

JOINT CONSULTATION CONCLUSIONS

ON

A PROPOSED OPERATIONAL MODEL FOR IMPLEMENTING A SCRIPLESS SECURITIES MARKET IN HONG KONG



21 September 2010

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A. INTRODUCTION

1. On 30 December 2009, the Securities and Futures Commission (**SFC** or **Commission**) together with the Federation of Share Registrars Limited (**Federation**) and Hong Kong Exchanges and Clearing Limited (**HKEx**) jointly issued a consultation paper (**Consultation Paper**) which contained proposals in relation to various aspects of implementing a scripless securities market.
2. The proposals were put together by a working group comprising representatives from the SFC, the Federation and HKEx (**Working Group**). The Working Group met with various industry representatives, both before and after the issue of the Consultation Paper, to explain and exchange views on the proposals.
3. The deadline for submitting comments on the Consultation Paper was 31 March 2010. Some comments were submitted after the deadline but these were also taken into consideration.
4. We received 44 written responses to the Consultation Paper. Respondents included banks, brokers, individual investors, law firms, listed companies, share registrars and professional bodies. A list of the respondents (other than those which have requested to remain anonymous) is set out at **Appendix 1** and the full text of their comments can be viewed on the websites of the SFC (www.sfc.hk), the HKEx (www.hkex.com.hk) and the Federation (www.fedsrltd.com).
5. In general, the vast majority of respondents supported the initiative to implement a scripless securities market. Many, however also had comments and suggestions on some of the specific proposals and sought further clarification in relation to some aspects of the operational model.
6. The few respondents who did not support the scripless initiative were mainly concerned about costs and about being able to adapt to the scripless environment as they were unfamiliar with using computers and the internet.
7. This report summarises the main comments received, the Working Group's responses to these and our conclusions and proposals for taking the scripless initiative forward. This report should be read together with the Consultation Paper and the comments received.

B. EXECUTIVE SUMMARY

8. The objectives of implementing a scripless securities market are set out in the Consultation Paper. In summary, the main objectives are to enhance overall efficiency and competitiveness in the securities market, and to secure an appropriate and improved level of investor choice and protection.
9. After considering the comments received and taking into account all relevant circumstances, the Working Group now concludes that we should proceed with the proposal to implement a scripless securities market in Hong Kong, subject however to making a few changes to the model proposed in the Consultation Paper.
10. We set out below a summary of the key features of the proposed scripless model (which is largely similar to the one set out in the Consultation Paper), the main issues and concerns raised by respondents and our response –

- (a) Dual system : The existing paper-based system will be retained for the time being so that it runs in parallel with the proposed scripless system. Investors will be allowed to dematerialise securities held in paper form into uncertificated form and also to rematerialise them back into physical form, as long as the dual system exists. The duration of maintaining the dual system will be kept open for now. In other words, we will not specify at the outset when the paper-based option will be removed altogether. Most respondents supported this proposal. Those who disagreed were mainly concerned about the costs of maintaining two systems. We acknowledge that there are cost implications in maintaining two systems. However, this is only an interim measure meant to facilitate the gradual implementation of the scripless initiative. Moreover, we need to balance the cost concerns against investors' strong demand for a paper option, and the general readiness of the market for full dematerialisation. Some respondents felt that a clear timeline should be fixed from the outset as to how long the dual system would last. We prefer to keep the timeline open as it hinges on market readiness which can only be gauged after implementation.
- (b) Full dematerialisation ultimately : Dematerialisation will be made compulsory eventually i.e. the paper-based option will be removed altogether. Most respondents agreed to this proposal. The respondents who disagreed felt that investors should permanently have the option of holding securities in physical form as this was viewed as more secure and convenient, and charges such as custody and dividend collection fees would not be incurred. They also felt that paper certificates constituted tangible proof of their holdings. We acknowledge that there may be practical concerns, particularly in relation to long term investors, in adapting to the scripless environment. However, the Working Group is working on ways to address these issues. Some of the concerns can be dealt with by conducting appropriate investor education. As for concerns that charges might be incurred by investors in holding uncertificated securities, we recognise that investors may have to pay for new processes and services in the scripless environment, but we will endeavour to ensure that these are reasonable and will not offset the longer term benefits that can be enjoyed in a scripless environment.
- (c) Phased approach : Existing securities will be dematerialised in batches starting with shares of companies incorporated in Hong Kong. Although most respondents agreed to this proposal, some expressed concerns that investors might find this confusing. We will conduct appropriate investor education to avoid confusion amongst investors and give sufficient notice to all parties concerned to ensure a smooth implementation process. We proposed proceeding with shares of Hong Kong incorporated companies first as we are in better control of the timetable for the legislative amendments required to give effect to the scripless initiative.
- (d) Register to comprise two parts : The register of holders will consist of a certificated sub-register which is maintained by the share registrar and an uncertificated sub-register which is maintained by Hong Kong Securities Clearing Company Limited (**HKSCC**). To facilitate inspection, corporate action processing and corporate entitlements calculation, HKSCC will provide the respective share registrars with a day-end record of the uncertificated sub-register. The day-end record will also allow share registrars to reconcile the two sub-registers. Respondents agreed to this proposal but emphasized that the two sub-registers must be properly reconciled and mechanisms must be put in place to address any dispute

arising from discrepancies between the two sub-registers. We believe the provision of day-end records will enable any discrepancies to be identified and rectified accordingly. Nevertheless, we agree that relevant mechanisms need to be clearly put in place, and will work towards achieving this.

- (e) Removal of the immediate credit arrangement¹ : One of the consequences of the register of holders comprising two sub-registers is the removal of the immediate credit arrangement by HKSCC. Respondents were concerned whether investors holding securities in physical form would be able to meet the T+2 settlement deadline after removal of the immediate credit arrangement. Share registrars will provide different service level options for dematerialisation. These will include options that will address respondents' concern about meeting the T+2 settlement deadline provided of course that there are no irregularities. The service fees will be commensurate with the different service level options. The details of the possible dematerialisation and rematerialisation processes are described in more detail in **Appendix 2** and **Appendix 3** respectively.
- (f) Account types to hold uncertificated securities : Investors will be able to hold their uncertificated securities through four different account types. Only one of these, namely the Issuer Sponsored Account (**ISA**), is a new account type under the proposed model. The other three are essentially modified versions of the existing CCASS Participant Account (**CPA**), Stock Segregated Account and Investor Participant Account (**IPA**). Most respondents agreed that enough options (in terms of account types) were provided to investors under the proposed model. Some respondents felt that there was no significant difference between the IPA and the ISA. Although the key features of an IPA and ISA are similar, one is offered by HKSCC while the other is offered by share registrars. Hence the services provided to holders and the fees charged may be different.
- (g) Name on register : Investors will be able to hold securities in CCASS² in their own names i.e. they will have the option of becoming the legal owner of the securities and of enjoying the full benefits of legal ownership. The majority of respondents agreed to this proposal although some were concerned that they would be compelled to register uncertificated securities in their own name. The name on register facility is not compulsory and investors will have the option of holding uncertificated securities in the name of a nominee. For example, they can hold the securities in a CPA, in which case they will be held in the name of the relevant CCASS Participant that is their broker/bank/custodian.
- (h) Unique identification numbers : Currently, investors who hold securities within CCASS are required to provide an identity proof (such as their Hong Kong Identification Card) during the account opening process with a broker/bank/custodian or HKSCC, as the case may be. Building on this practice, we propose that investors' identification numbers be made available to both HKSCC and the relevant share registrar. There were mixed

¹ Under the existing CCASS rules, subject to certain risk management measures and HKSCC Nominee's right of rejection, securities held in physical form can be immediately credited to the account of a CCASS Participant (other than an Investor Participant) when the certificates are deposited with the CCASS Depository without having to complete the process of registering the securities in the name of HKSCC Nominees Limited.

² CCASS means the Central Clearing and Settlement System established and operated by HKSCC.

views from respondents on the proposal. Many respondents enquired about the purpose of requiring unique identification numbers and also sought clarification on how the requirement would be imposed. The Working Group believes that the collecting of investors' identification numbers and making them available to HKSCC and the relevant share registrar will help enhance investor protection and improve overall efficiency and system integrity in the scripless environment. The identification number envisaged to be collected is the investor's Hong Kong Identity Card number (if available), otherwise, it will be the investor's passport number and corporate holders will need to provide their company registration numbers. Unlike other details such as investors' name, address and holdings, investors' identification numbers will not be included in the register of holders and will not be available for public inspection. We will introduce requirements on how the identification numbers are to be kept and used. This will address the concerns raised by some respondents about security and data protection issues.

- (i) Attending and voting at shareholders' meetings : The Working Group had initially contemplated allowing brokers/banks/custodians to appoint multiple corporate representatives so that any number of their clients wishing to attend shareholders' meetings can do so. We received mixed responses on this issue. Respondents who did not support this approach were mainly concerned about resources/costs, in that if one client is appointed as a corporate representative to attend the meeting, the broker/bank/custodian will have to send its staff to attend the meeting to represent interests of other clients who wish to exercise their voting rights but do not wish to attend the meeting. The Working Group is keen to preserve the status quo of allowing beneficial owners to attend and vote at shareholders' meeting and considers that the better way to achieve this may be to simply allow the appointment of multiple proxies. This way, brokers/banks/custodians who hold shares on behalf of clients will be able to appoint their clients as proxies to attend and vote at meetings. For clients who merely wish to vote but not to attend the meeting, their interest can be represented by brokers/banks/custodians through appointing the chairman of the meeting as a proxy to vote on their behalf. We will however keep this issue under review, particularly in light of discussions on the draft Companies Bill which are underway.
- (j) Disseminating corporate communications and providing corporate action services to securities holders: As HKSCC Nominees Limited (**HKSCC Nominees**) will no longer be the registered holder of uncertificated securities in CCASS, there will be changes in the dissemination of corporate communications and provision of corporate action services to holders of uncertificated securities. The Working Group is keen to ensure that securities holders can continue to enjoy similar types and levels of services as they do currently. Accordingly, we propose that share registrars will disseminate corporate communications to all registered holders (both certificated and uncertificated) and HKSCC will continue to provide additional services like providing receivable notices³ to uncertificated holders who hold their securities through a CPA, Participant Sponsored Account (**PSA**) or IPA. In terms of corporate action services, share registrars will

³ Receivable notices are issued by HKSCC to participants notifying them of the expected entitlement under a corporate action. E.g. An issuer declares a cash dividend of HK\$0.50 per share and a participant holds 1,000 shares. HKSCC will calculate and notify the participant of a 'receivable' of HK\$500. HKSCC calculates receivables at a participant level as well as account level.

continue to provide these to all registered holders . As for holders of CPA, PSA and IPA, HKSCC will facilitate the provision of corporate action services via the CCASS infrastructure.

- (k) Regulation of share registrars : Share registrars will be able to become a new category of participants in CCASS (if they meet the admission criteria). This will allow them to use the existing CCASS infrastructure to communicate electronically with other CCASS Participants and to handle instructions relating to uncertificated securities. Additionally, in view of their more active and involved roles and functions in the scripless environment, share registrars will be more directly and robustly regulated. Some respondents were concerned that more regulation might result in more costs to market participants and stifle operations. However, the Working Group considers that a more direct and robust regulation of share registrars is necessary in a scripless environment as the integrity, security and reliability of the scripless environment will depend heavily on share registrars' systems and operations. The details of the regulation will be set out in legislation. We will consult further on the specifics at a later stage.
- (l) IPOs : In the scripless environment, the existing four ways to apply for an IPO (applications via a white form, a white form eIPO, a yellow form and CCASS EIPO) will remain largely unchanged. The main difference will be that applicants under the white form and white form eIPO options will be able to choose if their securities should be issued in uncertificated or physical form. Most respondents did not comment specifically on this proposal, and we will proceed with it as proposed.
- (m) Scope : The Working Group notes that most of the benefits of going scripless will apply to all securities and there is therefore merit in extending the scripless initiative to all securities that are listed or traded on the Stock Exchange of Hong Kong (**SEHK**). This includes not only listed shares and debentures of Hong Kong incorporated companies but also other listed securities such as derivative warrants, callable bull/bear contracts (**CBBCs**), ETFs and other structured products, as well as (to the extent possible) shares and debentures of overseas incorporated companies that are listed or traded on the SEHK. However, as several respondents have pointed out, there are practical issues in relation to some securities (e.g. stamp duty implications in relation to ETFs) that need to be addressed first. Pending resolution of these practical issues, the scripless proposals will be implemented in relation to shares of listed companies - starting first with those incorporated in Hong Kong and then those incorporated overseas.
- (n) Shares and debentures of companies incorporated overseas and listed in Hong Kong : We will focus first on companies incorporated in Bermuda, Cayman Islands, Mainland China and UK mainly because companies incorporated in these four jurisdictions make up the vast majority of overseas companies listed on the SEHK and will therefore have a greater impact on the scripless initiative. However, we are also looking into the position of other overseas incorporated companies. Most respondents supported this approach.
- (o) Roll-out plan for implementing a scripless securities market : There will be two distinct implementation timelines which are independent of one another - one for existing securities and the other for IPOs. In both cases however, there will first be a pilot run.

