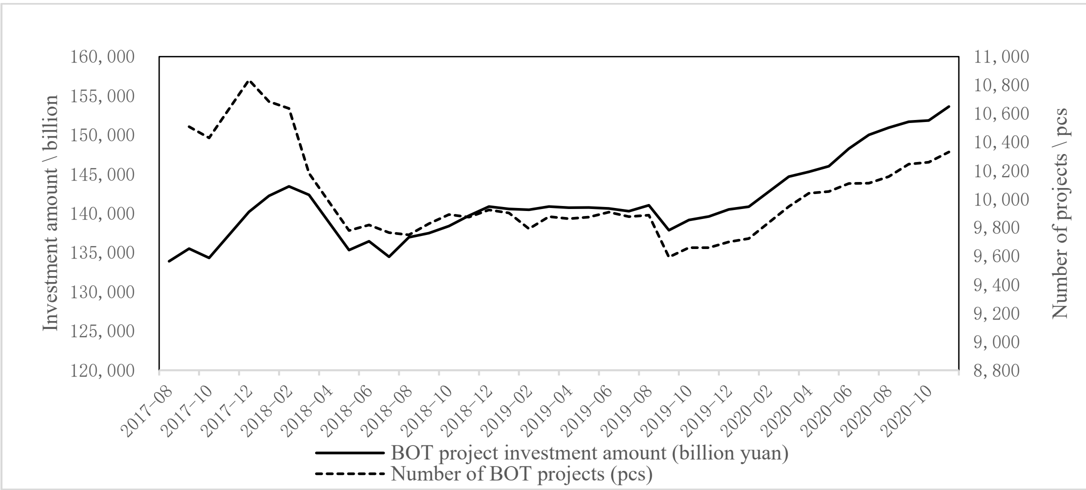

Figure 3. 2017.8-2020.11 Number of BOT projects and investment amount in China

Data source: Ministry of Finance

The BOT model is mainly originated from the construction of public infrastructure, and its innovation point is to get rid of the restrictions of the traditional model and introduce private institutions and social capital into infrastructure construction. the emergence of BOT reduces the government's indebtedness, improves the operational efficiency of infrastructure project construction, drives the local economy and employment, and to a certain extent can avoid the uncertainty risk caused by the government's blind investment. Not only that, the BOT model can also attract the input of foreign capital, and continuously improve the efficiency of project financing by introducing mature foreign technology and advanced management experience. As shown in Figure 3, the number of BOT projects and investment amount from August 2017 to November 2020 are decreasing-stabilizing-rising, and the investment amount of BOT projects changes with the number of projects, reaching a high point in December 2017, decreasing significantly thereafter, increasing slowly in mid-2018 and then stabilizing until 2020 when it increases significantly and maintains a growth trend in the future.2017 The significant decrease in the number of BOT projects and investment amount in December is due to the government's withdrawal of a large number of projects that do not meet the requirements. the number of BOT projects reached 10,330 in November 2020, with an investment amount of 153,625 billion yuan.

2.1.3. PPP (Public-Private-Partnership) Model

Although the BOT model has certain advantages, it also has certain limitations. Therefore, the PPP model was born for operation. By constructing a risk-sharing mechanism, it realizes a "win-win" model for the government, enterprises and private parties. The government function is changed from builder to supervisor, which can reduce the pressure of the government to a certain extent. Unlike the BOT model, the PPP model can not only achieve a reasonable distribution of project risks in the market and reduce the pressure of risk-taking of all parties involved, but also reduce the difficulty of project financing, increase the probability of successful financing, provide high-quality services to the public, and meet the rigid needs of the people.

