



香 港 上 市 公 司 商 會
THE CHAMBER OF HONG KONG LISTED COMPANIES

31 March 2010

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

Dear Sir/Madam

Re: Submission to the Consultation Paper on a proposed operational Model for implementing a scripless securities market in Hong Kong

The Chamber of Hong Kong Listed Companies is pleased to submit our views towards the development of a scripless securities market in Hong Kong where it relates to listed issuers directly.

In principle, we support the development of a scripless securities market in Hong Kong. Dematerialization of shares improves market efficiency ultimately as physical delivery and settlement of company shares will no longer be required, and IPO subscription can be done electronically. Under the proposed market model, investors would also be able to register their legal ownership of company shares through CCASS, and can be notified of and respond to corporate actions of companies directly. This will simplify the workflow and lead to higher efficiency. At the same time, transparency of shareholdings will increase and this allows listed issuers to identify their shareholders and facilitates better shareholder communications and investor relations.

Although under the direct registration system, the cost of shareholder communications might be higher in the form of having to print and mail more copies of corporate reports and circulars, this should not be a big concern to listed issuers as the incremental costs of printing more copies is not high. As e-communications become more established and acceptable to shareholders, the printing and mailing requirement will become less and the costs reduced. Savings can also be made by not having to print physical shares under a dematerialization system.

On the other hand, there are a number of structural issues that needed to be addressed:

- 1) The fees and charges to investors for opening IPA and ISA must be reasonably low. According to some industry sources, the present take up rate of the IPA accounts is not high and it is partly because of fee consideration.
- 2) The IT platform of CCASS must be robust enough to handle the additional capacity requirements as a result of increased IPA and ISA accounts. The interface between the investor accounts and CCASS participants' accounts must also be strengthened so that investors' instructions to transfer shares to their brokers/banks can be done smoothly to enable a quick and timely completion of trades. The costs of upgrading the system, if any, must be managed well so that the market would not need to bear a high cost structure under the proposed model.
- 3) A much affected party under the proposed model is the registrars. With the fading out of the role of HKSCC Nominees Limited, it would be up to the registrars to undertake the administration and communication with investors. Similarly, they might need to upgrade their IT platform and strengthen their communication process with investors. Whether the costs associated with system upgrade and increased administration will translate into higher fees to be borne by listed issuers would be a concern.

We hope to have a better idea of the cost implications of developing the new scripless market soon so that meaningful costs-benefits analysis can be made.

On the question of whether broker/bank/custodian nominees can appoint multiple representatives to enable their investor-clients to attend and vote at meetings, our view is that since under the proposed model, individual investors will have a much larger choice of becoming legal owners of the securities via the PSA, IPA or ISA account, investors wishing to attend and vote at meetings should be required to hold their securities in their own names through one of these accounts. For investors who choose to remain as non-registered holders under CPA, they can still vote but only through appointing proxies. This will encourage more investors to register for legal ownership, leading to higher transparency. By requiring non-registered investors to appoint proxies would also allow listed issuers to have a better idea of the level of participation at the meeting since proxy forms need to reach the registrar in advance.



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We believe the existing practice of not allowing broker/bank/custodian nominees to both appoint proxies and multiple representatives in respect of the same meeting should be preserved in line with the common law position.

The above sums up our views towards the proposed operational model for a scripless securities market in Hong Kong from the standpoint of listed issuers. If you wish to discuss this further, please feel free to contact us.

Yours sincerely