- (i) In relation to existing securities, a pilot run will be conducted first which involves volunteers (i.e. to be listed companies incorporated in Hong Kong) which will offer a scripless option. We intend to let this pilot run continue for a period long enough to test all processes in the scripless environment e.g. the various corporate actions, distribution of dividends, distribution of other cash/non-cash entitlements, etc. Only after a successful pilot run, will we proceed with the implementation of the scripless initiative to the remaining securities, and in batches. We expect the first batch to be shares of Hong Kong incorporated companies.
 - (ii) Similarly, in relation to IPOs, we will invite volunteers to participate in a pilot run. After the pilot run has been successfully implemented, we will require all IPO issuers to offer a scripless option.
- 11. One of the key concerns of respondents in relation to the scripless initiative in general was in relation to the fee structure in the scripless environment. Many respondents were concerned that implementation of the scripless initiative might result in higher costs to market participants.
- 12. To some extent, a reallocation of costs and charges will be inevitable because some existing services will necessarily become obsolete while some new services will need to be introduced. For example, new services such as dematerialisation and rematerialisation will be introduced.
- 13. A reallocation of roles and responsibilities will also arise in light of HKSCC Nominees ceasing to be the registered holder of uncertificated securities held in CCASS. The structural changes necessitate an overall fee review. In this regard, HKEx is in the process of conducting a fee review to rationalise its overall fee structure. Although details of its fee structure in the scripless environment are not available at this stage, HKEx expects certain existing fees will be streamlined and fees (including new fees, if any) in the scripless environment may not be higher than fees charged currently. These will in any event be reasonable and justifiable as they are subject to SFC's approval.
- 14. The proposed scripless securities market will come into effect after the necessary legislative changes are made and the market infrastructure, key operators and market participants are ready. The legislative changes will primarily be to the Securities and Futures Ordinance (**SFO**), the Companies Ordinance (**CO**) and the Stamp Duty Ordinance (**SDO**). These will set out the necessary framework whilst the details will be provided in new subsidiary legislation to be made under the SFO and, where appropriate, non-statutory rules and codes.
- 15. As a first step to this legislative amendment exercise, various amendments have already been introduced and approved by the Legislative Council (**LegCo**). Part 7 of the Companies (Amendment) Ordinance, No. 12 of 2010 (which was passed on 7 July 2010 but is not yet in operation) removes or provides exceptions to the existing provisions in the CO that compel the issue or use of paper documents of title and transfer. The passage of these amendments represents an important step in the entire legislative process for implementing the scripless initiative, and also signifies the Government's support to take the scripless initiative forward. The amendments in the Companies (Amendment) Ordinance will only come into effect when, among

other things, the market is ready to implement the proposed scripless operational model.

16. The Commission is currently working with the Government on further legislative amendments which will essentially set out the framework for regulating the scripless environment and those who play a key role in that environment. The Commission is also currently working on the related new subsidiary legislation and hopes to issue a separate consultation paper in that regard in early 2011. Subject to the legislative process, implementation of preparatory arrangements, as well as other relevant considerations, we expect to launch the first pilot run of the scripless initiative in late 2013.

C. COMMENTS RECEIVED AND OUR RESPONSE

I. Dual system⁴

17. We proposed in the Consultation Paper a gradual approach in implementing a scripless securities market. Essentially, the existing paper-based system would be retained for the time being and would run in parallel with the proposed scripless system. This would give investors time to adapt to the scripless environment before a fully scripless securities market is implemented in Hong Kong eventually.
18. There are different ways of implementing a dual system (and these different ways require market participants maintaining two systems in parallel), such as –
 - (a) by allowing investors to dematerialise their securities held in physical form into uncertificated form and also to rematerialise them back into physical form, for as long as the dual system exists, or
 - (b) by allowing investors to dematerialise their securities held in physical form into uncertificated form but not vice versa. Eventually, when most securities have been dematerialised, the paper-based system will be removed all together.
19. We believe the better way to implement the dual system is the one described in paragraph 18 (a) above.
20. Most respondents agreed that it was necessary and important to give investors the option to choose whether to dematerialise their securities or not, and also the option to rematerialise them back into physical form. A few respondents however disagreed. They felt that the option to rematerialise was regressive and inconsistent with the objective of maximizing efficiency and ultimately implementing a fully scripless securities market in Hong Kong.
21. We appreciate that by allowing investors to choose whether to dematerialise their securities held in physical form into uncertificated form and also to rematerialise them back into physical form, means that the move to full dematerialisation will take longer. However, given the strong demand to retain the existing paper-based system, it does not appear viable to proceed differently. This approach has the

⁴ This section addresses the following issue for which feedback was sought in the Consultation Paper

Q1: Do you agree that investors should be given the option to hold securities in paper form and to rematerialise securities that have been dematerialised? If not, why not?

advantage of allowing the scripless system to be implemented gradually and adopted by investors on a voluntary basis, as much as possible. It also allows investors to experience holding securities in uncertificated form while retaining the option to rematerialise the securities. We believe this flexibility will create more buy-in, particularly from long term investors.

22. Some respondents who support the dual system were concerned that additional costs would be incurred by market participants in maintaining two systems, particularly over an extended and unknown period. They suggested that the scripless initiative should be implemented in a way which would not require both systems to run in parallel, either by implementing it in one go after giving the market enough time to prepare for the change, or setting a timeline from the outset so that there is clarity and certainty from the outset as to how long the dual system would last. There were differing views as to the duration for which the dual system should be maintained, ranging from less than two years to six years.
23. We acknowledge that maintaining two systems in parallel will have cost implications. However, we need to balance such concerns against some investors' strong demand for a paper-based option, and the market's general readiness to implement full dematerialisation. In any event, we do not intend to maintain the dual system indefinitely (as discussed in the next section).
24. As for the duration of maintaining a dual system, we prefer to keep this open for the time being i.e. we will not set a specific deadline from the outset but will instead allow the market to witness firsthand the benefits of going scripless and be persuaded to make the change themselves. It is also difficult to set a fixed timeline for full dematerialisation at the outset given that much depends on market readiness.
25. To gauge market readiness, we will engage in regular reviews and discussions with market participants after implementation. We will conduct investor education programmes on the importance and benefits of dematerialisation. Through these initiatives, we also aim to ascertain and address any outstanding concerns or reservations the market may have about implementing full dematerialisation. Finally, we will consult the market again before implementing full dematerialisation.

II. Full dematerialisation ultimately⁵

26. We proposed in the Consultation Paper that dematerialisation would be made compulsory eventually and the paper-based option would be removed i.e. the dual system would not be maintained indefinitely. However, as discussed above we will not specify at the outset a deadline for full dematerialisation.
27. We received mixed views from respondents on the proposal for the scripless system to be made compulsory eventually.
28. Respondents who indicated that they would like the paper-based option to be maintained indefinitely were of the view that some long term investors would prefer to hold their securities in physical form as they regarded this to be more secure and

⁵ This section addresses the following issue for which feedback was sought in the Consultation Paper

Q2 : Do you agree that the scripless system should eventually be made compulsory and the paper-based option removed altogether? If not, why not?

convenient. Long term investors would also be unwilling to relinquish their paper securities as they felt that this provided tangible proof of their holdings. Another concern raised was that elderly investors, and other investors who were not familiar with using computers and the internet would be unable to adjust to the scripless environment.

29. We appreciate that some investors may be reluctant to relinquish their paper securities and may face genuine difficulty in adjusting to the scripless environment. However, we believe these concerns can be properly addressed and we will work towards achieving this. Moreover, we must not lose sight of the fact that physical certificates are susceptible to damage, loss or theft unlike holding them in uncertificated form. While it is possible to replace physical certificates which have been damaged, lost or stolen, the process may be tedious and relatively costly. Cases of lost certificates are not uncommon. In 2009, over 3,500 cases of lost certificates were reported. As for the issue on tangible proof of holdings, we would note that investors holding uncertificated securities will receive statements from brokers/banks/custodians/share registrars/HKSCC, which show the holdings in the investors' account as at a particular date.
30. There are also other longer term benefits that investors will be able to enjoy in a scripless environment, including enhanced market efficiency. This is particularly relevant in relation to securities which are dual-listed i.e. listed in Hong Kong and in another jurisdiction which operates in a scripless environment. Since Hong Kong still has a paper-based option, issuers have to take into consideration the time required to post the relevant documents to securities holders when deciding the schedule of corporate actions. On the other hand, the other jurisdiction which operates in a scripless environment may have a more flexible timetable for corporate actions. Taking the example of right issues, when HSBC Holdings PLC had a rights issue exercise in March 2009, the trading of rights on the London Stock Exchange started earlier than the trading of rights on the SEHK.
31. Some respondents were concerned that when full dematerialisation takes place, investors would be compelled to hold securities in uncertificated form and would have to incur charges not otherwise incurred if securities were held in physical form e.g. custody and dividend collection fees. We acknowledge that some charges will be incurred by investors holding securities in uncertificated form. The actual amount and nature will depend on which account the securities are held within. However, we will endeavour to ensure that the fees and charges under the scripless model are reasonable and not prohibitive, nor such as to outweigh the benefits. Please refer to Section XIV on Fees and Charges for further discussion on this issue.

III. Phased approach⁶

32. We proposed in the Consultation Paper a phased approach to implementing a scripless securities market as it would facilitate logistical arrangements. It is envisaged that existing securities would be dematerialised in batches.

⁶ This section addresses the following issues for which feedback was sought in the Consultation Paper

Q3 : Do you agree that implementation of a scripless securities market should proceed in phases? If not, why not?

Q4 : Do you agree with the proposed phasing i.e. dematerialising securities in batches and dematerialising Hong Kong securities first? If not, why not?

33. Most respondents agreed to this proposal but some expressed concerns that implementation in phases might be confusing to investors. Their main concern was that given the large number of listed companies involved, investors might be confused as to which companies have implemented the scripless proposals and which have yet to do so.
34. We welcome the strong support for the phasing approach and will proceed accordingly. We agree that the phasing process must be made clear and will therefore ensure that sufficient notice is given to all parties concerned before relevant companies are called up for dematerialisation. We will also conduct appropriate investor education to avoid confusion amongst investors. In any event, we hope to have a pilot run – during which a few companies that agree to do so will offer investors the option to dematerialise their securities. Please refer to Section XV below for more details on the roll-out plan for implementing a scripless securities market.
35. We proposed in the Consultation Paper to implement the scripless initiative starting with shares of Hong Kong incorporated companies first. The vast majority of respondents agreed to this proposal. We proposed proceeding with shares of Hong Kong incorporated companies first because the law which compels the issuance of physical certificates and the use of paper instruments to effect transfer of legal title would have to be amended before the scripless initiative can take effect, and we are in better control of the timetable for legislative amendments in Hong Kong.
36. A few respondents suggested requiring blue-chip companies or companies incorporated in the same jurisdiction to dematerialise together. We appreciate the various suggestions put forward and will consider them carefully before taking a final decision on the precise batching methodology.

