



Tricor Investor Services Limited 卓佳證券登記有限公司

A Tricor Company 卓佳集團成員

30 March 2010

Supervision of Markets Division
Securities and Futures Commission
8/F Chater House
8 Connaught Road Central
Hong Kong

By Hand

Dear Sirs

**Re: Joint Consultation Paper on A Proposed Operational Model for
Implementing a Scripless Securities Market in Hong Kong**

We refer to the captioned Joint Consultation Paper issued on 30 December 2009 and
enclose herewith our views for your consideration.

Yours faithfully

Tricor Investor Services Limited

Encl.

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Submission by Tricor Investor Services Limited

**Joint Consultation Paper on
A Proposed Operational Model for Implementing a
Scripless Securities Market in Hong Kong
Issued on 30 December 2009
("Consultation Paper")**

The Consultation Paper puts forward a proposed operational model for implementing a scripless securities market in Hong Kong with the objectives to enhance overall efficiency and competitiveness in the securities market and secure an appropriate and improved level of investor choice and protection.

Whilst we fully support the introduction of a scripless securities market in Hong Kong, however, as a matter of principle, there should be a balance between the costs and benefits so entailed to all stakeholders.

As an approved share registrar, we would like to submit our views on the Consultation Paper in two particular areas as follows.

Dual System

The Consultation Paper proposes a dual system approach, which allows investors initially to hold securities in paper and scripless form. Whilst we agree to this transitional approach to ease investors gradually into the new regime, we are concerned that there is no definite timetable indicated in the Consultation Paper for the eventual phasing out of the parallel run of paper-based and scripless system and adopting a wholly scripless one.

Given that physical holding constitutes around 51% of all issued securities by value in Hong Kong and that many Hong Kong retail investors culturally are more attached to holding their share certificates, complete dematerialization will be an extended, drawn-out process. Experience in the UK where dematerialization is voluntary is a case in point. Where there is no mandatory requirement for dematerialization, there tends to be no incentive for investors with certificated holdings to do so expediently.

From an approved share registrar's perspective, the operating costs in maintaining a dual system for an unspecified extended period is also a serious concern to us and other market participants as well. Costs associated with setting up and implementing the new operating systems as well as the on-going costs of system maintenance, though cannot be definitely ascertained at the moment, will inevitably be very substantial. At the same time, the cost of maintaining a paper-based system will still be there. Furthermore, if investors are to be permitted to rematerialize securities that have been dematerialized, additional costs will be incurred for the registrars.



As to the investing public, currently investors holding physical share certificates incur minimal setup and on-going expenses. Therefore cost will be an important consideration for them to shift to scripless holding. The Consultation Paper gives no indication to the level of fees that would be levied. For the transition from paper to scripless holding to be smooth and successful, the fees should not be prohibitive as to discourage dematerialization. Moreover, setting a specific time-frame within which investors will have to shift to scripless holding will facilitate the process also.

Therefore, we would strongly recommend that a definite and workable timetable for running the dual system should be categorically specified to alleviate the cost burden for market participants. In our view, a transition period of not more than six years seems to be reasonable, in which time investors should be educated and encouraged to embrace the scripless holding of securities.

Reallocation of Responsibilities and Costs

The proposed model has introduced a new category of participants in CCASS called Registrar Participant which allows share registrars to become CCASS Participants, thus facilitating direct communication with other CCASS Participants. On the other hand, HKSCC Nominees Limited's role as nominee and securities depository will gradually be diminished once the proposed model is adopted.

Share registrars, whether in their existing form or as Registrar Participants under the proposed model, have a vital role to play in Hong Kong's securities market and will be instrumental in ensuring the successful implementation of the proposed scripless market. However, even though the Consultation Paper sets out a number of benefits in making share registrars as CCASS Participants, there are no details regarding the reallocation of responsibilities between CCASS and the Registrar Participants, especially in the handling corporate actions. We are given to understand that this point is yet to be dealt with by the Working Group.

For a thorough review and evaluation of this new category of Registrar Participant, more details in respect of the role of the share registrar under the scripless regime, their function in dealing with corporate actions and their future obligations and duties as a Registrar Participant to the investors and so forth are required. We reserve our comments until such time when there are more details.

In addition to the reallocation of responsibilities, we also expect to have more information on the operational requirements of Registrar Participants, such as the admission criteria and the possible fees, including admission fees and ongoing fees, to be applied on a Registrar Participant under the proposed model. We would like to stress our concern that any possible loss on revenue to HKSCC as a result of the reallocation of responsibilities in the proposed model should not be recouped from the new category of Registrar Participants. In setting the level of fees, consideration must be given to forestall any transferring of the cost burden from the Registrar Participants to the users, i.e. the issuers and small investors. If the fees are exorbitant, there might be cases where the cost would be passed onto the public under such practices as "user to pay". The issue of fees therefore must be dealt with in a fair and reasonable manner.



Whether the proposed model would receive the extensive and full support of market participants depends on how the existing arrangement, especially those within the CCASS environment, would be changed to accommodate the proposed model. As such, much will depend on more details. We are prepared to submit our comments once such information is forthcoming.

30 March 2010