

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?

Response : Agree, but only in a very short run because it would exert extra burden on participants to operate new uncertificated system and handle physical scrip at the same time, e.g. physical scrip deposit; and shares transfer between ISA and CPA / PSA

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

Response : Agree to remove the paper-based option eventually but we may face the following problems afterward :

- 1) Problems on checking available for sale quantity which implies that ISA has to be linked up with CPA or PSA / or brokers may need to allow clients to sell in advance.
- 2) Pledging arrangement - Clients' marginable stocks should be kept at broker's CPA or broker's account with lending banks which means most Margin Clients would hold only the beneficial interest but not legal title which is exactly the same as the current practice.

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

Response : Agree but the duration of each phase should not last for too long because it imposes additional burden on participants to operate the old and new systems in parallel.

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

Response : Agree with the phase proposal subject to the detailed arrangement.

Q5 : Do you have any views on the proposed dematerialization process and HKSCC

Nominees Limited's diminishing role?

Response : Following the dematerialization process HKSCC will take on a different role and different responsibilities. They have to maintain the uncertificated sub-register and since share registrars are also CCASS participants, the amount of records will be ever-increasing. In view of the fact that transfers of securities among CCASS accounts constitute legal transfers, HKSCC has to make an effort to optimize the transfer process. Moreover, based on the proposed operation, CCASS will only provide share registrars with a day-end snapshot of all holdings on the uncertificated sub-register for public inspection. Over the time, HKSCC should also fine-tune their system so that they can provide shares registrars with all intra-day transfers among various accounts, which also constitute legal transfers, in order to promote transparency. Moreover, scrip fee may be completely removed because there's become no need to register physical shares. One point need to be clarified is that when we received physical scrip deposited by client, should we deposit the same to CCASS, or to share registrar directly?

Q6 : Do you agree with the proposal that the formal register comprise two parts as discussed in paragraphs 49 to 53 above? If not, why not?

Response : Basically our view is yes for the reason that the operation is virtually the same as the current practice. However, if register comprises two parts, there would be problems on stock position update (especially when there's transfer between accounts / conversion between certificated and uncertificated sub-registers).

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

Response : Yes.

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 not?

Response : The immediate credit arrangement indeed promotes settlement efficiency despite its shortcomings (e.g. inflation of the total quantity of shares in issue). The

abolishment of this arrangement may necessitate expedited dematerialization services in order to maintain settlement efficiency.

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?

Response : Yes.

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

Response : Yes, but this may bring stress on manpower of broker/bank/custodian nominees in case there are several meetings on a particular day. On the other hand, there are calls for relaxation on the number of representatives in markets like Singapore, which currently limits the attendance of each participant to two seats per meeting, irrespective of the number of CDP sub-accounts held. However, if CCASS allows every CPA to appoint multiple representatives, the attendance at meetings may be unexpectedly huge.

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?

Response : Yes, but our concern is the same as that of Q10 above.

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

Response : Investors should maintain only one ISA account with unique identification number (e.g. HKID) recording their stock position across different registrars. Furthermore, the identification number of PSA should be the same as ISA if belongs

to same investor. Currently, client may use id number at one end but passport number at the other to apply for IPO.

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

Answer : Yes.

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?

Response : Agree, Registrars should be required to provide standardized services such as statement layout, corporate action notification schedules. All communications to investors should be sent speedily and automatically with electronic channel options. Alternatively, authority may consider setting up an intermediary body to consolidate all registrars' records under a centralized database and communicate to investors on corporate actions through a standardized system.

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?

Response : As mentioned in the answer to Q14, our view is to apply a common standard to all registrars with a unified approach.

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

Response : In order to avoid the signature update problem of "White form eIPO", our view is that "White form eIPO will only be available for those new issues without the option for paper certificates.

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)?

Response : Agree to extend the scope to all publicly traded securities in Hong Kong. However, in order to deal with the scripless environment, we have to modify workflow, procedures, customize front office as well as back office system to cater for the change.

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

Response : Although the reply to Q17 is yes, those structured product, e.g ELN, ELI, BLN, etc. should be excluded in view of their complexities.

Q19 : What are your views on the costs and benefits of introducing a scripless securities market in Hong Kong :

Response :

Cost:

- 1) Cost involved in enhancement of the existing in-house system to cater for the scripless environment.
- 2) Staff training is required to be familiarized with the new system.
- 3) Investor education required to acquaint them with the features of the scripless environment. Responsibility usually lies with CCASS participants.
- 4) Following the diminishing role of HKSCC especially on the part of corporate event, CCASS participants may have to increase their manpower to serve their clients on corporate actions (e.g. distributing corporate communications to investors, attending meetings).
- 5) Immense burden on CCASS participants to allocate shares to corresponding PSA, IPA, and even ISA on settlement date.

Benefits:

- 6) Better investor protection as investors will be registered holders under the PSA, IPA and ISA model.
- 7) Improved transparency of shareholding of listed companies.

Q20 : Regarding to dematerialization of shares and debentures of overseas companies, do you agree with the proposed approach to focus risk on Bermuda, Cayman Islands,

Mainland China and UK companies? If not, why not?

Response : Agree.