IV. Register to comprise two parts and removal of immediate credit arrangement⁷

37. We proposed in the Consultation Paper that all uncertificated securities would be held within CCASS and all physical securities would be held outside CCASS.
38. We also proposed that the register of holders would consist of two sub-registers (as long as the option of holding securities in physical form remains), namely, an uncertificated sub-register and a certificated sub-register. Both sub-registers would be recognised in law as the register of holders. The uncertificated sub-register would record all securities held in CCASS, be kept and maintained by HKSCC and essentially comprise the CCASS records which show balances of securities in the various accounts in CCASS. As CCASS records constitute part of the register of holders, when securities are credited on the CCASS records, legal title passes simultaneously. There would otherwise have been a gap if CCASS records do not constitute part of the register of holders.
39. The certificated sub-register would record all securities held outside CCASS in physical form and be kept and maintained by share registrars. HKSCC would provide the respective share registrars with a day-end record of all holdings on the

⁷ This section addresses the following issues for which feedback was sought in the Consultation Paper

Q6 : Do you agree with the proposal that the formal register comprise two parts? If not, why not?

Q8 : Do you consider that the proposed arrangements for addressing any concerns arising from the removal of the immediate credit arrangement are adequate? If not, why?

uncertificated sub-register, so that, the share registrars can reconcile the two sub-registers to ensure that movements between them and other processes affecting securities holdings e.g. bonus issues, share consolidation or stock splits are properly recorded. The share registrars will also verify that the total number of securities on the two sub-registers equals the total number of issued securities. The share registrars will then produce a complete record of holders.

40. Most respondents agreed to the proposal of having two sub-registers. Several respondents who supported the proposal emphasized the need to have mechanisms to ensure the two sub-registers are properly reconciled and that disputes arising from discrepancies between the two sub-registers are properly addressed. In this regard, a few respondents also suggested setting up a panel or tribunal to resolve such disputes.
41. We believe that the provision of day-end records of the uncertificated sub-register to share registrars will enable any discrepancies to be identified, followed up on and promptly rectified. Nevertheless, we agree that it is important to establish and set out clear mechanisms in this regard, and to ensure the legality of any rectification made. Additionally, we are looking into the mechanisms adopted in other scripless markets (such as the UK and Australia), and will consider whether these or similar mechanisms adopted may be incorporated in the subsidiary legislation that will be introduced to regulate the scripless environment. Further details will therefore be provided when we consult on such subsidiary legislation.
42. The Consultation Paper also noted that one of the consequences of the register of holders comprising two sub-registers is that the immediate credit arrangement⁸ has to be removed. Currently, under the immediate credit arrangement, when certificates are deposited with the CCASS Depository, the securities are immediately credited into the account of CCASS Participants and available for sale/transfer.
43. It was explained in the Consultation Paper that the immediate credit arrangement had to be removed under the proposed model because the uncertificated sub-register (i.e. the CCASS records) would constitute part of the register of holders. Accordingly if for each credit entry on the uncertificated sub-register, there was no corresponding debit entry on the certificated sub-register, the total number of issued securities would be inflated.
44. In the Consultation Paper, we also explained that share registrars would provide an option for expedited services of the dematerialisation process and CCASS Participants would have to ensure that certificates presented for dematerialisation would be collected in a timely manner – both of which were to ensure that there would be no delay in transfer and settlement processes.
45. We sought feedback on whether the proposed arrangements (as described in the preceding paragraph) would adequately address any concerns arising from the removal of the immediate credit arrangement. Almost all respondents accepted that the removal of the immediate credit arrangement was an inevitable consequence of the proposed model and agreed that the proposed arrangements would adequately address concerns resulting from the removal of the immediate credit arrangement.
46. Some respondents were concerned whether investors holding securities in physical form would be able to meet the T+2 settlement deadline after the removal of the

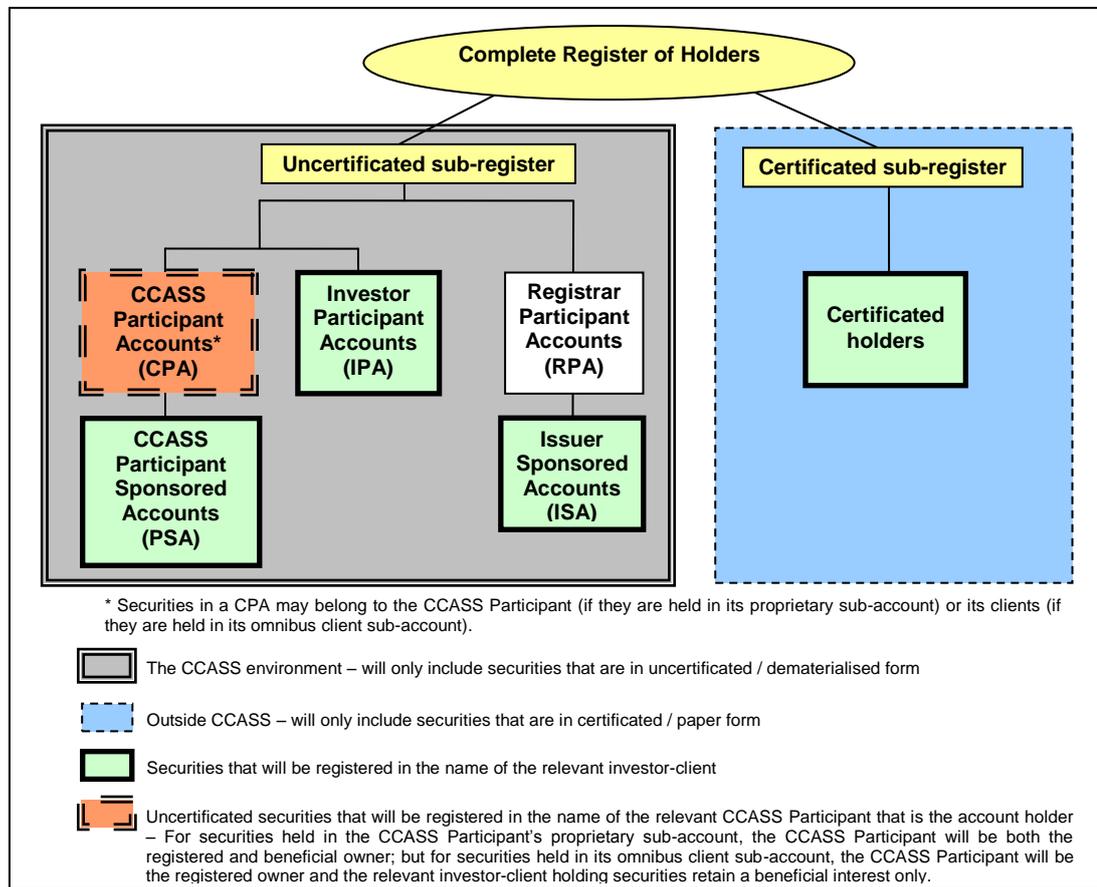
⁸ Please refer to footnote 1 for an explanation of the 'immediate credit arrangement'.

immediate credit arrangement. These concerns stemmed from the fact that holders of securities in physical form who sell their securities on the SEHK and settle the trade through CCASS would need to first dematerialise their securities and complete this process by T+2. Respondents also asked for more details about the expedited dematerialisation process.

47. We appreciate the concern that the removal of the immediate credit arrangement should not compromise settlement efficiency in our market. To that end and as explained further in Section VII below, share registrars will provide different service level options for dematerialisation. These will include options that will enable securities to be dematerialised in time to meet the T+2 settlement deadline provided of course that there are no irregularities.

V. Account types to hold uncertificated securities⁹

48. We proposed in the Consultation Paper that investors would be able to hold uncertificated securities through four different account types as depicted in the diagram below –



49. We sought feedback on whether the proposed model provided enough options (in terms of account types) for investors. The majority of respondents agreed that enough options were provided and they also recognised that the options not only

⁹ This section addresses the following issue for which feedback was sought in the Consultation Paper

Q9 : Do you think the proposed model provides enough options (in terms of account types) for investors? If not, what other options do you think should be provided and why?

provided more choices to investors but would also enhance the competitiveness of pricing.

50. However, a few respondents considered that there were too many options. Those that commented that there were too many options suggested that it might not be necessary to provide so many options if there was no significant difference between some of the accounts and the existence of so many options might confuse the market and create inefficiencies. In this respect, we wish to clarify that our intention is to maintain the existing structure as much as possible in the scripless environment. The ISA is the only new account type under the proposed model. The ISA offers an option to investors to hold their uncertificated securities through share registrars who will become a new category of participants of CCASS (please refer to Section XI below for more details on share registrars). Whilst the PSA and IPA under the proposed model are similar to the Stock Segregated Account with statement service and Investor Participant Account respectively under the structure that exists currently, the main difference is that under the proposed model, uncertificated securities in these accounts will not be registered in the name of HKSCC Nominees.
51. These different account types are different in terms of the services that account holders will enjoy. The types and amount of fees and charges payable by account holders may also vary between the different account types. Hence, in choosing which account type to use, investors will have to consider a number of factors e.g. whether they wish to hold the securities in their own name, the convenience of managing the account, the cost of maintaining the account etc.
52. Some respondents were of the view that the IPA and ISA appear to be quite similar and suggested that it might not be necessary to have both account types under the new structure. The key features of the IPA and ISA are similar in that both allow investors to hold uncertificated securities in their own names and both also enable investors to transfer securities from these accounts directly. However, a key difference is that the IPA will be offered by HKSCC whilst the ISA will be offered by share registrars. The types and levels of services offered may therefore differ. It follows that the fees that may be charged by HKSCC and share registrars in respect of these services may also vary. The Working Group believes that there is a demand for both types of accounts as investors may have different needs and different views towards fees. We also feel that sufficient options ought to be provided to cater for the different types of investors.
53. Some respondents enquired how uncertificated securities should be held so as to be exempted from paying the 10% withholding tax on dividends which is currently payable in respect of certain Mainland related companies such as H-share companies. We understand that the withholding tax on dividends is currently not payable by shareholders if the shares are held in the name of individuals. Hence, subject to Mainland tax laws, investors who hold such securities in CCASS, are currently subject to the withholding tax as the securities are registered in the name of HKSCC Nominees. As such, under the existing market structure, individuals are usually exempted from the withholding tax if they hold H-shares in physical form.
54. However, we understand that under the proposed model, subject to Mainland tax laws, individual investors will be exempted from paying the 10% withholding tax if they hold their uncertificated securities in their own names through a PSA, IPA or ISA. Securities in a CPA will however be subject to the withholding tax as they will be registered in the name of the relevant CCASS Participant.

VI. Name on register¹⁰

55. The operational model proposed in the Consultation Paper would facilitate name on register for securities held within CCASS i.e. investors holding securities in CCASS would have the option to register their securities in their own names and thus enjoy the full benefits of legal ownership. This is currently not possible because all securities held within CCASS must be registered in the name of HKSCC Nominees.
56. However, this name on register facility is not compulsory and investors will have the option of holding securities in the name of their broker/bank/custodian nominee, or in the name of another chosen nominee, if they prefer to do so.
57. The vast majority of respondents supported the proposal to facilitate name on register within CCASS. Those who objected were mainly concerned about the increase in workload and costs for the broker/bank/custodian, and the possibility of such costs being passed on to investors. We are mindful of the concerns raised about costs, and will make every effort to ensure that costs remain reasonable. The issue of costs and charges is discussed in greater detail in Section XIV below.
58. Additionally, a few of the responses received suggested that the respondents felt that the proposed model would not allow investors to hold securities in the name of a nominee. This is not correct. The model allows investors to hold securities in the name of a nominee. For example, they can hold the securities through a CPA, in which case they will be held in the name of the relevant CCASS Participant that is their broker/bank/custodian nominee.

VII. Operational matters¹¹

59. A number of respondents requested for clarification on various operational matters, in particular, (i) the dematerialisation and rematerialisation processes and (ii) the process of charging/mortgaging uncertificated securities. Given that the Working Group is still finalising the operational details, the information set out below may be subject to further change and refinement.