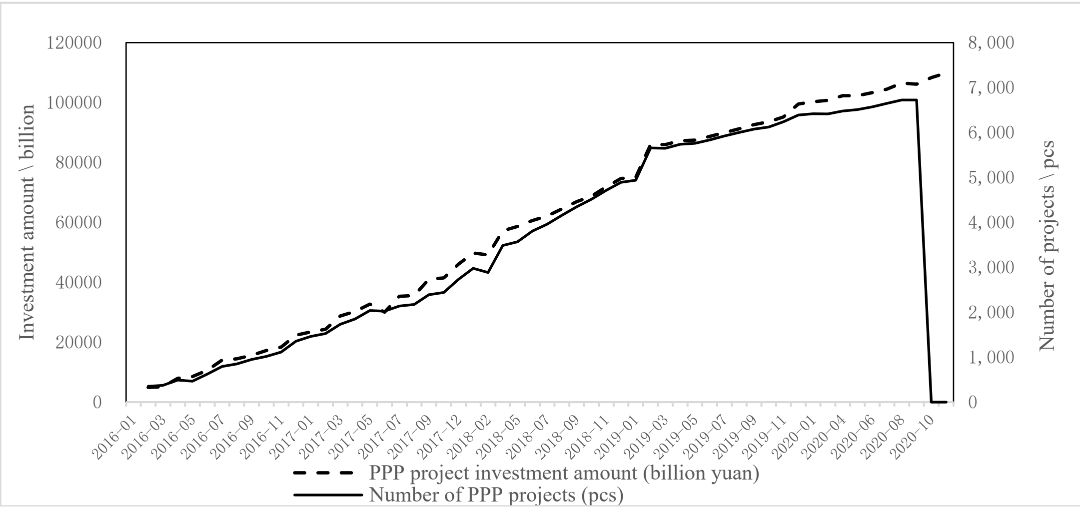

Figure 4. 2016.1-2020.9 Number of PPP projects and investment amount in China
Data source: Wind database

The number of projects and investment amount (in the execution phase) of PPP nationwide from 2016 to 2020 showed a significant growth trend, as detailed in Figure 4, where the number of PPP projects in the execution phase grew from 298 to 6,905 and the project investment amount grew from RMB 410 billion to RMB 109,834 billion from 2016 to 2020, a growth rate of more than 20 times.

2.2. Limitations of the Main Investment and Financing Models

The investment and financing models, mainly local government special bonds, BOT and PPP models, have improved the investment and financing channels for infrastructure construction and promoted the development of China's infrastructure construction for the better. However, these three models still have certain limitations in terms of fund usage, issuance conditions, and legal supervision difficulties (see Table 1 for details), and improvement measures on these issues need to be improved by government departments in continuous practice in the future. Public REITs provide a new type of investment and financing channel for infrastructure construction. Infrastructure REITs can revitalize the stock assets, optimize the financing structure, reduce financing costs and improve capital liquidity, and the market-based

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mechanism can reduce government pressure, expand the investment participation field of small and medium-sized investors and meet the investment demand of investors.

Table 1. Comparing the characteristics of government special bonds, BOT and PPP

Projects	Local government special debt	BOT	PPP
Organizational form	Government	Government-led	Government-Enterprise Cooperation
Use of funds	Diversity	Single	Single
Restrictions	lesser	more	more
Release Procedure	Easy and fast	More complex	Complex
Financing Costs	relatively low	high	high
Legal aspects	Imperfection	Imperfection	Imperfection
Risk	Government assumes the risk	High risk for the investor, low risk for the government	Risk sharing
Funds Management	Governmental funds management account, not set up a special account	Dedicated accounts	Dedicated accounts
Regulatory bodies and regulatory difficulties	Ministry of Finance, regulation is difficult	NDRC and ICBA, regulation is difficult	NDRC and ICBA, regulation is difficult

Source: Self-organized by the author

3. Development and Problems of REITs in China's Infrastructure Sector

3.1. Overview of REITs in China's Infrastructure Sector

Real estate investment trusts (REITs) in China are in the initial exploration stage, and are mainly "REIT-like" products in the form of "ABS + private equity fund/trust plan". Compared with public REITs, infrastructure "REIT-like" products have shortcomings in terms of asset management, income realization and exit methods.

