



30 March 2010

Securities and Futures Commission
Supervision of Markets Division
8th Floor, Chater House
No.8 Connaught Road Central
Hong Kong

BY FAX (2521 7917)
AND BY HAND

Dear Sirs,

Joint consultation paper on a proposed operational model for implementing a scripless securities market in Hong Kong issued by the Securities and Futures Commission, Federation of Share Registrars Limited and Hong Kong Exchanges and Clearing Limited on 30 December 2009 (the "Consultation Paper")

We set out below the comments from SG Securities (HK) Limited, the Hong Kong representative of certain exchange traded funds managed by Lyxor International Asset Management and listed on The Stock Exchange of Hong Kong Limited (collectively, the "Lyxor ETFs") in relation to the proposals set forth in the Consultation Paper.

Except as otherwise defined in this letter, defined term(s) used in this letter shall have the same meaning(s) as defined in the Consultation Paper.

1. Stamp Duty Issue

At present, the register of unitholders of each Lyxor ETF is maintained outside Hong Kong.

Accordingly, the units of each Lyxor ETF will not constitute Hong Kong stock for the purposes of the Stamp Duty Ordinance of Hong Kong (i.e., a stock the transfer of which is required to be registered in Hong Kong), and a charge to Hong Kong stamp duty should not arise on any redemption or transfer of any units in any of the Lyxor ETFs.

However, under paragraph 49 of the Consultation Paper, the formal register of holders will consist of, *inter alia*, an uncertificated sub-register, which will record details of all holdings within CCASS.

This may imply the creation of a sub-register in Hong Kong for each of the Lyxor ETFs and, therefore, may create stamp duty implications for the redemption or transfer of a unit of a Lyxor ETF.

We believe that such stamp duty implications are not intended by the proposals under the Consultation Paper, in particular, under paragraphs 49 to 53.

As a result, we recommend that the proposals under the Consultation Paper, in particular, under paragraphs 49 to 53, shall not be applicable to the Lyxor ETFs, unless suitable provisions should be incorporated into the Stamp Duty Ordinance to clarify that units of the Lyxor ETFs, which take the

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SG Securities (HK) Limited
Level 38, Three Pacific Place
No.1 Queen's Road East
Hong Kong

Tel.: +852 2168 4988
Fax: +852 2168 4668
www.sgoib.com

form of a contractual mutual fund (i.e., not incorporated companies), are not "Hong Kong stock" for the purposes of the Stamp Duty Ordinance.

2. Operational Issue

As the register of unitholders of each Lyxor ETF is maintained outside Hong Kong, the registrar of the Lyxor ETFs, Société Générale, is also operating outside Hong Kong.

The SFC may note that, for each Lyxor ETF, (1) Lyxor International Asset Management, (2) Société Générale, in its capacity as the share registrar of the relevant Lyxor ETF and in its capacity as the custodian of the relevant Lyxor ETF, (3) Société Générale, Hong Kong Branch, in its capacity as the transfer agent of the relevant Lyxor ETF, (4) HKSCC, (5) HK Conversion Agency Services Limited and (6) the participating dealer of the relevant Lyxor ETF, have all entered into a service agreement, under which the parties thereto have all agreed to facilitate the deposit of units of the relevant Lyxor ETF into CCASS and the withdrawal of such units from CCASS, in book-entry form, by the relevant participating dealer in accordance with the CCASS Rules and the CCASS Operational Procedures, upon the terms therein.

Hence, Société Générale, Hong Kong Branch has been appointed by Lyxor International Asset Management as each of the Lyxor ETFs' transfer agent to handle, *inter alia*, the creation / redemption of the Lyxor ETFs in Hong Kong, in accordance with the requirements of the relevant service agreements as aforesaid.

For the above purposes, Société Générale, Hong Kong Branch and the other relevant parties in France have already agreed upon and put in place the necessary operational procedures to facilitate the creation / redemption of the Lyxor ETFs in Hong Kong, in compliance with the relevant legal and non-statutory requirements in Hong Kong.

If the proposals under the Consultation Paper, in particular, under paragraphs 49 to 53, are implemented, it is unclear as to whether a local sub-registrar would need to be appointed. If so, the requirement to appoint a local sub-registrar in Hong Kong may have operational impacts in Hong Kong and France (including, without limitation, the necessity of setting up a delivery mechanism to such local sub-registrar), which would have a significantly negative effect on the operational procedures already put in place as aforesaid.

As a result, we recommend that the proposals under the Consultation Paper, in particular, under paragraphs 49 to 53, shall not be applicable to the Lyxor ETFs, unless suitable provisions should be incorporated into the Securities and Futures Ordinance (if applicable), and the other relevant non-statutory rules and codes, e.g., the Listing Rules, the General Rules of CCASS and the SFC's Code of Conduct for Share Registrars, to cater for the specific characteristics of the Lyxor ETFs.

Yours faithfully

SG SECURITIES (HK) LIMITED