Dematerialisation process

60. Respondents noted that the dematerialisation process must be simple and accessible, and provide sufficient incentive to encourage investors to dematerialise their holdings. The Working Group generally agrees with these views. The following summarises the general direction of the Working Group's discussions on this point.
61. Dematerialisation will entail presenting existing certificates to the relevant share registrar for cancellation and recording the dematerialised holdings on the uncertificated sub-register. The establishment of the various account types discussed in Section V above will be a pre-requisite to dematerialisation. The

¹⁰ This section addresses the following issue for which feedback was sought in the Consultation Paper

Q7 : Do you agree with the proposal to facilitate name-on-register within CCASS? If not, why not?

¹¹ This section addresses the following issue for which feedback was sought in the Consultation Paper

Q5 : Do you have any views on the proposed dematerialisation process and HKSCC Nominee's diminishing role?

Working Group is considering different options for how certificates may be presented for dematerialisation so as to allow for more flexibility and choice. In particular, we are considering options that will allow investors to present their certificates to share registrars directly or to present them via HKSCC. Our initial thoughts in this regard are as follows –

- (a) Directly to the share registrar – Holders of a CPA (in their capacity as proprietary owners), IPA, PSA, ISA or investors who hold securities through a CPA may present their certificates to the relevant share registrar directly for cancellation. In the case of investors who hold securities through a CPA, or who are PSA holders, they may also do so through their CCASS Participant.
- (b) Via HKSCC – Additionally, holders of a CPA (in their capacity as proprietary owners) or IPA may present their certificates to HKSCC which will then pass them on to the relevant share registrar for cancellation. Similarly, investors who hold securities through a CPA, or who are PSA holders, may present their certificates to their CCASS Participant which will then pass the certificates to HKSCC which will in turn pass them on to the relevant share registrar for cancellation.

Please refer to **Appendix 2 (a)** and **(b)** for more details on the possible processes for investors to present their certificates for dematerialisation.

- 62. The Working Group is still working on the details of the time that will be taken to complete the dematerialisation process for both methods of presenting certificates to the share registrar. Essentially however, share registrars will provide different service level options in terms of the time that will be taken to complete the dematerialisation process as some investors may present their certificates for dematerialisation earlier, while others may present them later.
- 63. Fees charged will be commensurate with the service level options sought. So, for example, an investor will need to pay a higher fee if he wants the dematerialisation process to be completed within a shorter timeframe. This will enable investors to meet the T+2 settlement timeframe even if they are unable to present their certificates for dematerialisation until quite close to the settlement deadline.

Rematerialisation process

- 64. Uncertificated securities may be rematerialised at the request of holders if they so wish (as long as the option of holding securities in physical form remains).
- 65. Similar to the dematerialisation process, the Working Group is also considering options that will allow investors to submit rematerialisation requests to share registrars directly or to submit them via HKSCC. Please refer to **Appendix 3 (a)** and **(b)** for more details on the possible processes for investors to submit their rematerialisation requests.

Charge or mortgage over uncertificated securities

- 66. Currently, securities may be charged or mortgaged in the following ways –
 - (a) by re-registering the securities in the name of the chargee/mortgagee or its nominee, or

(b) by depositing certificates of securities registered in the name of the chargor/mortgagor with the chargee/mortgagee together with a duly executed transfer form.

67. In a scripless environment, securities held in physical form will continue to be charged/mortgaged in the manner described in paragraph 66 (a) and (b) above.

68. As for uncertificated securities, the Working Group is exploring possible options in this regard. We are also looking into the practices adopted in other jurisdictions (such as the UK and Australia), and will consider whether the same, or similar, practices can be implemented in Hong Kong.

VIII. Unique identification numbers¹²

69. Currently it is mandatory for investors to provide their identification numbers in the application forms when they apply for shares during an IPO process. Additionally, investors who hold securities within CCASS are required to provide an identity proof (such as their Hong Kong Identification Card) during the account opening process with a broker/bank/custodian or HKSCC as part of the know your client (KYC) and anti-money laundering (AML) procedures of the firm. Currently, there is no requirement for the identity proof provided as part of the account opening process to be made available to HKSCC or share registrars.

70. In the Consultation Paper, we sought views on whether investors should be required to provide a unique identification number regardless of whether they obtain their securities by way of a transfer in the secondary market or through an IPO.

71. There were mixed views on this issue. Some investors felt it was unnecessary to provide such an identification number, while others agreed it should be provided and would ensure higher levels of efficiency in the scripless environment.

72. A number of respondents enquired about the purpose of requiring unique identification numbers in relation to transfers. Some respondents also sought clarification on how the requirement would be imposed in practice. Moreover, respondents were concerned about associated security and data protection issues.

73. Although the Working Group is still in the process of finalising the detailed procedures and processes for collecting and using investors' identification numbers, the following summarises our current thinking on this matter. We also take this opportunity to clarify some of the issues raised by respondents.

Proposed approach

74. As stated above, currently investors are required to provide proof of their identity when opening an account with a broker/bank/custodian or HKSCC. We propose to build on this practice and require investors' identification numbers to be made available to share registrars and HKSCC as well.

¹² This section addresses the following issue for which feedback was sought in the Consultation Paper

Q12 : Do you agree that investors should be required to provide a unique identification number irrespective of whether they obtain their securities by way of a transfer or through an IPO?

75. We wish to highlight that this proposal does not entail assigning a new identification number to investors. Rather, we are simply seeking to build on existing practices by requiring some of the information that is already submitted by investors when opening an account, to be made available to share registrars and HKSCC. It will be important however to ensure that a uniform practice is adopted as otherwise the purposes of collecting such information (as discussed in paragraph 78 below) may not be achieved. As to what information should be made available –
- (a) for individuals who are Hong Kong residents, it will be their Hong Kong Identity Card number,
 - (b) for individuals who are not Hong Kong residents, it will be their passport number, and
 - (c) for companies, it will be their Hong Kong company registration number or similar number if the company is not registered in Hong Kong.

76. As to how the information will be made available to both HKSCC and the relevant share registrar, we propose as follows –

- (a) in the case of ISA holders, the information will be provided by the investor to the relevant share registrar (as part of the account opening process), and the share registrar will then pass such information to HKSCC (as it will maintain the uncertificated sub-register), and
- (b) in the case of CPA, PSA and IPA holders, the information will be provided by the investor to HKSCC (again, as part of the account opening process, and via the relevant CCASS Participant in the case of PSA holders), and HKSCC will then pass such information to the relevant share registrar (as it will maintain the full record of registered holders).

The Working Group is still working out the detailed processes and procedures in this regard.

77. We are also looking at how the identification numbers of holders of physical securities can be collected. One possibility is to require such information to be provided as part of the transfer process.

Purposes of making available identification numbers to share registrars and HKSCC

78. The Working Group believes that the collection of investors' identification numbers will help enhance investor protection and improve overall efficiency and system integrity. We explain this in more detail below-

- (a) Distinguish one investor from another : Currently, share registrars are unable to independently confirm the identity of investors on the register of holders and distinguish one investor from another. The only details they have to ascertain an investor's identity are his name, address and signature. In most cases, this will be enough to indisputably identify an investor, particularly as he also holds the paper certificate. However, there have been many instances where such information is simply not enough as names can sometimes be the same and changes in addresses may not have been reported. Investors may also be unable to recall or reproduce the signature they used previously (e.g. because of age or illness). These practical difficulties and limitations may work to the detriment of investors. Unique

identification numbers will provide clear and incontrovertible proof of the investor's identity. This will be all the more crucial in the scripless environment as the register of holders will essentially be the sole evidence of title in the absence of paper certificates. It is crucial therefore that HKSCC's and share registrars' systems – which will essentially be housing the register of holders – are robust and reliable in clearly distinguishing one investor from another.

- (b) Provide added checks on movements : The use of identification numbers will also provide an added check for ensuring that securities are moved from and into the correct account, thus contributing to system integrity. It will also provide a check on whether movements of securities between any CPA, PSA, IPA or ISA result in changes of beneficial ownership, and if so, whether stamp duty has been duly collected or paid. This will facilitate straight-through-processing and enhance system integrity.
- (c) Easier for investors to keep track of their portfolio : Identification numbers will better enable investors to keep track of their portfolio (certificated and uncertificated) and provide information to ensure address details are up to date. It is not uncommon for investors to fail to update changes to their address in relation to securities they hold because they have forgotten they hold such securities. Corporate communications will then continue to be sent to the outdated address that is still on record.
- (d) Prevent the misappropriation of cheques : An added benefit of having investors' identification numbers is that this information could be included on cheques issued by issuers in favour of investors for dividend payment and other cash entitlements. This could serve as an added security measure against misappropriation of the cheques. As with cheques for subscription monies which are returned to unsuccessful IPO applicants, only part of the identification number are included on the cheque (e.g. the last few or first few digits).
- (e) Establish IPA and ISA holders' identity : In respect of IPA and ISA holders who will be able to administer their accounts online or via the Interactive Voice Response System (**IVRS**), the identification number enables HKSCC to confirm the identity of IPA and ISA holders when they request to reset the password to their accounts or the password to access the IVRS.

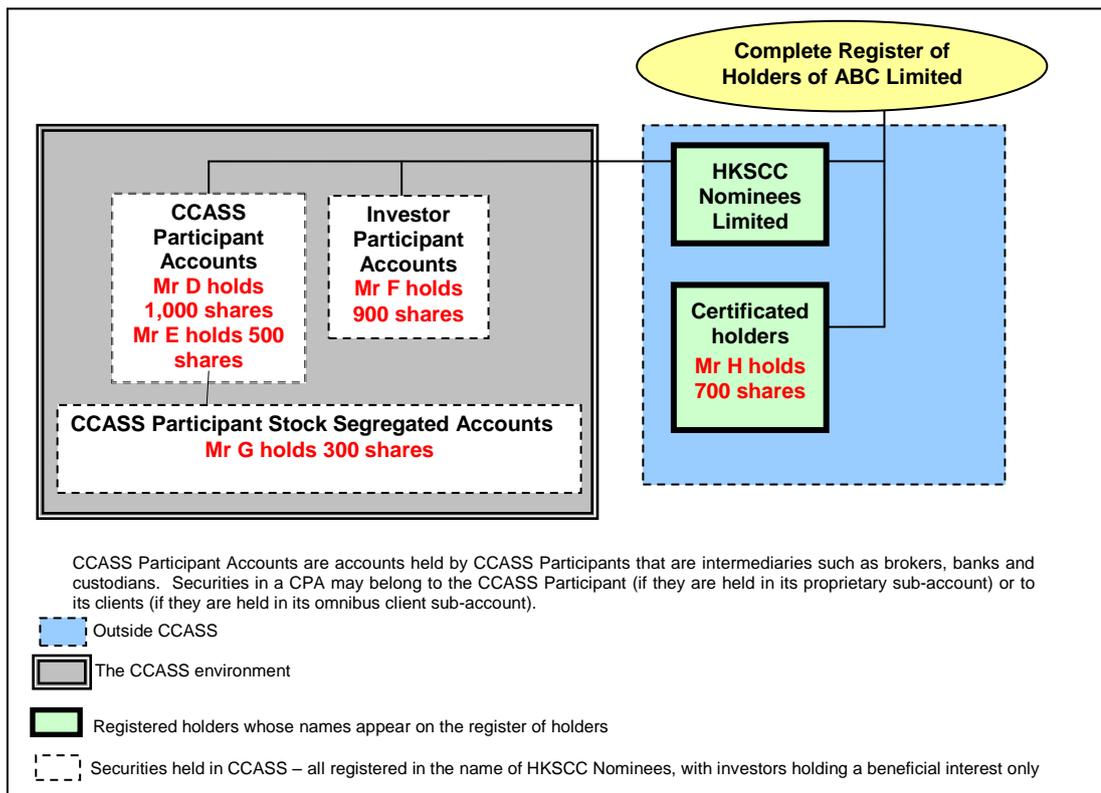
Security and data protection issues

- 79. As to how the identification number will be kept and used, we propose to put in place clear and stringent requirements and obligations to ensure that investors' information (including their identification numbers) is used for legitimate purposes only, and is properly protected from theft and unauthorized use or transfer. Such requirements and obligations will be in line with relevant laws and guidelines, including the Personal Data (Privacy) Ordinance, and any guidelines issued by the Privacy Commissioner for Personal Data. The SFC will also consider incorporating safeguards through subsidiary legislation and/or codes where appropriate. Further details in this regard will be provided when consultation on such subsidiary legislation, rules or code is carried out as appropriate.
- 80. We also take this opportunity to clarify that investors' identification numbers will not be included in the register of holders and will not be available for public inspection unlike other details such as their names, addresses and holdings.

