



國浩集團

**GuocoGroup**

A Member of the Hong Leong Group

Our Ref: GGL/sl/zp/L070

31 March 2010

**By Email Only**

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

Dear Sirs,

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

We would like to submit our response to the specific issues of the captioned matter as follows:

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?

**Ans. No, a fully dematerialized environment should be an ultimate goal. Share certificates held by registered shareholders can be replaced by a statement issued by the shares registrars and the records under the share registrars will be an evidence of title to their interest in shares. This will avoid a lot of problem in relation to safety and efficiency.**

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

**Ans. We agree conceptually subject to a feasible mechanism being established between CCASS and the share registration services providers in Hong Kong and the increase in costs be acceptable to the listed issuers.**

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

**Ans. No, and please refer to Q4.**

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

**Ans. No, if the jurisdictions under which the listed companies were incorporated allow scripless securities, dematerialisation should be implemented for such companies at the same time.**

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

**Ans. Please refer to the Appendix.**



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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?

**Ans. Yes.**

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

**Ans. 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?

**Ans. No 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?

**Ans. Yes.**

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?

**Ans. Yes.**

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?

**Ans. Yes.**

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?

**Ans. Yes.**

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

**Ans. Yes.**

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?

**Ans. No comment.**



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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?

**Ans. No comment.**

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

**Ans. No comment.**

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 CBBs)?

**Ans. Yes.**

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

**N/A**

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

**Ans. It will definitely increase the costs of the share registrars which will then transfer the same to the listed issuers. This means it will be more costly for listed issuers to maintain the investors services.**

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?

**Ans. Yes.**

Yours faithfully

For and on behalf of

**GUOCO GROUP LIMITED**

## Appendix

The main features of the proposed model may be summarised as follows –

- (1) Dual system and a phased approach: Implementation will proceed gradually so that investors can transition to the scripless regime at their own pace. First, there will initially be a dual system in that the existing paper-based regime will be retained and run parallel to the new scripless regime. Investors will thus be able to continue holding paper securities if they prefer, and rematerialise any securities that are in scripless form. During this time, IPO issuers will also be able to offer a scripless option.

Eventually however, when the market is ready – and this may take a number of years – we will consider making the scripless regime compulsory. The paper-based regime will then be eliminated and rematerialisation will no longer be an option. IPOs will also have to be in scripless form only. Secondly, the actual dematerialisation of existing securities will proceed in phases, and Hong Kong securities will be dematerialised first.

GGL: the dual system is not very much different from the existing one where investor can choose to hold shares in both scrip form (as registered shareholders) or scripless form (in the name of HKSCC Nominees Limited via their brokers/ bankers / custodian or CCASS investor participant accounts. If the authorities really want to implement a fully scripless securities market, the process should start now as the dematerialisation process would take years to complete.

- (2) Register to comprise two parts: All uncertificated securities will be held in CCASS and all certificated securities will be held outside CCASS. The register of holders will thus be made up of two parts – an uncertificated sub-register (which will record all holdings in CCASS) and a certificated sub-register (which will record all holdings outside CCASS). To facilitate inspection, corporate action processing and corporate action entitlements calculation, share registrars will keep a record of the complete register.
- (3) Name on register: Investors will be able to hold securities in CCASS in their own names, i.e. they will have the option to become the legal owner (i.e. registered owner) of the securities and to enjoy the full benefits of legal ownership.

GGL: Under the current system, some investors do not prefer to hold scripless shares as there are costs associated with maintaining these shareholdings, e.g. brokers/ bankers charge a fee on registration of shares and distribution of dividend, etc. However, investors' concern will be whether the cost in maintaining scripless shares in CCASS but registered in their own name will be increased. If so, investors will be discouraged to do so. They may also refrain from dealings in the shares via HKEX as dealing will require dematerialization of their shares which cannot be rematerialized back to certificated form.

- (4) Investor choice: Investors will have a wider range of options to choose from in terms of the form, type of ownership and extent of control over their holdings. In particular, investors will be able to choose whether to hold their securities –
- (a) form – in paper form or in scripless (i.e. dematerialised) form,
  - (b) ownership – in their own names or in the name of a nominee (including a broker/bank/custodian nominee that is a CCASS Participant), and
  - (c) control – through an account that they can control directly or through an account controlled by their broker, bank or custodian.

GGL: There may not be a great difference from the current situation if the investors who are currently holding shares via brokers /bankers /custodians' participant account with CCASS (i.e. CPA") under nominee name continue to do so.

