

By Fax (no.2521 7917) and By Post

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

中電控股有限公司  
CLP Holdings Limited

香港九龍亞皆老街147號  
147 Argyle Street, Kowloon, Hong Kong

電話 Tel (852) 2678 8111  
傳真 Fax (852) 2760 4448  
網址 Website www.clpgroup.com

Dear Sirs,

**Response to Joint Consultation Paper on a Proposed Operational Model for implementing a Scripless Securities Market in Hong Kong**

We refer to the Joint Consultation Paper on a Proposed Operational Model for implementing a Scripless Securities Market in Hong Kong issued by the Securities and Futures Commission together with the Federation of Share Registrars Limited and Hong Kong Exchanges and Clearing Limited on 30 December 2009 ("Consultation Paper").

Before going further, we should mention that the Consultation Paper invites views on a proposed operational model for implementing a scripless securities market in Hong Kong. As a listed issuer, unlike the CCASS Participants, investors/shareholders of listed issuers and Registrar Participants, who are primary and active users of the system, CLP can only express its general observations on the proposed model.

In general, we support the initiative of implementing a scripless securities market in Hong Kong with a view to enhancing its overall efficiency and competitiveness, and securing an appropriate and improved level of investors choice and protection. This letter sets out our views on the specific issues on which feedback is sought in the Consultation Paper by replying to the questions raised in respect of each of those issues.

Dual System and a phased approach

1. We agree that investors should be given the option to hold securities in paper form and to rematerialise securities that have been dematerialised.

2. It would be difficult to completely “dematerialise” securities given that there are traditional long-term holders of securities who are used to keeping physical share scrips in their safe custody. A compulsory scripless system would be contradictory to the objective of providing investor choice. The use of scripless system can be encouraged through the implementation of a scripless IPO system.
3. We agree that implementation of a scripless securities market should proceed in phases.
4. We agree with the proposed phasing, i.e. dematerialising securities in batches, and dematerialising Hong Kong securities first.
5. As CCASS and share registrars are the operators who will monitor and control the scripless infrastructure in the proposed model, they must collaborate with each other in the design, testing, implementation and control processes in order to ensure an efficient and cost-effective model. It is important for the two parties to collaborate on a modus operandi which includes checks and balances in areas such as the reconciliation process of the uncertificated sub-register and the certificated sub-register, the day-end records and the compatibility of their computer systems. In light of the bigger role of share registrars, it is appropriate to step up the oversight of regulation of the standards and services of the Registrar Participants in order to maintain a high standard of service expected from listed companies and investors.

Register to comprise two parts

6. We agree with the proposal that the formal register comprises two parts as discussed in paragraph 49 to 53 of the Consultation Paper. Nonetheless, it is important to put in place adequate controls in order to ensure the entries to the uncertificated sub-register can be reconciled with those in the certificated sub-register. Listed issuers are bound by law to provide their register of members for public inspection during office hours. In compliance with this, the daily reconciliation process between the sub-registers is of considerable importance. The process itself illustrates the need for consensus between CCASS and the share registrars. The reliability of the reconciliation process may affect the shareholders’ positions and malfunctioning may cause disputes. It may be appropriate to consider providing a means of recourse to aggrieved shareholders/listed issuers/CCASS/share registrars, such as in the form of a dispute tribunal or panel.

Name on register

7. We agree with the proposal to facilitate name on register within CCASS.
8. It is not clear in paragraph 63 of the Consultation Paper as to what the expedited services for the dematerialisation process would be and the associated costs for such services. It remains a concern that certificated shareholders might be unnecessarily delayed in securities transactions after the removal of the immediate credit arrangement. It is important to uphold the principle of equitable treatment to all shareholders, whether they are certificated or uncertificated.

Investor choice

9. The proposed model seems to have provided enough options (in terms of account types) for investors. Apparently, a follow-up issue would be on the fee charges under the various options.
10. We agree that broker/bank/custodian nominees in CCASS should be allowed to appoint multiple representatives so that their investor/clients can attend and vote at meetings. A question arises as to whether the same should also be applied to RPA.
11. We agree that broker/bank/custodian nominees in CCASS should be allowed to appoint both proxies and multiple representatives in respect of the same meeting.
12. We 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.

Share registrars to become a new category of CCASS Participants

13. We agree with the proposal to introduce a new Registrar Participant category in CCASS. However, appropriate checks and balances should be put in place in monitoring their dual role as a Registrar Participant as well as a registrar of the listed issuer.
14. We agree that share registrars who provide scripless related services should be more directly and robustly regulated than they are today in order to maintain a high standard of service expected from listed companies and investors.
15. We support a uniform approach should be taken such that a common standard is applied in all cases.

IPOs

16. We support implementation of the scripless IPO option to be extended to all IPOs and eventually requiring all IPOs to be in scripless form only.

Scope

17. We agree that the scope of the scripless operational model should extend to all publicly traded securities in Hong Kong.
18. Not applicable.

Benefits and implications for different stakeholders

19. With the introduction of the many options (in terms of account types) for investors, we expect to see competitive pricing and higher standard of services from those scripless related service providers. Having said this, there is no reason for listed issuers themselves (in effect the main body of their shareholders) to absorb the cost of a choice made by individual shareholders. The user-pays principle should apply to the handling of dematerialisation/rematerialisation requests.

Position of overseas securities

20. We agree with the proposed approach to focus first on Bermuda, Cayman Islands, mainland China and UK companies regarding the dematerialisation of shares and debentures of overseas companies.

We welcome the opportunity to comment on the Consultation Paper and, subject to comments made above and those comments we have made in our previous submission to the Scripless Project Team of the Hong Kong Exchanges and Clearing Limited on 30 December 2003, we support the initiative of implementing a scripless securities market in Hong Kong which should be proceeded in phases.

Yours faithfully,