

HSBC Holdings plc
Proposed Operational Model for
Implementing a Scripless Securities Market in Hong Kong

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| Question (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. |
| Question (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 agree it is logical to target a compulsory scripless system at some future stage but suggest this be considered further after the market has become familiar with the model now proposed. The features, benefits and costs of the system for each participant need to be clearly identified. For example, there are some concerns over the costs to shareholders of holding their shares within a scripless system. Having securities in paper form is presently a less expensive way for shareholders to hold their shares. |
| Question (3) | Do you agree that implementation of a scripless securities market should proceed in phases? If not, why not? | Yes. |
| Question (4) | Do you agree with the proposed phasing, i.e. dematerialising securities in batches, and dematerialising Hong Kong securities first? If not, why not? | Yes. |

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| Question (5) | Do you have any views on the proposed dematerialisation process and HKSCC Nominees Limited's diminishing role? | The proposal seems reasonable. |
| Question (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? | Yes. |
| Question (7) | Do you agree with the proposal to facilitate name-on-register within CCASS? If not, why not? | Yes. |
| Question (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. |
| Question (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? | There are sufficient options. Some may argue that there are too many options, but having such options should provide an element of competition and benefit shareholders in terms of quality and cost of service provided. The challenge will be to clearly identify the features, benefits and costs of the alternatives to enable an informed decision to be made. |
| Question (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. |

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| Question (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 long as there are safeguards to ensure no duplication of representation at meetings for the same shares. |
| Question (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? | <p>Providing an identification number will assist with identifying the shareholder and provides an element of security, but equally there are growing concerns at identity theft leading to fraud. If shareholders are required to provide identification numbers, appropriate measures need to be put in place to ensure security and confidentiality.</p> <p>It must also be borne in mind that if, for example, passport numbers are provided these will expire/change over time.</p> |
| Question (13) | Do you agree with the proposal to introduce a new Registrar Participant category in CCASS? If not, why not? | Yes. |
| Question (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? | Yes, although consideration in this regard should be in the context of the regulation of all providers of scripless related services, not just share registrars. |
| Question (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? | Please see answer to question 14. |

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| Question (16) | Do you have any views on the proposed changes to the IPO process? | No. |
| Question (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 |
| Question (18) | If not, to what extent should the scope be limited, and why? | - |
| Question (19) | What are your views on the costs and benefits of introducing a scripless securities market in Hong Kong? | It is essential that the costs and benefits of the proposed system are clearly identified for each affected party including investors, registrars, brokers, custodians and issuers. However, there is a need to improve the current method of communication with shareholders who hold their shares within CCASS, although this obviously depends on the agreement the underlying holder has with their broker/custodian. We support the proposals to increase the ways in which such shareholders can appear directly on the Register of Shareholders. We expect that the automation and straight through processing inherent in a scripless securities market should lead to a lowering of costs overall, and hope that there should be no reason to increase charges for shareholders or issuers. |
| Question (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. |