Table 2. Comparison of Public REITs and Class REITs

Projects	Public REITs	Class REITs
Collection method	Public Offerings	Private Placement
Type of Financing	Biased Equity Financing	Bond Financing
Asset management approach	Proactive Management	Passive Management
Earnings realization method	Dividends and capital appreciation	Fixed income for preferred and residual income for subordinated
Exit method	Securities trading with flexible exit options	Holding to maturity, market-based exit difficult

Source: Focus on Finance

REITs occupy an important position in the process of developing public REITs in China. Currently, Chinese public REITs are structured as "ABS + private equity fund/trust plan". According to Wind database, as of the end of 2020, there were 82 public REITs issued in China, with a total issuance amount of 156.6 billion RMB, mainly invested in the commercial property

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sector. Infrastructure and commercial properties have similar attributes, and in order to avoid confusing the concepts of infrastructure REITs and commercial property REITs, this paper conducts a comparative analysis of the two, as shown in Table 3, where there are differences in asset ownership, asset liquidity, project duration, asset valuation, risk and return, with the key difference being that infrastructure REITs are public benefit attributes, while commercial property REITs are profit-making attributes.

Table 3. Comparison of Infrastructure REITs and Commercial Property REITs

Projects	Infrastructure REITs	Commercial Property REITs
Asset Ownership	Ownership to the State	Ownership to the property owner
Asset Liquidity	The assets themselves are not liquid and the concessions are illiquid	High liquidity
Project Properties	Public Welfare	Profitability
Period	Up to 30 years	Renewable at expiration
Valuation	Earnings method with depreciating valuation year by year	Yield method, comparative method, with appreciation
Risks and Benefits	Relatively low risk and return	Relatively high risk and reward

Source: REITs Industry Research (REITs industry research: China's first Real Estate Investment Trusts (REITs) research center and the first high-end think tank for real estate finance featuring REITs).

There are four points of interest regarding the transaction structure of infrastructure REITs (see Figure 5). First, the selection of stock quality projects with stable cash flow in the future as the underlying assets; second, the transfer of ownership of infrastructure refers to the transfer of all assets in rem, including the concession and the infrastructure itself; third, the infrastructure original equity holders and public investors must jointly subscribe for fund shares, requiring the original equity holders to subscribe for a quota of no less than 20% of the offering quantity, of which no less than 20% of the total offering The holding period shall be no less than 60 months from the date of listing and no less than 36 months for the excess portion, and pledging is not allowed during the holding period; fourth, the final proceeds of infrastructure REITs shall be distributed to investors in the form of dividends and shall not be less than 90% of the annual amount available for distribution.

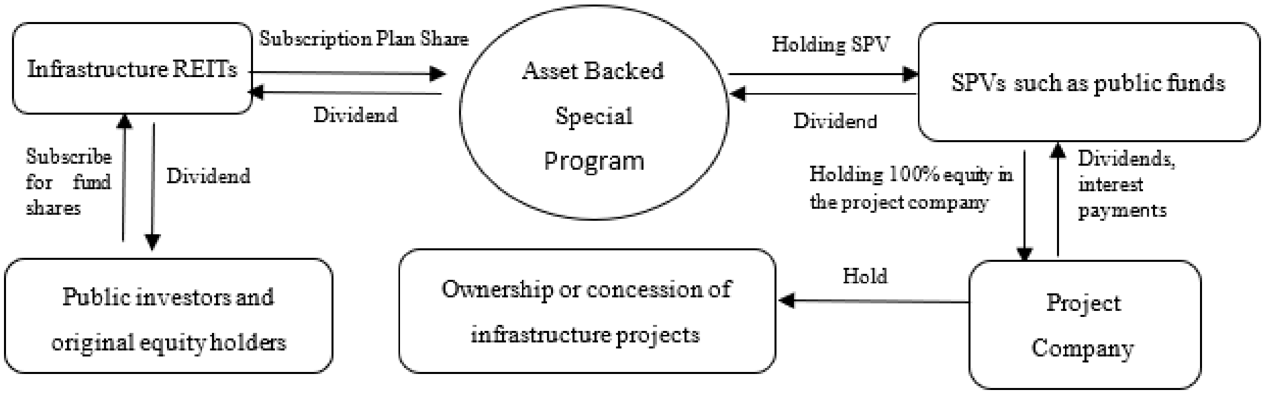

Figure 5. Deal structure of infrastructure REITs
Source: Self-organized by the author

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3.2. The Practical Significance of Infrastructure REITs in China