IX. Attending and voting at shareholders' meetings¹³

81. Currently investors who hold shares in CCASS (and whose shares are thus registered in the name of HKSCC Nominees) and who wish to attend and vote at meetings can do so by requesting to be appointed as corporate representatives of HKSCC Nominees for the purpose of attending and voting at shareholders' meetings. In terms of the number of corporate representatives that can be appointed by a corporate shareholder to attend a meeting on its behalf, the law generally limits this to only one per corporate shareholder. There is however, an exception in the case of HKSCC Nominees under section 115 (1A) of the CO such that it can appoint an unlimited number of corporate representatives.
82. The law does not currently allow a corporate shareholder to appoint both a representative and a proxy to attend the same meeting. This restriction also applies to HKSCC Nominees in that if it has appointed investors as its corporate representatives to attend and vote at a meeting, it is precluded from appointing the chairman of the meeting as a proxy to represent the interest of other investors who do not wish to attend the meeting but wish to exercise their voting rights. In such a situation, HKSCC Nominees has to appoint a member of its staff as a corporate representative to represent the interest of investors who do not wish to attend the meeting but wish to vote.

Example of attending and voting at a shareholders' meeting currently



¹³ This section addresses the following issues for which feedback was sought in the Consultation Paper

Q10 : Should broker/bank/custodian nominees in CCASS be allowed to appoint multiple representatives so that their investor-clients can attend and vote at meetings? If not, why not?

Q11 : Should broker/bank/custodian nominees in CCASS be allowed to appoint both proxies and multiple representatives in respect of the same meeting? If not, why not?

Mr D, Mr G and Mr H wish to attend the coming shareholders' meeting of ABC Limited. There is only one resolution to be tabled at the meeting. Mr E and Mr F do not wish to attend but wish to vote on the resolution proposed to be tabled at the meeting.

Mr D and Mr G (who hold their shares through a CCASS Participant) inform their CCASS Participant of their intention to attend and the CCASS Participant notifies HKSCC Nominees accordingly. HKSCC Nominees appoints Mr D and Mr G as corporate representatives for the purpose of attending the meeting. Section 115 (1A) of the CO allows HKSCC Nominees to do so.

Mr H (who holds his shares in physical form) does not need to inform anyone and can just turn up at the meeting and exercise his rights to vote as a registered shareholder.

Mr E intends to vote in favour of the resolution and informs his CCASS Participant which then conveys Mr E's instruction to HKSCC Nominees. Mr F intends to vote against the resolution and (being an Investor Participant) informs HKSCC Nominees of his intention.

HKSCC Nominees is unable to appoint the chairman of the meeting as a proxy to vote on behalf of Mr E and Mr F as the law does not allow a holder to appoint both corporate representatives and proxies in respect of the same meeting. In this case, HKSCC Nominees will appoint one of its staff (Mr Staff) as a corporate representative to attend the meeting and vote on behalf of Mr E and Mr F.

On the day of ABC Limited's shareholders' meeting –

- (a) Mr D and Mr G can attend and vote in the capacity of corporate representatives of HKSCC Nominee,*
- (b) Mr H can attend and vote in his own name, and*
- (c) Mr Staff attends and votes in favour of the resolution (in respect of Mr E's 500 shares) and against the resolution (in respect of Mr F's 900 shares).*

83. In the scripless environment, uncertificated shares held through a PSA, IPA or ISA will be registered in the investors' own names, and therefore the investors will be eligible to attend and vote at shareholders' meetings in their own names. However, uncertificated shares held through a CPA will be registered in the name of the broker/bank/custodian nominee that is the CCASS Participant. In such a case, if an investor wishes to attend shareholders' meetings, there may be a need for the broker/bank/custodian to appoint him/her as a corporate representative. However, if more than one investor wishes to attend and vote at a meeting as a corporate representative, the broker/bank/custodian will face difficulty as it is limited to appointing only one corporate representative in respect of each meeting (as described in paragraph 81 above).
84. In this context, we sought views in the Consultation Paper on whether brokers/banks/custodians should be allowed to appoint multiple corporate representatives so that their clients can attend and vote at shareholders' meetings. In other words, should section 115 (1A) of the CO be extended so that brokers/banks/custodians too can appoint multiple corporate representatives to attend and vote at meetings.

85. A related issue raised in the Consultation Paper was whether brokers/banks/custodians should be allowed to appoint both proxies and corporate representatives to attend and vote at the same meeting.
86. We received mixed responses from respondents on both issues. Some respondents agreed that brokers/banks/custodians should be allowed to appoint multiple corporate representatives in a scripless environment. They were of the view that this arrangement will preserve the status quo as it is analogous to the existing arrangement under which investors who are beneficial owners can attend and vote at meetings as corporate representatives of the legal owner (HKSCC Nominees), without having to register the shares in their own names. Some banks were concerned that if they are not allowed to appoint multiple corporate representatives, their clients whose shares are held through a CPA will need to transfer the shares out of the CPA and register the shares in their own names in order to attend shareholders' meetings, e.g. by holding them through a PSA, IPA, ISA or even rematerialise them into physical form.
87. Some respondents were not supportive of having brokers/banks/custodians appoint their clients as corporate representatives to attend and vote at shareholders' meetings. They were mainly concerned about resources/costs. Brokers were concerned about the manpower and cost implications for them because if one client wishes to attend as a corporate representative, then they will have to appoint a member of their staff as a corporate representative to attend the meetings to represent the interest of all other clients who do not wish to attend but wish to exercise their voting rights. They will not be able to simply appoint the chairman of the meeting as a proxy. This arises from the restriction (as mentioned in paragraph 82) that a corporate shareholder is not allowed to appoint a corporate representative and a proxy to attend and vote at the same meeting. As for individual investors and listed companies, they were concerned that any additional costs incurred by brokers/banks/custodians would be passed on to them. They further noted that investors who were interested in attending or voting at meetings could in any event do so by simply registering their shares in their own name or appointing a proxy.
88. Some respondents urged that the common law position of not allowing corporate shareholders to appoint corporate representatives and proxies to attend and vote at the same meeting should be preserved. It was argued that there are fundamental differences between a corporate representative and a proxy and allowing both to attend and vote at the same meeting may lead to chaos and confusion.
89. We recognise that the scripless initiative should continue to allow beneficial owners to attend and vote at shareholders' meetings without having to register the shares in their own names. We are also mindful that the mechanism put in place in this regard should not be unduly burdensome for brokers/banks/custodians.
90. In view of the above, and after taking into account the responses received, we believe that the better way might be to simply allow the appointment of multiple proxies. This will address all parties' concerns. Brokers/banks/custodians who hold shares on behalf of clients will be able to appoint their clients as proxies to attend and vote at meetings¹⁴. If clients do not wish to attend the meeting but wish to exercise their voting rights, their interests can be represented by appointing the chairman of the meeting as a proxy to vote on their behalf. Brokers/banks/

¹⁴ Under section 114C of the CO, proxies have the right to attend, speak and vote at shareholders' meetings.

custodians will thus not have to worry about expending resources to send a member of their staff (as a corporate representative) to represent the interest of clients who do not wish to attend the meeting.

91. In considering this issue, the Working Group took into account a number of matters, including the following –

- (a) Market practice : Securities are often held through intermediaries, and even layers of intermediaries. While these intermediaries may each play a role in the efficient holding, transfer and recording of securities, they do not always have an economic interest in the securities. It is important therefore to ensure that the beneficial owners (who do have an economic interest in the securities) are able to participate by attending and voting at shareholders' meetings.
- (b) Proxy vs corporate representative: We note that allowing beneficial owners to attend and vote at meetings as proxies will be different from the current practice – currently, beneficial owners holding securities in CCASS are able to attend and vote as corporate representatives. However, there are limited differences between the two, the most notable being that proxy appointments are usually required to reach the listed company 48 hours before the meeting, whereas corporate representatives can turn up at the meeting without any advance notification. We will however, work with market participants to see how best to reduce these differences and address any operational difficulties that may arise.
- (c) Draft Companies Bill : The proposal to allow the appointment of multiple proxies is consistent with clause 12.58 of the draft Companies Bill, which provides that all shareholders should be able to appoint multiple proxies to represent the number of shares held by them as is specified in their instruments of appointment. The draft bill does not include a similar amendment allowing for the appointment of multiple corporate representatives.
- (d) Overseas incorporated companies : The Working Group notes that if we allow the appointment of multiple proxies, legislative amendment will be needed. Such amendment will however apply only to Hong Kong incorporated companies. Given this, and given that the majority of companies listed on the SEHK are incorporated overseas, we have looked into whether the laws of other jurisdictions permit the appointment of multiple proxies. This will be important to ensuring a uniform approach is adopted as otherwise it may cause confusion for market participants.

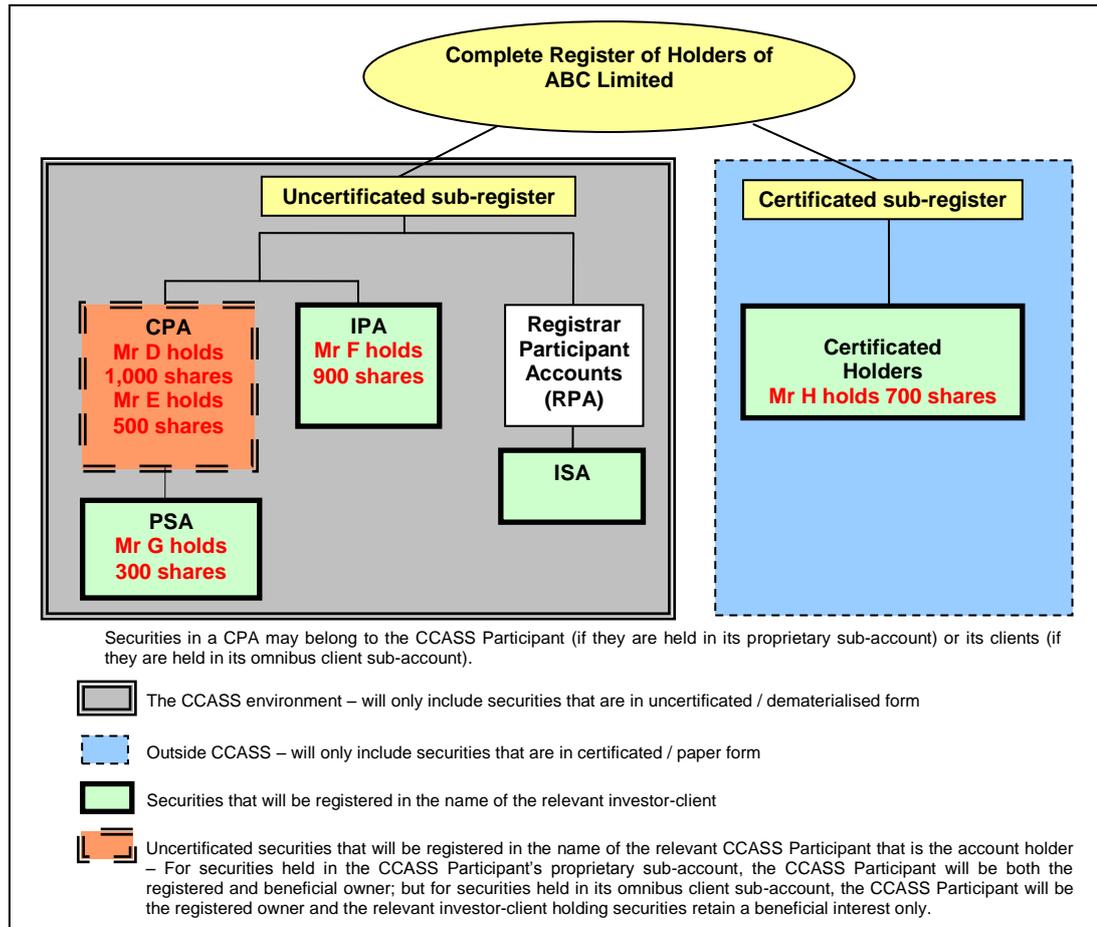
As a start, we have focused on companies incorporated in Bermuda, Cayman Islands and the UK. It appears that there is nothing in the laws of these jurisdictions which would preclude the appointment of multiple proxies. We are also looking into the position of other overseas incorporated companies.

