



## SWIFT Response

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

30 December 2009

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By mail to: Supervision of Markets Division  
The Securities and Futures Commission  
8/F Chater House 8 Connaught Road Central Hong Kong

**30 December 2009**

By email to: scripless@sfc.hk

## **General Information of the Respondent**

<b>Name/ Company Name*</b>	:	SWIFT HK
<b>Contact Person*</b>	:	
<b>Title*</b>	:	
<b>Phone Number</b>	:	

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If you **do not wish** to disclose the above information to the public, please check the box here:

☐ I do not wish to disclose the information above.

## **ANNEX 4 – List of specific issues on which feedback is sought**

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?

### **SWIFT response:**

Holding securities in paper form (even if rematerialised) is not the most efficient process for –the associated clearing and settlement process. Electronic form provides the highest levels of efficiency allowing for:

- lower cost and errors of handling paper,
- reduction in the chance of lost or misplaced certificates,
- the legal title to be registered in CCASS,
- Asset Servicing functions like corporate action announcement, proxy voting and tax reclamation become more easily handled by CCASS.

Allowing for rematerialisation whilst providing investor choice, does not ensure the market is maximising its efficiency, and may rollback any gains made in moving towards an electronic market. Rematerialisation should be avoided if possible.

If investor choice is important, the *a fee structure for clearing and settlement (or holding) which is higher for certificated holdings*, and one which encourages dematerialisation may be one mechanism that satisfies the market need for flexibility.

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

### **SWIFT response:**

Scripless should be made compulsory to ensure the maximum efficiency of the clearing and settlement system. Paper based options allow for inefficiencies to remain within the market, preventing the lowering of errors and costs. The use of scripts adds to the cost of investing in Hong Kong markets which in turn makes Hong Kong less attractive for investors.

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

### **SWIFT response:**

A phased approach maybe appropriate to ensure investor sentiment remains high, however the timeline for the removal of paper should be short (less than 2 years) to ensure there is no high cost legacy to maintain (within CCASS and market participants).

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

**SWIFT response:**

Phasing is a good approach to ensure a systematic and proven system of migration. Having Hong Kong securities migrate first seems to be logical as the regulation surrounding these securities should be easier to modify where required.

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

**SWIFT response:**

No specific comments

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?

**SWIFT response:**

Having two formal registers (as well as at the registries) appears to be an appropriate approach.

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

**SWIFT response:**

No specific comment

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?

**SWIFT response:**

No specific comment

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?

**SWIFT response:**

The account structure appears adequate

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?

**SWIFT response:**

Multiple representatives should be allowed in the new model. This ensures those investors with a vested interest in voting on corporate actions can do so in the most efficient way (either individually or via proxy).

This should improve investor confidence, transparency of the market, and ultimately encourage investment in the Hong Kong markets.

Having more parties voting and the management of such voting processes can be automated using currently available ISO20022 messages across the SWIFT network.

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?

**SWIFT response:**

Multiple representatives should be allowed in the new model. This ensures those investors with a vested interest in voting on corporate actions can do so in the most efficient way (either individually or via proxy).

In some instances investors will want to vote individually and not as a collective via a proxy. Flexibility in allowing multiple representatives should be given to ensure there is adequate representation at meetings to reflect the wishes of investors (either individually or collectively).

Having more parties voting and the management of such voting processes can be automated using currently available ISO20022 messages across the SWIFT network.

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?

**SWIFT response:**

The provision of a unique identifier for each investor is highly recommended to ensure high levels of efficiency in processing asset changes efficiently.

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

**SWIFT response:**

Including this new category is essential if efficient clearing & settlement is to be the aim. Registrars will play an important role in maintaining the "source of truth" registry especially where investors have purchased assets via IPO, transferred assets or purchased off-market. CCASS maintaining a sub-register will mean efficient purchase or sale of assets on-market that may have previously been acquired through a non on-market mechanism (mentioned above).

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?

**SWIFT response:**

Registrars do require regulating, however they are not part of the clearing & settlement process hence do not carry the same risks and hence do not require the same regulation as other participants.

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?

**SWIFT response:**

A graduated approach is the most appropriate approach for share registrars. The level of regulation (and/or any capital adequacy requirements) should match the risk profile of the services the registrars offer to the market. This should be done in a way that is flexible yet simple to implement and regulate.

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

**SWIFT response:**

Whilst SWIFT purports a fully electronic market, it is unrealistic to expect all investors to subscribe to IPO's via electronic means. Institutional investors should be strongly encouraged to complete electronic IPO subscriptions, possibly with a financial incentive for not using paper forms.

Further, conversion to electronic format should be encouraged (including financially) at the earliest possible point in the IPO process.

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)?

**SWIFT response:**

The recent events in the financial world and the subsequent regulatory response have shown that further focus on risk reduction, transparency and a robust market infrastructure are critical to restore confidence in the global financial markets industry. Although the need for a reliable post-trade infrastructure arises after any trade, regardless whether executed on a traditional exchange or traded Over-The-Counter (OTC), it is in particular the OTC- market infrastructure that needs to be better leveraged in the interest of all market participants. The process of OTC trade confirmations remains error-prone, with inaccuracies in the settlement information and the lack of adoption of an independent CCP/clearing house.

It is estimated that up to 30% of all fixed income and equity trades are agreed off-exchange. Post trade functions for commoditized instruments such as bonds and equities should not differentiate between on-exchange and OTC transactions. Current industry practice for OTC trades, however, is to send a fax confirmation once a trade has been agreed.

SWIFT would welcome the opportunity to work with CCASS on this potentially new utility for OTC markets.

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

**SWIFT response:**

Due the nature of a securitized world, over-the-counter historically have proven that they evolve more quickly than regulation and systems. The scope should include the major instruments like warrants because of the instruments importance to the Hong Kong market and the OTC derivative with large notional values like interest rate swaps (IRS). We would again be in favor of a phased approach

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

**SWIFT response:**

SWIFT agrees the implementation of a scripless market in Hong Kong will bring a number of benefits to Hong Kong. These are market efficiency improvements, enhanced corporate governance, improved investor transparency, and alignment with global standards.

Net benefits for implementing the proposed changes should be identified via a process of business cases with participants in each of the various segments. This would ensure the correct balance of operational, regulatory and technical change resulted in net benefits to the participants and the industry as a whole.

SWIFT agrees the proposed changes should result in a general reduction in errors, processing costs, operational and market risk, improved corporate actions processes and introduce competition for services like nominee.

The introduction of global standards (such as ISO) should introduce further benefits including reduced cross border investment costs, higher levels of STP, the ability for international participants to lower their operational and technical infrastructure costs and as a result improve the investment environment for Hong Kong.

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?

**SWIFT response:**

No specific comment

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