3.2.1. Helping to Revitalize the Stock Assets and Optimize the Asset Structure

China's infrastructure construction has long been carried out by indirect financing, and the development of China's infrastructure construction has been slow due to the difficulty of raising capital at the early stage of construction. As a new type of investment tool for infrastructure construction, public REITs are popular in the capital market due to their properties of both debt and equity. The launch of infrastructure REITs has prompted enterprises to shift from an asset-heavy business model to an asset-light business model, improving the utilization rate of enterprises' own capital and asset management efficiency, and further enhancing the international competitiveness of Chinese enterprises. For local governments, infrastructure REITs consolidate illiquid underlying assets through financial means, enabling asset portfolios to be freely circulated and traded in the secondary market. It attracts wide participation of social investors and expands the scale of the "capital pool", which promotes the formation of a virtuous cycle of the capital chain and avoids the risk of project interruption due to the breakage of the capital chain and the mismatch of capital maturity. At the same time, a larger pool of funds will reduce the leverage of the investment body, optimize the asset and liability structure, and achieve the effect of reducing financing costs (Luo Guilian, 2019).

3.2.2. Helps Investors to Obtain Stable Investment Returns

The income of infrastructure REITs mainly comes from the period distribution of the net cash flow from the future operation of the project and the appreciation of the infrastructure. Under the internal and external management model, the fund manager hires a professional third-party evaluation agency at the early stage of project construction to conduct due diligence on the infrastructure project and business participants as the underlying assets to ensure the compliance, legality, and independence of the infrastructure project and business participants, the safety and value capacity of the underlying assets, and the stability of future cash flows. By nature, REITs are a real estate securitization commodity with low correlation with stocks and bonds, and the return of the investment entity is not affected by inflation and deflation. Payne (2003) surprises by analyzing the impact of several macro variables on the risk premium of U.S. REITs, mortgage REITs, and hybrid REITs and finds that changes in inflation for all types of REITs are negligible. By statistically surveying the overall performance of mature REITs markets in the U.S. and Japan, the National Energy Information Platform found that REITs products have a historical return of 11% to 13%. This shows that infrastructure REITs can provide investors with investment products with stable returns and medium risks, and improve investors' diversified asset allocation in the market.

3.2.3. Help Reduce the Debt Risk of Governments and Enterprises

The source of the creation of the mature REITs market overseas is to open up new financial market areas to resolve financial risks. Mainly through the financial market for infrastructure project financing, the use of secondary market platform to dispose of assets and transfer risk. China's infrastructure investment and financing exit channel is relatively single and difficult, which makes the government and enterprises have to bear the debt pressure caused by project losses at any time, which reduces the incentive to invest and build, and hinders the development of infrastructure construction. Infrastructure REITs have equity attributes, which can reduce the rigid payment situation of the government and enterprises. Local SOEs use REITs to invest and build infrastructure, and through the financial market transaction mechanism, they can recover funds in time when the enterprise's capital is insufficient, so that the enterprise can achieve normal turnover of daily funds. And in the process of recovering the capital, it will not cause the enterprise to incur any debt and reduce the debt ratio of the enterprise and the government (Wang Yijun, 2020).

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3.2.4. It Helps to Form a Diversified Capital Market Structure and Fill the Gap of Financial Products

The emergence of infrastructure REITs not only enriches the investment and financing methods of infrastructure assets, but also broadens the areas involved in financial products in the capital market and diversifies the investments of market participants. Infrastructure REITs can introduce underlying assets that generate stable cash flow in the future to the capital market through financial means, making a new type of investment product that can be held for a long time with stable returns, filling and optimizing the product structure of the capital market, encouraging investors to actively invest their idle long-term capital in the infrastructure sector, and realizing the rational allocation of social resources. At the same time, in addition to the infrastructure sector, commercial real estate and retirement real estate have a high degree of compatibility with public REITs, expanding the investment fields of the capital market and providing investors with financial products in more areas.