92. While we believe that the multiple proxy approach is the better way forward – as opposed to allowing corporate shareholders to appoint multiple corporate representatives or to appoint both multiple corporate representatives and proxies – we appreciate that as discussion on the Companies Bill progresses, it may be necessary to review and adjust this proposal accordingly. We will therefore continue to closely follow the discussions on the Companies Bill. We will also

continue to look into the position of other overseas companies, most notably Mainland China incorporated companies, as this too might require that we review or adjust our proposal. In any event, we will keep market participants, particularly brokers/banks/custodians, informed of any change in our thinking in this regard

93. Please refer to the example below based on the same facts (as the earlier example) for an illustration of the position in relation to attending and voting at shareholders' meeting in a scripless environment.

Example of attending and voting at a shareholders' meeting in a scripless environment



Similarly, Mr D, Mr G and Mr H wish to attend the coming shareholders' meeting of ABC Limited. There is only one resolution to be tabled at the meeting. Mr E and Mr F do not wish to attend but wish to vote on the resolution proposed to be tabled at the meeting.

Mr D informs his CCASS Participant of his intention to attend the shareholders' meeting and the CCASS Participant arranges for Mr D to attend the meeting as a proxy of the CCASS Participant.

Mr E intends to vote in favour of the resolution and informs his CCASS Participant accordingly. The CCASS Participant appoints the chairman of the meeting (or such other person as Mr E might indicate) as a proxy to vote on behalf of Mr E.

Mr G and Mr H will attend and vote at the meeting in their own names.

Mr F can appoint anyone he chooses as a proxy (including the chairman of the meeting) to attend and vote on his behalf.

X. Disseminating corporate communications and providing corporate action services to securities holders

94. The Consultation Paper noted that further information on the dissemination of corporate communications and the provision of corporate action services, and the division of related roles and responsibilities between HKSCC and share registrars would be provided when specifics were agreed by the Working Group. Some respondents asked for greater clarity in this regard. Although the Working Group is still finalising the details, respondents may find the following overview helpful.
95. Currently, investors who hold securities in CCASS receive corporate communications via their CCASS Participants or (if they hold their securities through an IPA) via HKSCC. Corporate communications via CCASS Participants are received as follows. Brokers/banks/custodians who are CCASS Participants can provide names and addresses of their clients (who are not registered holders but who wish to receive corporate communications) to HKSCC which then passes them on to the share registrars so that share registrars can disseminate corporate communications to them directly. Investors who hold securities outside CCASS (i.e. in physical form) receive corporate communications from the share registrar direct. HKSCC provides additional services to its participants such as providing receivable notices¹⁵. This arrangement stems from the existing structure under which HKSCC Nominees is the registered holder of all securities in CCASS and hence receives corporate communications directly from share registrars.
96. Similarly, in terms of corporate action services, investors who hold securities in CCASS are currently served by their CCASS Participants or (if they hold their securities through an IPA) by HKSCC. Investors who hold securities in physical form are served by share registrars.
97. In the scripless environment however, HKSCC Nominees will no longer be the registered holder of uncertificated securities in CCASS. This will necessitate changes in the handling and provision of corporate communications and corporate action services to registered holders of uncertificated securities held in CCASS.
98. The Working Group is however keen to ensure that in the scripless environment, investors will be able to enjoy similar types and levels of services that they do today as this will facilitate as seamless a transition as possible. We therefore propose that the dissemination of corporate communications and the provision of corporate action services in the scripless environment will be as follows –
- (a) Disseminating corporate communications - share registrars will continue to disseminate corporate communications to all registered holders, i.e. both certificated and uncertificated holders. For investors who hold uncertificated securities through a CPA (and hence in the name of the relevant CCASS Participant), HKSCC will continue to coordinate the collection and passing of names and addresses of investors to the relevant share registrar so that these investors can receive corporate communications from the share registrar direct. Additionally, HKSCC will continue to provide receivable

¹⁵ Please refer to footnote 3, for an explanation of 'receivable notices'.

notices on participant and account level. These are described in more detail in **Appendix 4**.

- (b) Providing corporate action services – share registrars will continue to provide corporate action services to all registered holders, i.e. both certificated and uncertificated holders. For investors who hold uncertificated securities through a CPA, PSA or IPA, HKSCC will facilitate the provision of corporate action services via the CCASS infrastructure. In other words, HKSCC will collect instructions from securities holders and communicate them to issuers' agents, collect subscription monies from securities holders and distribute entitlements to securities holders. Again, these are described in more detail in **Appendix 4**.

XI. Regulation of share registrars¹⁶

- 99. It was proposed in the Consultation Paper that share registrars become a new category of participants in CCASS called Registrar Participants provided that they meet relevant admission criteria.
- 100. By becoming participants in CCASS, share registrars would have a direct relationship with HKSCC and be able to use the CCASS infrastructure to communicate electronically with other CCASS Participants and handle instructions relating to uncertificated securities. This would allow them to discharge their new roles and responsibilities more effectively. Respondents were generally supportive of this proposal.
- 101. Additionally, given that share registrars would be taking on new roles and responsibilities in the scripless environment (as elaborated below), it was proposed in the Consultation Paper that they should be more directly and robustly regulated than they are today. Currently share registrars are only required to be a member of an association approved by the SFC under the Securities and Futures (Stock Market Listing) Rules and are regulated only by the SFC's Code of Conduct for Share Registrars.
- 102. Most respondents agreed that share registrars should be regulated more directly and robustly in the scripless environment. Some respondents objected as they felt that share registrars are agents with limited roles and responsibilities, thereby not justifying the need for more direct and robust regulation. Some respondents were concerned that additional regulation might entail further costs to the market and stifle operations. Some respondents felt that there was insufficient information in the Consultation Paper to determine whether greater regulation was warranted.
- 103. While we appreciate the concerns raised, it must be kept in mind that the integrity, security and reliability of the scripless environment will not only depend heavily on CCASS, but also on share registrars' systems and operations. Although share

¹⁶ This section addresses the following issues for which feedback was sought in the Consultation Paper

Q13 : Do you agree with the proposal to introduce a new Registrar Participant category in CCASS? If not, why not?

Q14 : Do you agree that share registrars who provide scripless related services should be more directly and robustly regulated than they are today? If not, why not?

Q15 : Do you consider that a graduated approach should be taken towards regulating share registrars (i.e. that the level of regulation should vary according to the type and range of scripless related services provided), or that a uniform approach should be taken such that a common standard is applied in all cases?

registrars will remain agents of listed companies, under our proposed model, they will also be required to take on new functions and responsibilities. In particular, share registrars will offer a new account type (i.e. ISA) and provide a number of scripless related services e.g. reconciliation of the certificated and uncertificated sub-registers, processing dematerialisation and rematerialisation instructions, handling paperless transfers, providing services to investors who wish to hold securities in an ISA etc.

104. These new functions and responsibilities of share registrars are not merely administrative in nature. Rather they will be critical to the smooth operation of the scripless environment. It is therefore important that share registrars are adequately regulated and in accordance with prescribed standards and requirements. Moreover, such standards and requirements should be set out in legislation (rather than a non-statutory code such as the existing Code of Conduct for Share Registrars) so that breaches can attract appropriate statutory penalties.
105. In the Consultation Paper, we also sought views on whether a graduated approach should be taken in regulating share registrars (i.e. whether the level of regulation should vary according to the type and range of scripless related services provided) or whether a uniform approach be adopted instead.
106. We received mixed responses on this issue. Some respondents supported a graduated approach, noting that regulation should be commensurate with the range and type of services provided and should match the associated risks. Others however considered that a uniform approach was logical and conducive to efficient and effective supervision. They also noted that it would be difficult to have a regulatory regime for each specific type of service. Others still, felt there was insufficient information in the Consultation Paper to determine which the better approach was.
107. We appreciate and share many of the views and concerns voiced. Given that we propose to regulate share registrars more directly and robustly in a scripless environment and set out the relevant regulation in legislation, we will consult further on the specifics at a later stage. Please see Section D below for further details on proposed legislative changes.

XII. IPOs¹⁷

108. We proposed in the Consultation Paper that the existing four ways to apply for an IPO (applications via a white form, a white form eIPO, a yellow form and CCASS EIPO) would remain largely unchanged under a scripless environment. The main difference would be that applicants under the white form and white form eIPO options would be able to choose if their securities should be issued in certificated or uncertificated form.
109. In the Consultation Paper, we asked for views on the proposed changes to the IPO process. Not many respondents commented specifically on this proposal. The few that did comment suggested the following –
 - (a) applicants via white form eIPO should have their securities allotted in uncertificated form only (i.e. they should not have a paper option),

¹⁷ This section addresses the following issue for which feedback was sought in the Consultation Paper

Q16 : Do you have any views on the proposed changes to the IPO process?

- (b) commercial disincentives should be attached to the paper-based option to encourage scripless, and
 - (c) the application form should provide an option for investors to authorize share registrars to open securities accounts within CCASS.
110. We welcome each of these suggestions and will take them into account when finalising the operational details of the IPO application process in the scripless environment.

XIII. Scope¹⁸

111. In the Consultation Paper, we sought views on whether the scripless initiative should be extended to all securities that are listed or traded on the SEHK.
112. We received mixed responses on this issue. The majority of respondents agreed that the scope of the scripless operational model should extend to all publicly traded securities in Hong Kong as that would be conducive to market efficiency. However, a significant number of respondents objected to applying the model to all securities.
113. Respondents who objected had several concerns. Some argued that the model should not apply to structured products in view of their complexities. Others, however, were concerned that extending the scope of the proposed scripless model (particularly, its feature of having two sub-registers) to ETFs, might result in transactions in some ETFs attracting stamp duty where none is payable currently thus adversely affecting the development of the ETF market in Hong Kong. Currently the register for ETFs may in some cases be maintained outside Hong Kong. In such cases, the ETFs do not constitute “Hong Kong stock” (as defined in the SDO), and hence do not attract stamp duty on transfers.
114. However, under the proposed model, the uncertificated sub-register (i.e. CCASS records) will constitute part of the register of holders. As this sub-register will necessarily be located in Hong Kong, some ETFs which are not currently subject to stamp duty will become “Hong Kong stock” and thus, be subject to stamp duty on transfers.
115. Several respondents agreed that extending the scripless proposals to CBBCs and derivative warrants, would be a regressive step as the scripless model proposed would offer a paper-based option to investors. Currently, there is no paper-based option for CBBCs and derivative warrants. Further, a respondent also voiced that the rationale for going scripless was not entirely applicable to structured products (e.g. matters such as facilitating name on register to address the complexities arising from attending and voting at meetings in respect of shares registered in the

¹⁸ This section addresses the following issues for which feedback was sought in the Consultation Paper

Q17 : Do you agree that the scope of the scripless operational model should extend to all publicly traded securities in Hong Kong (including therefore securities such as derivative warrants and CBBCs)?

Q18 : If not, to what extent should the scope be limited, any why?

Q20 : Regarding the dematerialisation of shares and debentures of overseas companies, do you agree with the proposed approach to focus first on Bermuda, Cayman Islands, Mainland China and UK companies? If not, why not?

name of HKSCC Nominees. It was explained that it was not common for such meetings to be held in respect of structured products).