- (5) Share registrars to become CCASS Participants: A new CCASS Participant category – Registrar Participant – will be introduced. This will allow share registrars to use the existing CCASS infrastructure to communicate directly with other CCASS Participants and handle instructions relating to uncertificated securities. It will also allow the setting up of accounts for holding securities in dematerialised form with the share registrar direct rather than through a broker/bank/custodian or as an Investor Participant.

GGL: No. of registered shareholders will increase and definitely the costs, both in term of staff effort and monetary costs of the issuers regarding provisions of corporate communications and shareholders' actions services to registered shareholders will increase.

- (6) Scope: Hong Kong law currently requires the use of paper certificates and instruments of transfer for certain securities only (such as shares, debentures and units in unit trust schemes). The Working Group considers however that the scripless operational model could in general apply to all securities that are publicly traded in Hong Kong (i.e. all securities that are listed or traded on the Stock Exchange of Hong Kong, **SEHK**). This includes therefore not only listed shares and debentures of Hong Kong incorporated companies but also to other listed securities such as derivative warrants, callable bull/bear contracts (**CBBCs**), etc, as well as (to the extent possible) shares and debentures of overseas incorporated companies that are listed or traded on the SEHK. However, in so doing, the market must not be forced to move in a backward direction – e.g. by being compelled to offer a paper option for securities that are today essentially scripless.

GGL: Legal requirements on issuing a certificate of title for securities of other jurisdictions should not be a hurdle as certificates can be issued and deposited in a central depository. Relevant day-to-day share transfer and administration would be in the scripless form.

#### **Benefits of implementing a scripless market**

The Working Group believes the proposed model will not only address the shortcomings of the existing system but also bring a number of other benefits. Specifically –

- (1) Enhance corporate governance: By enabling investors to hold and transfer securities within CCASS and in their own names, shareholder transparency can be enhanced. Moreover, as legal owners of securities, investors will be able to enjoy a direct relationship with issuers.

GGL: It would be easier for issuers to identify the beneficial ownership of their shareholders. However, if most of the investors elect to stay in the "CPA" accounts of the brokers/ bankers / custodians, their names would continuously hidden. In this case, this purpose may not be able to achieve.

- (2) Provide investor choice: The proposed model will allow investors to choose whether to hold their securities in paper form or in scripless form. Investors who opt to hold securities in scripless form will also have a range of account types to choose from – the different account types will provide different options in terms of whether the investor holds legal title or only a beneficial interest in the securities, and whether the account is administered by the investor directly or by the investor's broker/bank/custodian. By allowing these choices, the proposed model will allow investors to transition to the scripless system at their own pace, and in line with their own needs and preferences. This however also means that issuers will be obliged to allow their securities to be dematerialised.

GGL: Investors may not see great difference. In practice, investors may continue to use the existing form and type of accounts until they are compelled to choose.

- (3) Enhance market efficiency: By further reducing the need for paper documents, and bringing share registrars into CCASS by making them a new category of CCASS

Participants, the proposed model will increase opportunities for straight-through-processing, and enhance efficiency for transactions that currently still require paper – e.g. the IPO process. Moreover, the proposed model will help improve turnaround time for corporate actions.

GGL: It is correct when there are sufficient ancillary facilities available to assist efficient communications between the issuers and the investors, e.g. electronic corporate communications, on-line submission of voting instruction, or entitlement election, resulting in increase of costs born by the issuers. The most obvious benefit is that CCASS can effectively off load such tedious and unprofitable works back to the issuers.

- (4) In line with the global trend: The elimination of the use of physical certificates has been an internationally recognised objective for the last twenty years. The *CPSS-IOSCO Recommendations for Securities Settlement Systems* in November 2001 indicated that for both safety and efficiency reasons, securities should be immobilised or dematerialised in central securities depositories to the greatest extent possible. In its 2003 report however, the Group of Thirty (i.e. G30) collectively endorsed dematerialisation as the preferred solution and indicated that while immobilisation may be quicker and more efficient in some cases, it was only an interim solution towards achieving full dematerialisation.<sup>10</sup> A number of leading markets around the world have already implemented a scripless securities market (i.e. dematerialisation) including the UK, Australia and Mainland China. It would be in Hong Kong's interest to keep in line with this trend. Moreover, adopting dematerialisation could also provide greater opportunity for future linkages with other scripless markets.
- (5) Promote environmental friendliness: By further reducing the need for paper, the proposed model promotes environmental friendliness, and as such, will be in line with other similar initiatives such as permitting listed companies to make announcements in electronic form, and permitting corporate communications to be sent electronically.