3.2.5. It Helps to Provide Dynamic Energy for Economic Development and Promote High-quality Economic Development

Aveline-Dubach (2014; 2016) confirms that the introduction of H-REITs and J-REITs in Hong Kong and Japan aims to provide a favorable financial environment for domestic and foreign investments.Waldron (2018) uses REITs as a value conversion mechanism between domestic real estate and the global financial system, which can introduce foreign investors and broaden the foreign market scale. Infrastructure REITs introduce social capital to solve the problem of underinvestment by achieving marketization of infrastructure asset operations, optimization of information disclosure capabilities and efficient project operations through the strong binding force of financial market mechanisms. The addition of social investors gathers the strength of multiple parties in society to provide long-term and stable financial support for infrastructure construction, avoid construction interruptions and monopoly problems, and speed up the construction of infrastructure projects. The benign development of infrastructure projects lays the foundation for the development of new infrastructure. At present, new infrastructure such as big data centers and 5G are continuously exploring infrastructure REITs investment and financing models, which will become the key to the high-quality development of new infrastructure projects in China.

3.3. Problems with the Current Infrastructure Reits Model

Currently, the Shanghai and Shenzhen Stock Exchanges have released the Supporting Business Rules for Public REITs (for trial implementation). The introduction of this rule clarifies the review criteria, project application requirements, business process, offering process and the inquiry, pricing and placement in the issuance process of infrastructure REITs, further improving the issuance content of infrastructure REITs. However, at the same time, there are still problems in some aspects of infrastructure REITs, which need to be improved by the government and relevant departments in the future development, and these problems are now analyzed.

3.3.1. Lack of Tax Incentives

China has not yet introduced corresponding laws and regulations on the taxation of infrastructure REITs products. Under the current taxation system, infrastructure REITs involve a number of tax issues during the establishment, operation and exit phases of the project, including five major types of taxes, namely land value-added tax, business tax, deed tax, property tax and stamp duty. In particular, infrastructure REITs do not substantially transfer real estate in the financing process but are subject to high taxes according to the conditions of transferring real estate, which leads to high asset stripping costs and is not conducive to revitalizing social stock assets (Chen Bin and Xia Xu, 2021). The complexity of the underlying

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asset tax design exposes infrastructure REITs project holders to excessive tax burden and double taxation, which largely restricts the development of infrastructure REITs in China.

3.3.2. Infrastructure Asset Transfer Policy Mismatch

The formation of infrastructure REITs projects requires not only the independent and exclusive rights of the underlying assets for portfolio investment public funds, but also requires the original equity holders to realize the transfer of the ownership and franchise rights of the underlying assets. Regarding the franchise rights China's existing laws emphasize that enterprises are not allowed to transfer or lease them without authorization, which indicates that China has not yet relaxed the restrictions on the franchise rights. At the same time, China's laws and regulations on the complete transfer of underlying assets and relevant supporting policies between departments have not yet been introduced, resulting in the inability of the underlying assets to achieve exclusivity and independence, which is not conducive to the accurate assessment of the value of the underlying assets and seriously restricts the transfer of the underlying assets, making the development of infrastructure REITs hindered.

3.3.3. Lack of Regulatory System

At this stage, China has not yet issued formal documents specifically addressing the regulatory aspects of infrastructure REITs, resulting in the risk of improper operation of infrastructure REITs in terms of approval process, registration, listing and trading, and exit. Achieving full transfer of underlying assets requires regulatory authorities to introduce relevant regulations to assist in the process. Meanwhile, the selection of underlying assets is a prerequisite for infrastructure REITs to be carried out, and the cash flow income from underlying assets as a project selection criterion is subject to the regulatory system, making the process of issuing REITs for many assets more difficult. The lack of a regulatory system leads to loopholes in risk monitoring and hinders the development of the infrastructure REITs market.

3.3.4. Quality Projects for Infrastructure are Difficult to Screen

Infrastructure construction is generally characterized by long payback periods, poor liquidity and low investment returns. Therefore, project screening is an important condition for infrastructure REITs work to be fully carried out. The declaration process of infrastructure REITs projects is mainly carried out by the provincial development and reform commissions for preliminary screening, reported to the National Development and Reform Commission for re-examination, selected eligible projects, and recommended to the Securities Regulatory Commission and Shanghai and Shenzhen Stock Exchanges for registration review. It can be seen that the project screening process is complex and difficult. When screening the projects, the industry, competition pattern, operation status and compliance of the project itself need to be taken into consideration. It also requires a comprehensive assessment of the working qualification and background of the participants, such as the original equity holders, external managers and beneficial owners, as well as key information such as whether the fund management institution has rich experience in operation and management. Project valuation as the most important screening criteria is the most important concern for all types of investors, and is now based on the income approach, which is more complex to assess. At present, no official document has been issued by government departments for the screening rules of infrastructure REITs projects. At the same time, the wide disparity in the underlying asset classes of infrastructure REITs increases the difficulty of screening high-quality projects, and this issue needs to be addressed by the government and the community in the future development process.