116. The Working Group notes the concerns and comments raised, and agrees that in light of these, the scope of the scripless initiative needs to be defined carefully.
117. The Working Group notes that most of the benefits of the scripless initiative such as enabling investors to hold and transfer securities within CCASS and in their own names, thereby enhancing market efficiency and investor protection will apply across the board to all securities. There is therefore merit in extending the scripless initiative to all securities that are listed or traded on the SEHK. This includes not only listed shares and debentures of Hong Kong incorporated companies but also other listed securities such as derivative warrants, CBBCs, ETFs and other structured products, as well as (to the extent possible) shares and debentures of overseas incorporated companies that are listed or traded on the SEHK.
118. However, some of the benefits of the initiative will apply only to shares of listed companies – such as improving efficiencies in the voting process, the IPO process, and improving corporate governance through enhanced shareholder transparency and a more direct relationship between the company and its shareholders. There is therefore a more urgent need to implement the scripless initiative in relation to shares.
119. We acknowledge also that in the case of certain securities there may be genuine practical issues that need to be addressed before the securities can be dematerialised and the proposed operational model applied e.g. stamp duty implications in relation to ETFs with a register maintained outside Hong Kong.
120. Rather than holding back the implementation of the scripless initiative, we propose to first implement the scripless proposals in relation to shares of listed companies. As the various practical issues are addressed, the proposals will be extended to other securities as well. In the meantime, these securities will continue to be held and traded as they are today, i.e. in the name of HKSCC Nominees. As for securities that are currently held in scripless form only, these will continue to be held in scripless form only and a paper option will not be required.
121. We believe this approach will allow adequate time to address the practical concerns raised, but without delaying the implementation of the scripless initiative in relation to shares. The approach will also be in keeping with the proposal to adopt a phased approach in implementing the initiative as mentioned in Section III above.
122. In relation to the dematerialisation of shares and debentures of overseas companies, we proposed to focus first on companies incorporated in Bermuda, Cayman Islands, Mainland China and UK. This was mainly because companies incorporated in these four jurisdictions make up the vast majority of overseas companies listed on the SEHK and will therefore have a greater impact on the scripless proposals. However, we would also be looking into the position of other overseas incorporated companies.
123. Most respondents agreed to the proposed approach. We note the comment that the UK and Australia have only implemented dematerialisation in respect of domestic companies listed in their jurisdictions. We wish to clarify that unlike the UK and Australia, Hong Kong is unique in that the vast majority of the companies listed on the SEHK (about 85% as at August 2010) are companies incorporated overseas.

The implementation of a scripless securities market will therefore have limited value if it applies only to Hong Kong incorporated companies.

XIV. Fees and charges

124. Many respondents were concerned that the implementation of a scripless securities market would result in higher costs to market participants. Understandably, investors were particularly concerned that these costs would ultimately be passed on to them. Many respondents therefore asked for greater clarity on the proposed fees and charges under the scripless environment.
125. As indicated in the Consultation Paper, the Working Group is unable to provide more information on fees and charges until development of the proposed model reaches a more advanced stage. Hence, while we are mindful of the concerns on costs raised by respondents, we are unable to provide more specific information at this stage. That said, the Working Group takes this opportunity to reaffirm that it will adhere to the guiding principles set out in paragraph 81 of the Consultation Paper, particularly that fees will be reasonable (for all parties concerned) and commensurate with services provided in the scripless environment.
126. We also note that, to some extent, the implementation of the scripless initiative will necessarily entail a reallocation of costs and charges. This is because some existing services will necessarily become obsolete while some new services will have to be introduced. For example, a significant aspect of the scripless initiative is that HKSCC Nominees will no longer be the registered holder of uncertificated securities held in CCASS and will therefore cease to provide corporate action services in the capacity of nominee holder that it performs currently. However, as discussed in Section X above, HKSCC will instead facilitate the provision of corporate action services via the CCASS infrastructure. Further, some of the fees currently charged by HKSCC in relation to holding certificates on behalf of brokers will no longer be applicable in a scripless environment while other fees charged in the existing structure may be reallocated to other market participants/service providers.
127. In view of these changes, HKEx is currently in the process of conducting a fee review to rationalise its overall fee structure. The upfront development costs for CCASS to support the implementation of the scripless initiative, annual maintenance costs and costs of dematerialising holdings in CCASS together with their potential impact on stakeholders will be carefully assessed and taken into consideration when formulating the fee levels.
128. HKEx expects that with improvement in operational efficiency, certain fees can be further streamlined and fees (including new fees, if any) in the scripless environment may not necessarily be higher than fees charged currently. Further, fees charged by HKEx will in any event have to be reasonable and justifiable as they are subject to SFC's approval.

XV. Roll-out plan for implementing a scripless securities market

129. As discussed in Sections I and III above, we propose that the scripless model be implemented gradually and that a phased approach be adopted, after the necessary legislative changes are made and market infrastructure, key operators and market participants are ready.

130. There will be two distinct implementation timelines which are independent of one another - one for securities that are already listed and the other for IPOs. While the two may proceed within the same period, the commencement date may not be the same. In both cases, however, there will be a pilot run (as discussed below) to test the system and also to allow any unforeseen issues to surface and be addressed. It will be considerably less complicated to resolve any issues that arise during a pilot run given the limited number of issuers involved.

Existing securities

131. In the case of existing securities, the Working Group will invite a few issuers (i.e. a few listed companies incorporated in Hong Kong) to volunteer to enable their securities to be dematerialised first. Registered holders of such securities as well as beneficial owners of securities held in CCASS will be given advance notice of the pilot run and the option (but not the obligation) to dematerialise their securities. Specifically –
- (a) Registered holders of securities (other than HKSCC Nominees) in physical form will have the option to convert their paper securities into uncertificated form. However, they will need to have first opened a PSA, IPA or ISA or a sub-account with a CCASS Participant.
 - (b) All securities held in CCASS (i.e. registered in the name of HKSCC Nominees) will be dematerialised. However, before this is done, investors who are the beneficial owners of such securities will be given advance notice of the pilot run.
132. When securities of the group of companies which volunteer to participate in the pilot run are dematerialised, these companies will effectively be operating a dual system as described in Section I above. We intend to let this pilot run continue for a period that is long enough to test all the processes in a scripless environment e.g. the various corporate actions, distribution of dividends and other cash or non-cash entitlements etc. Only after such testing process is complete, and any issues arising have been satisfactorily addressed, will we proceed with the implementation of the remaining securities in batches. As mentioned in Section III above, we expect to proceed with shares of Hong Kong incorporated companies first. Additionally, in terms of how the companies will be batched, we will take the following into account–
- (a) readiness of the share registrar concerned whether the company's share registrar is ready to provide scripless related services,
 - (b) number of shareholders – logistically, it may be easier to manage companies with a smaller number of beneficial holders,
 - (c) corporate event dates – we will avoid calling up companies for dematerialisation too close to the date of their corporate events, and
 - (d) corporate structure – companies within the same group will probably be called up for dematerialisation in the same batch as they usually engage the same share registrar and have the same corporate event dates.

IPOs

133. In relation to IPOs, similarly we expect to invite volunteers to participate in a pilot run. After the pilot run has been successfully implemented, we will require all IPO issuers to offer a scripless option.

D. LEGISLATIVE CHANGES

134. The proposals in this report will come into effect after the necessary legislative changes¹⁹ are made and the market infrastructure, key operators and market participants are ready.
135. As a first step to this legislative amendment exercise, various amendments have already been introduced and approved by the LegCo. Part 7 of the Companies (Amendment) Ordinance, No. 12 of 2010 (which was passed on 7 July 2010 but is not yet in operation) removes or provides exceptions to the existing provisions in the CO that compel the issue or use of paper documents of title and transfer. The passage of these amendments represents an important step in the entire legislative process for implementing the scripless initiative, and also signifies the Government's support to take the scripless initiative forward. The amendments in the Companies (Amendment) Ordinance will only come into effect when, among other things, the market is ready to implement the proposed scripless operational model.
136. The Commission is currently working with the Government on further legislative amendments which will essentially set out the framework for regulating the scripless environment and those who play a key role in that environment. The Commission is also currently working on the related new subsidiary legislation and hopes to issue a separate consultation paper in that regard in early 2011. Subject to the legislative process, implementation of preparatory arrangements, as well as other relevant considerations, we hope to launch the first pilot run of the scripless initiative in late 2013.

E. CONCLUSION

137. The working group would like to thank all respondents who have responded to the Consultation Paper and who have participated in various meetings and discussions for their time, effort and contribution.

¹⁹ The bulk of the legislative changes will be to the SFO, the SDO and the CO. These will enable securities to be issued and held in either certificated or uncertificated form, and define the circumstances under which and processes by which they may be transferred without using instruments of transfer. Specific amendments will also be introduced to cater for the particular scripless operational model that will be introduced – such as to provide for the register of members/holders to consist of two parts, etc. Additionally, it will empower the SFC to make subsidiary legislation to regulate the scripless environment and those who play a key role in it. The detailed processes, procedures and requirements (including the dematerialisation and rematerialisation of securities, the authorization and regulation of share registrars, etc) will be set out in new subsidiary legislation made under the SFO and, where appropriate, non-statutory rules and codes.

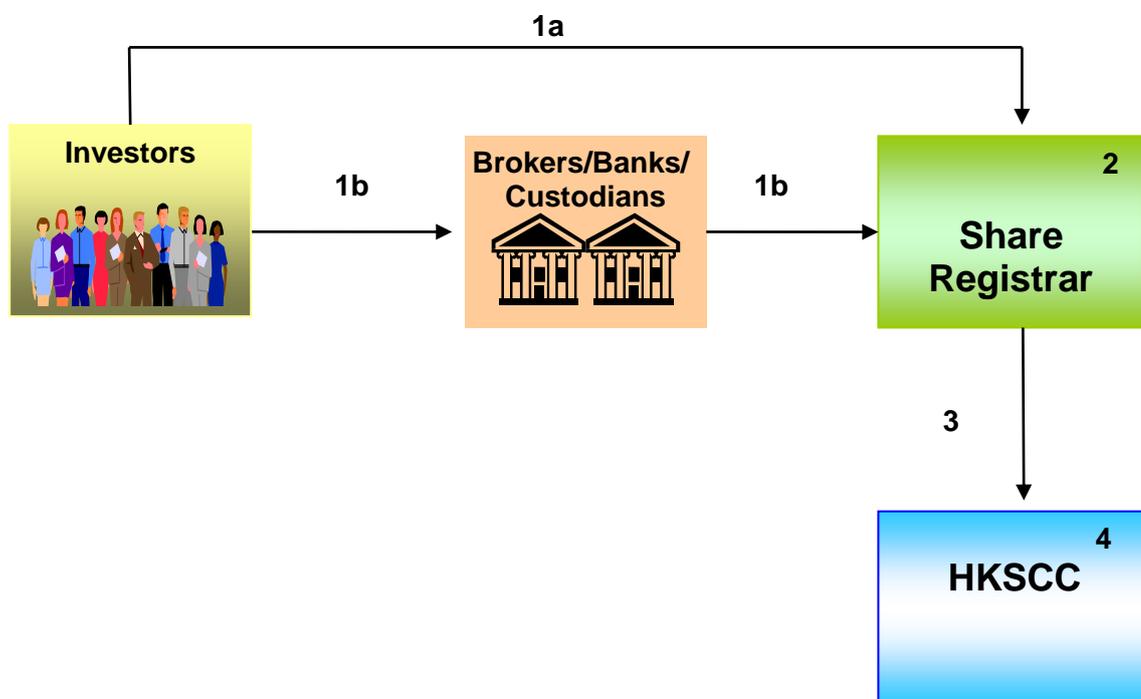
LIST OF RESPONDENTS

(in alphabetical order)

1. Allen & Overy
2. Clifford Chance
3. CLP Holdings Limited
4. Consumer Council
5. Guoco Group Limited
6. Ho Kwong Szeto
7. Hong Kong Securities & Futures Industry Staff Union
8. Hong Kong Securities Association
9. Hong Kong Securities Professionals Association
10. HSBC Holdings plc
11. JP Morgan
12. Lau Kam Cheuk
13. Mok Yiu Kwong
14. Norton Rose Hong Kong
15. P. C. Woo & Co
16. SG Securities (HK) Limited
17. Shenyin Wanguo (H.K.) Limited and Shenyin Wanguo Securities (H.K.) Limited
18. Simmons & Simmons on behalf of Deutsche Bank AG, Hong Kong Branch
19. Suen Chi Wai
20. SWIFT HK
21. The Chamber of Hong Kong Listed Companies
22. The Hong Kong Association of Banks
23. The Hong Kong Institute of Chartered Secretaries
24. The Law Society of Hong Kong
25. Tricor Investor Services Limited
26. Union Registrars Limited
27. 證券商協會有限公司
28. 羅智明
29. 鄧美玲 于治明
30. 陳勝康
31. 陳道超、馬積豐、郭普陸、蘇筱儀
32. 7 respondents have requested for their names not to be disclosed when their response is published
33. 6 respondents have requested for their names not to be disclosed and their response not to be published

