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Dear Sirs

**Joint consultation paper on a proposed operational model for implementing a scripless securities market in Hong Kong**

We refer to the above joint consultation paper and set out below our responses to the list of questions in Annex 4 for your consideration.

- 1 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?**

Yes. However, it is important to ensure that moving shares in and out of CCASS (ie between paper and scripless form) could be done efficiently both in terms of time and cost and with minimal risk.

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

We do not agree that the scripless system should be made compulsory. Whilst we note that full dematerialisation has many advantages, we are concerned with the following issues:

1. There is potentially more risk of unauthorized transfers for uncertificated securities than certificated securities, which is perhaps one of the reasons why many investors still prefer to hold on to their share certificates. If somebody gets hold of an investor's registration details in CCASS and access to its CCASS account, it may be able to send instructions on transfers without the owner's authority. On the other hand, in order for the system to work, it is likely that the owner would have to be bound by the unauthorized instructions. Verification, security and indemnity issues must be looked at in greater detail before full materialisation should be made compulsory.
2. The consultation paper did not mention how certain types of transactions would work in practice under a fully dematerialised system - for example, (i) off-market transfer of shares - currently, it is straight forward to execute such transactions in scrip form; (ii) conditional contracts or delayed completion of a transfer where the seller hands over the stock transfer form and share certificate to the buyer and the buyer will only register himself as the owner of the shares subject to

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fulfillment of certain conditions; and (iii) the creation of legal and equitable charges over securities in CCASS. Under the existing system, there are technical issues and potential risks for chargors where an equitable charge is created over rights to securities in CCASS. Some of these problems can be resolved by having investors holding securities in their own name. However, there is still the remaining issue of fungibility of securities where a charge is to be taken over some but not all of an investor's securities held in CCASS, unless further segregation of investor's accounts (to separate securities which are to be charged from those which are not) is possible.

3. Unless full dematerialisation can be applied to all overseas companies listed in Hong Kong (which form the majority of companies listed here), its benefit is likely to be very limited compared to the costs involved and the additional complexities of having different systems for Hong Kong and overseas incorporated companies' securities.

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

This is a practical issue but we agree that it is a sensible approach. However, it is preferable to have a relatively short "transitional period" to avoid creating an overly complicated system where different rules apply to different securities.

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

Please refer to our response under question 3 above. Also, it is important to ensure that companies would not be able to use avoidance techniques to get around the dematerialisation requirements.

- 5 Do you have any views on the proposed dematerialisation process and HKSCC Nominees Limited's diminishing role?

We appreciate that the details of the process would still have to be worked out. However, based on the information provided we have the following queries and comments:

1. What happens if an investor fails to produce his share certificate but wants to dematerialise his securities?
2. What happens if a CCASS Participant is unable to contact its client to get instructions as to the preferred method of holding the securities? What is the default position?
3. The description of the process of putting shares into CCASS under paragraph 43 and paragraph 3 of Annex 2 seem conflicting. Annex 2 suggests that certificated holders, to transfer its securities to another type of account to settle trades on the Exchange, have to deposit his securities with his executing broker for dematerialisation and credit into the broker's CPA. Is there any reason why an investor should not be able to directly deposit its shares in an IPA and/or ISA?
4. Under the proposal, an investor in a company which has been called up to carry out dematerialisation, assuming his securities are already held in CCASS, would need the cooperation of his broker/bank to dematerialise his holding before he could trade his securities. Therefore, it is important to ensure that the brokers/banks have the ability to carry out the necessary process promptly.
5. IPAs and ISAs, from the point of view of the investor, seem very similar. It is not entirely clear what are the benefits of having both at the same time.

We have no objection to HKSCC Nominees Limited having a diminished role.

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- 6 Do you agree with the proposal that the formal register comprise two parts as discussed in paragraphs 49 to 53 of the paper? If not, why not?

We have no objections to the formal register being divided into two parts as long as the arrangements are capable of minimising the time lag between settlement and registration. Also, it is helpful to clarify what would constitute prima facie evidence of title to securities under the uncertificated system.

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

Yes.

- 8 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?

Yes, provided expedited dematerialisation will be made available by registrar.

- 9 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?

Based on the description in the consultation paper of IPA and ISA, we are unclear whether it is necessary to have both. We think that the important issue is to encourage investor "buy in" and to ensure that as many investors as possible would register the shares in their own name rather than the name of their brokers. A simpler system would promote this and for this reason, it is better to reduce the number of different types of accounts if there is no significant difference between them as far as investors are concerned.

- 10 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?

Yes. It is important to encourage shareholder participation, but at the same time, the system must ensure that it cannot be abused by shareholders giving numerous proxies (such as protesters) right to access meeting.

- 11 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?

Yes. As pointed out under question 11, it needs to be ensured that the system cannot be abused.

- 12 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?

We are not persuaded that this is necessary.

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

Yes, although it may be worth considering whether the methods of holding shares in CCASS can be further streamlined and simplified. As a separate issue, we favour a clearer demarcation of roles among CCASS, intermediaries and share registrars in terms of channelling communications between issuers and investors and look forward to further details of the final arrangements.

- 14 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?

We suggest light touch regulation to the extent registrars fulfil the same functions as brokers.

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- 15 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?

How share registrars are to be regulated should depend on the types of activities that they take on going forward.

- 16 Do you have any views on the proposed changes to the IPO process?

We would like more details as to the possible impact of the new arrangements to a typical IPO timetable.

- 17 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)?

Yes.

- 18 If not, to what extent should the scope be limited, and why?

Not applicable.

- 19 What are your views on the costs and benefits of introducing a scripless securities market in Hong Kong?

We are not able to comment on the costs issues but agree that there are many benefits in introducing a scripless securities market.

- 20 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?

Yes. In the meantime, when considering the listing of companies incorporated in jurisdictions other than those mentioned (eg BVI companies) dematerialisation issues should also be explored.

Please do not hesitate to contact if you would like to discuss any of the comments.

Yours faithfully

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