3.3.5. Lack of Capacity of Participating Subjects

China's infrastructure REITs are at an early stage of development, and there is a lack of fund managers with operational and management experience in the infrastructure sector and professionals with practical experience in project operations, including banks, to conduct due

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diligence on infrastructure projects and business participants, a process known as IPO of assets. There is also little research on infrastructure REITs and their underlying asset selection. This not only hinders the initial public offering of infrastructure REITs, but also adversely affects the operation and management of the projects at a later stage. In addition to the fund managers mentioned above, there is also a lack of capacity of participating entities such as custodians, asset valuation agencies, third-party management agencies and professional lawyers, auditors and accounting firms.

3.3.6. Low Secondary Market Activity

At present, the main reasons for the low activity in the secondary market of infrastructure REITs include the following. Firstly, infrastructure REITs adopt closed-ended operation, the threshold for product investment and transfer is high, the main holders of infrastructure REITs are institutional investors, and there are differences in the lock-in periods of different institutional investors, resulting in low activity in the secondary market. Second, the share of infrastructure REITs in the overall capital market capitalization is relatively small, and the long-term reasonable allocation value of institutional investors' assets is small, making the market less liquid. Finally, secondary market liquidity has a large impact on value, and in a sense, the size of the secondary market capacity is an important condition leading to the level of trading activity. Not only that, the activity of the secondary market also involves the degree of flexibility of investors' trading exit mechanism and the reasonable valuation of value, which positively contributes to the development of infrastructure REITs in China.

4. Conclusions and Recommendations

The emergence of infrastructure REITs, for investors, can revitalize and restructure illiquid underlying assets and also provide investors with stable income. For governments and enterprises, it can relieve the pressure of their debts and increase the enthusiasm of infrastructure construction. For the capital market, it can not only diversify financial products and diversify financial risks, but also provide momentum for China's high-quality economic development and promote the formation of a dual-circulation pattern.

In the current price segment, the infrastructure REITs market is still facing different degrees of challenges. In order to steadily promote the development of China's infrastructure REITs market, the following analysis is conducted on the existing problems of infrastructure REITs, and corresponding policy recommendations are put forward for tax laws, asset transfer, regulation, project screening, participating entities, and secondary market activity.

4.1. Sound Legal Regulatory System for Infrastructure Reits

The following three aspects of the tax law, asset transfer law and regulatory system are used to improve the content of the relevant system.

4.1.1. Improve the Tax Policy of Infrastructure Reits

In view of the special characteristics of REITs, on the basis of the existing tax laws, tax incentives are set for infrastructure REITs products, and corresponding tax relief policies are implemented for tax issues such as land value-added tax, corporate income tax and deed tax arising from formal real estate transfer acts. It is recommended to treat all subjects and stages of infrastructure REITs as a whole as a financing activity and introduce a tax credit system to avoid double taxation. In some areas that do not involve tax incentives, incentives and penalties are adopted, such as the formulation of corresponding relief policies for special purpose vehicles (SPVs) to reduce the pressure on taxpayers to pay additional taxes. At the same time the tax system in the distribution segment is relatively lenient, and the government should set up corresponding tax exemptions to increase investors' returns, enhance the attractiveness of

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infrastructure REITs, and increase the project construction motivation of original equity holders and the participation incentive of investment institutions.

4.1.2. Regulations Related to the Establishment of the Underlying Asset Transfer

Infrastructure REITs stipulate that the portfolio investment fund of the project must own the ownership and concession of the underlying assets. Accordingly, China should form a complete set of legal norms for asset transfer as soon as possible to clarify the requirements for the transfer of ownership, transfer of operation rights and transfer of equity in the underlying assets during the construction of infrastructure projects. It is also necessary to form a complete set of synergistic policies with all relevant ministries and commissions to enable complete transfer of assets, simplify the complexity of asset transfer, improve the efficiency of valuation of underlying assets, and accelerate the operational operation process of infrastructure REITs.