DEMATERIALISATION

Possible process for presenting certificates directly to share registrars



The key process flow may be as follows –

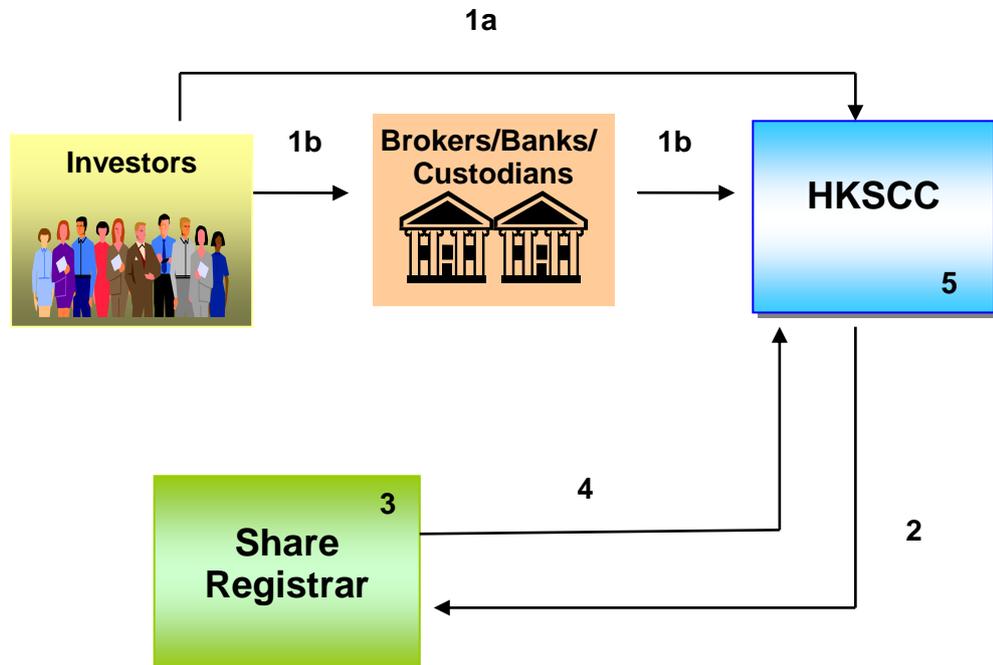
- (1a) Holders of a CPA (in their capacity as proprietary owners), IPA, PSA, ISA or investors who hold securities through a CPA present their certificates[#] to the relevant share registrar. Deposit Instructions will have to be entered – the Working Group is looking into options for how, and by whom this might be done.
- (1b) Alternatively, investors who hold securities through a CPA, or who are PSA holders, may present their certificates[#] to their CCASS Participant, which will then pass them on to the relevant share registrar. Deposit Instructions will have to be entered – the Working Group is looking into options for how, and by whom this might be done.
- (2)* The share registrar issues a receipt for the dematerialisation request, and then proceeds with its verification processes.
- (3)* The share registrar debits the relevant account in the certificated sub-register and instructs HKSCC to credit the receiving account in the uncertificated sub-register.
- (4)* HKSCC credits the receiving account and updates the uncertificated sub-register.

[#]Where certificates are not in the name of the relevant investor, additional documents may be required.

*The timeframe within which (2), (3) and (4) will be completed will depend on the service level option chosen by the investor. Different service level options will be provided in this regard in terms of the time that will be taken to complete the dematerialisation process.

DEMATERIALISATION

Possible process for presenting certificates via HKSCC



The key process flow may be as follows –

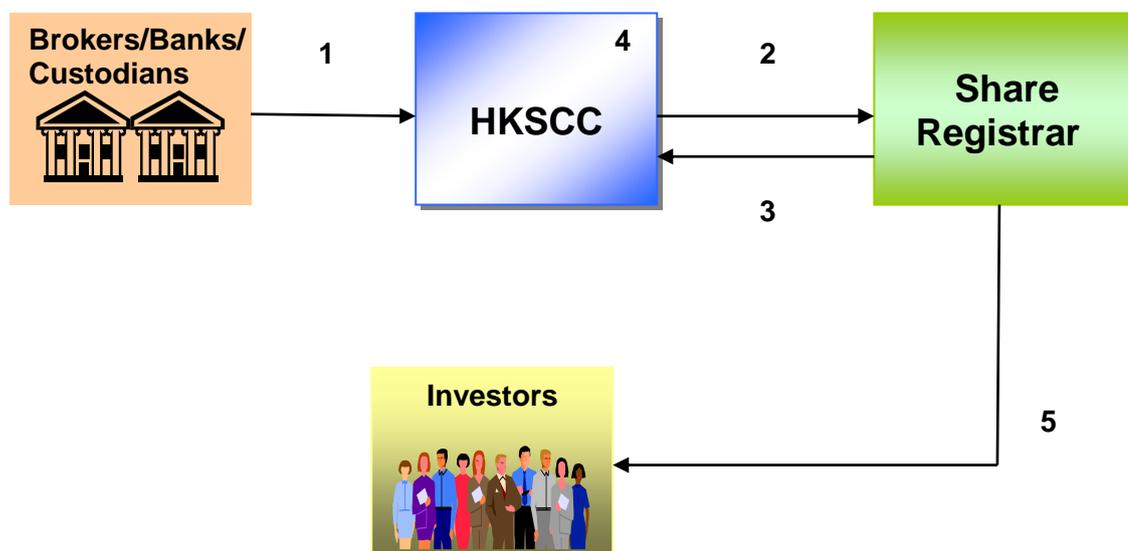
- (1a) Holders of a CPA (in their capacity as proprietary owners) or IPA present their certificates[#] to HKSCC. Deposit Instructions will have to be entered – the Working Group is looking into options for how, and by whom this might be done.
- (1b) Holders of securities through a CPA or a PSA present their certificates[#] to their CCASS Participant which will then pass them on to HKSCC. Deposit Instructions will have to be entered – the Working Group is looking into options for how, and by whom this might be done.
- (2) HKSCC delivers the certificates to the relevant share registrar.
- (3)* The share registrar issues a receipt for the dematerialisation request, and then proceeds with its verification processes.
- (4)* The share registrar debits the relevant account in the certificated sub-register and instructs HKSCC to credit the receiving account in the uncertificated sub-register.
- (5)* HKSCC credits the receiving account and updates the uncertificated sub-register.

[#]Where certificates are not in the name of the relevant investor, additional documents may be required.

*The timeframe within which (3), (4) and (5) will be completed will depend on the service level option chosen by the investor. Different service level options will be provided in this regard in terms of the time that will be taken to complete the dematerialisation process.

REMATERIALISATION

Possible process for instructing rematerialisation via HKSCC

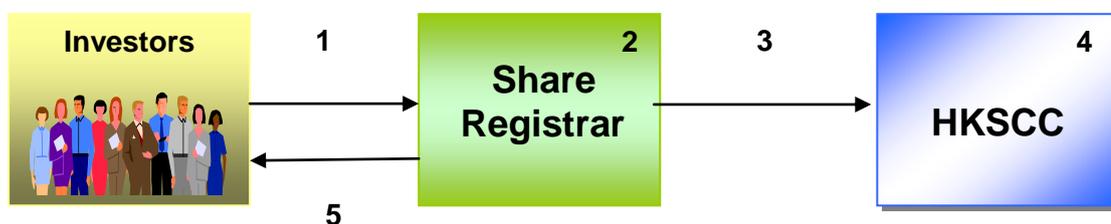


The key process flow may be as follows –

- (1) CCASS Participants input a rematerialisation request to HKSCC. If the rematerialisation request does not contain all the required information or there are insufficient holdings, it will be rejected.
- (2) HKSCC puts on hold the securities on the uncertificated sub-register and passes the details of the request to the share registrar.
- (3) The share registrar credits the receiving account in the certificated sub-register and instructs HKSCC to debit the relevant account in the uncertificated sub-register. The share registrar then prepares the certificates.
- (4) HKSCC debits the relevant account and updates the uncertificated sub-register.
- (5) The certificates are ready for collection from the share registrar.

REMATERIALISATION

Possible process for instructing rematerialisation with share registrars directly



The key process flow may be as follows –

- (1) Holders of an ISA submit a rematerialisation request to the relevant share registrar. If the rematerialisation request does not contain all the required information or there are insufficient holdings, it will be rejected.
- (2) The securities are put on hold on the uncertificated sub-register.
- (3) The share registrar credits the receiving account in the certificated sub-register and instructs HKSCC to debit the relevant account in the uncertificated sub-register. The share registrar then prepares the certificates.
- (4) HKSCC debits the relevant account and updates the uncertificated sub-register.
- (5) The certificates are ready for collection from the share registrar.

**PROPOSED TABLE OF SERVICES AND PROCESSES IN RESPECT OF
DISSEMINATING CORPORATE COMMUNICATIONS AND PROVIDING CORPORATE
ACTION SERVICES TO SECURITIES HOLDERS UNDER THE PROPOSED SCRIPLESS
MODEL**

Item	Services and processes (to be finalised)
Disseminating corporate communications to securities holders e.g. corporate announcements, annual reports, annual accounts etc.	<ul style="list-style-type: none"> • Holders of uncertificated securities held in a CPA, PSA and IPA will receive corporate communications directly from share registrars as they are registered holders. • HKSCC will continue to extract essential information from corporate communications and provide receivable notices (on participant and account level), report and data files, etc. to CCASS Participants. • Brokers/banks/custodians which are CCASS Participants (and which hold securities in a CPA on behalf of clients) may continue to provide names and addresses of their clients (which are not registered holders) to HKSCC, which will pass these details to the relevant share registrar, which will then disseminate corporate communications to the client direct.
Collecting instructions from securities holders and passing them to share registrars in relation to corporate actions e.g. subscription of rights, acceptance of takeover offers etc.	<ul style="list-style-type: none"> • HKSCC will collect instructions from CPA and IPA holders (submitted via the CCASS platform), and then pass such instructions to the relevant share registrar. HKSCC will not consolidate the instructions (which it does currently) but will instead pass each individual instruction on to the relevant share registrar. • For PSA holders and investors who hold securities through a CPA, the relevant CCASS Participant will have to submit instructions to HKSCC.
Collecting subscription monies from securities holders	<ul style="list-style-type: none"> • In respect of each instruction (as mentioned above) which involves payment of subscription monies, HKSCC will generate an electronic payment instruction by debiting the subscription monies from the relevant CCASS Participant's designated bank account and crediting the same to the issuer's designated bank account. • For PSA holders and investors who hold securities through a CPA, payment of subscription monies will be made via the relevant CCASS Participant's designated bank account. Such investors will therefore need to ensure that subscription monies have been passed to the CCASS Participants in time.
Distributing cash entitlements to securities holders including dividend	<ul style="list-style-type: none"> • Issuers (or their agents) will send to HKSCC a file of the cash entitlement amounts for all accounts in CCASS. • HKSCC will verify the correctness of the file, and then generate an electronic payment instruction by debiting the cash entitlement amount from the issuer's designated bank account and crediting the same to the designated bank account of the CPA, PSA or IPA holder accordingly. • For investors who hold securities through a CPA, their cash entitlement will be credited to the relevant CCASS Participant's designated bank account.
Distributing non-cash entitlements to securities holders i.e. bonus issue	<ul style="list-style-type: none"> • The issuer (or its agent) will send to HKSCC a file of the non-cash entitlement quantities for all accounts in CCASS. • HKSCC will verify the correctness of the file, and then generate entries by crediting the allotted quantity to the relevant CPA, PSA or IPA accordingly. • For investors who hold securities through a CPA, their entitlement will be credited to the relevant CPA and registered in the name of the relevant CCASS Participant.