

BY HAND

Supervision of Markets Division
Securities and Futures Commission
8th Floor, Chater House
8 Connaught Road Central
Hong Kong

31 March 2010

Dear Sir/ Madam

Consultation on the proposed operational model for implementing a scripless securities market in Hong Kong

We refer to the captioned consultation paper. In principle, we support the proposal to implement a scripless securities market in Hong Kong. We hereby present our comments in response to the questions set out in the consultation paper as follows.

Question 1

Yes, we agree that investors should be given the option to hold securities in paper form and to rematerialize securities that have been dematerialized. This would facilitate investors to transit to the scripless system at their own pace and for investors, who hold securities long term rather than trade them regularly, to avoid the additional costs to have their securities kept in a dematerialized form. This option should be made available to investors until the associated costs for holding securities in the scripless system are acceptable to investors.

Question 2

Yes, we agree that the scripless system should eventually be made compulsory and the paper-based option removed altogether after successful gradual implementation for a certain period of time on the condition that the associated costs for holding securities in the scripless system is acceptable to investors who hold securities long term.

Question 3

Yes, we agree that implementation of a scripless securities market should proceed in phases to enable smooth implementation.

Question 4

Yes, we agree with the proposed phasing to facilitate the logistical arrangements and regulatory amendment essential for implementation of the scripless securities model.

Question 5

We do not have any comment on the proposed dematerialization process and HKSCC Nominees Limited's diminishing role.

Question 6

Yes, we agree with the proposal that the formal register comprise two parts to record all holdings within and outside CCASS under the proposed scripless model.

Question 7

Yes, we agree that investors holding securities in CCASS should be provided with an option to register their securities in their own names to enjoy the benefits of legal ownership.

Question 8

We appreciate the rationale behind the inapplicability of the immediate credit arrangement in the scripless environment to enable a reconciled record of total number of issued securities. However, the current immediate credit arrangement accommodates the market practice to deposit certificated securities on T + 2 for settlement purpose. We emphasize that the share registrar must put in place adequate measures to ensure that certificated securities deposited within the T + 2 period can be dematerialized and deposited into the relevant account meeting settlement obligations and thus not result in failed settlement.

Question 9

Yes, we think the proposed model provides enough options in terms of account types for investors.

Question 10

Yes, broker, bank or custodian nominees in CCASS should be allowed to appoint multiple representatives. This is necessary under the proposed scripless securities model in order to allow their clients to attend and vote at meetings since securities held through a broker, bank or custodian nominee in CCASS would be registered in these nominee names.

Question 11

Broker, bank or custodian nominees in CCASS should be allowed to appoint both proxies and multiple representatives in respect of the same meeting in order to cater for client needs.

Question 12

Yes, we agree in principle that investors should be required to provide a unique identification number irrespective of whether they obtain their securities by way of transfer or through an IPO. However, we anticipate that the market may experience practical difficulties in implementing such measure effectively due to the various forms of identification document an investor may possess and utilize. Further, careful consideration should be given as to how the identification number should be used during the process of effecting transfer from one account to another. In case where an investor has used different identification documents in setting up his accounts, a broker, bank or custodian nominee may experience difficulties, failure or delay in effecting the transfer and settlement for clients leading to potential client dispute.

Question 13

Yes, we agree with the proposal to introduce a new Registrar Participant category in CCASS as a necessary measure to facilitate the processing of transactions involving dematerialized securities and allowing corporate action responses and benefits to be received and distributed effectively.

Question 14

Yes, we agree that share registrars who provide scripless related services should be more directly and robustly regulated than they are today owing to the additional functions to be taken on under the proposed model.

Question 15

We consider a uniform approach should be taken towards regulating share registrars as a CCASS Participant. A common required standard is more appropriate since it is difficult for a regulatory regime to be built with respect of each specific type of service.

Question 16

We do not have any comment on the proposed changes to the IPO process.

Question 17

Yes, we agree that the scope of the scripless operational model should extend to all publicly traded securities in Hong Kong (including securities such as derivative warrants and CBBCs) for market efficiency.

Question 18

Not applicable.

Question 19

The implementation of scripless model would require system enhancements to cater for the new account types and operational model incurring additional costs for brokers, banks and custodians. However, we support the proposal to adopt a scripless securities model for the benefits it would bring including market efficiency, protection against the use of fraudulent certificates and environmental friendliness especially in anticipation of the future market growth.

We do not wish for our name to be disclosed in this consultation exercise although we have no objection to the content of our submission being published on a no-name basis.