4.1.3. Form a Complete Regulatory System as Soon as Possible

We will deeply understand the development of the infrastructure REITs market, conscientiously implement the development concept, and strive to build a regulatory system of classification and strict supervision, so as to bring into play the risk prevention and control function of the market. It can learn from the multiple regulatory approaches adopted in the U.S. REITs market, and on the one hand, complete the due diligence on infrastructure projects and business participants, as well as the operational operations and information disclosure in the process of project operation and management, in accordance with the Due Diligence Guidelines and Operational Guidelines promulgated by the China Association of Fund Industry. It also complies with the regulatory regulations formulated by the CSRC and the Shanghai and Shenzhen Stock Exchanges regarding the issuance, trading, information disclosure, supervision and management of infrastructure REITs. On the other hand, special legislation on securities management is adopted for the differences in the pilot regions of infrastructure REITs (Tang Shida, 2014). The regulatory issues of cash flow of underlying assets are clearly defined to provide a basis for the selection of infrastructure REITs projects and guide the market to normalize and scale up the development.

4.2. Improve Screening Rules for Infrastructure Reits Projects

On January 29, 2021, the Shanghai and Shenzhen Exchanges promulgated supporting rules regarding infrastructure REITs, including the Business Approach, which provides for qualification and comprehensive due diligence of project companies and infrastructure asset projects. This specifically includes investigation of the industry in which the project company operates, its competitive position and historical financial performance, with emphasis on reviewing historical data and expected cash flows of the project assets and analyzing the stability status of the cash flows. Prior to the release of the official document, carry out infrastructure REITs in accordance with the pilot business approach, continuously improve the project screening rules, fully consider regional differences, relax the number of project declarations in each region, and focus on reviewing the compliance and asset quality level of projects to ensure the accuracy of project selection. We will promote the pilot landing of high-quality projects, promote the formation of market scale and market synergy, and work to create a good demonstration effect.

4.3. Increase the Training of Professional Institutions and Professionals

Over the past three decades, China's infrastructure construction has experienced a period of rapid development and accumulated a large amount of underlying assets, and the emergence of REITs has revitalized the stock of these assets and prompted the listing and trading of underlying assets. At the same time, the listing and trading of infrastructure REITs need to be supported by market supporting contents (Yang, 2018). In the whole life cycle of infrastructure REITs, initial offering and listing and investment and operation management are core

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components, which require the government to enhance the business content of many professional institutions, such as investors, fund managers, special plan managers, operating institutions, and financial advisors, in accordance with the requirements during the registration, issuance, operation, and liquidation of REITs, and promote coordination and cooperation among institutions, focusing on The handling of synergistic relationships between fund managers and operation and management institutions. In addition, the newly promulgated "Business Regulations" clearly require the qualification examination of business participants, so it is particularly important to cultivate professional institutions and professionals. We will actively promote the special training of "Infrastructure REITs Leaders", "China Public REITs" training, and China Public REITs Practical Training Camp to expand the scope of online and offline training and realize the centralized training of talents.

4.4. Improve the Secondary Market Trading Mechanism of Infrastructure REITs

The secondary market is a key factor to promote the development of infrastructure REITs listing, and the market activity depends on whether the market trading mechanism is perfect. The government should improve the pledge agreement repurchase, liquidity service, bilateral quotation service mechanism and exit mechanism in the secondary market, establish an open trading market for the secondary market, deepen investor education, expand the investor base (Pan Xiangdong et al., 2020), improve investor returns and market maker liquidity creation capacity, and enhance secondary market trading liquidity. Other pilot regions can learn from the two-way investment platform for domestic and foreign REITs established in Hainan Province to attract participation of foreign investors, achieve international convergence of China's infrastructure REITs market, and develop and expand the market size and investor scope. At present, the closed fund operation method seriously restricts the development of infrastructure REITs. The SFC should encourage the promotion of open-ended operation to enrich the investment opportunities for investors and promote the expansion of the infrastructure REITs pool.

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