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16 July 2010

By Post and Email: scripless@sfc.hk

Mr Rico Leung
Senior Director
Supervision of Markets Division
Securities and Futures Commission
8/F Chater House
8 Connaught Road Central
Hong Kong

Dear Mr Leung

**Joint Consultation Paper on A Proposed Operational Model For Implementing a
Scripless Securities Market in Hong Kong ("Consultation Paper")**

We refer to the meeting between the Scripless Securities Market Working Group ("Scripless WG") and the Custodian Working Group of the Hong Kong Association of Banks on 29 June 2010. We are grateful for the views shared by the Scripless WG in light of the submissions to the Consultation Paper received. After consulting our members following the meeting, we are writing to provide our comments on the new proposal regarding the attendance of shareholders at Annual General Meetings ("AGMs") and Extraordinary General Meetings ("EGMs") of listed companies for the consideration of the Scripless WG.

As advised at the meeting, the Scripless WG intends to propose that broker/bank/custodian nominees in CCASS ("CCASS Participants") should be disallowed to appoint multiple representatives to attend corporate events of listed companies if the shares are held under CCASS Participant Account ("CPA"). Investors wishing to attend and vote at such corporate events should be required to hold their shares in their own names through CCASS Participant Sponsored Accounts ("PSA"), Investor Participant Accounts ("IPA") or Issuer Sponsored Accounts ("ISA"). We have huge concern and disagree with this proposal due to the following reasons:

1. Impact on Shareholders

- 1.1 Investors holding their shares through CPA may not wish to hold their shares in their own names through PSA, IPA or ISA. The new proposal will deprive these investors of their rights to attend and vote at corporate events which they are currently enjoying. This will defeat the objective of promoting market

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transparency and we would anticipate negative customer experience to result in this regard.

- 1.2 Some investors may not want to disclose their names to the public at all due to commercial/investment considerations. The new proposal is a degradation of shareholders' rights by forcing them to disclose their identities if they would like to attend the meeting. Currently, customers of CCASS Participants can also attend AGM/EGM even though their shares are held under CCASS Participant accounts.
- 1.3 Shareholders will have to open PSA and switch their portfolios from CPA to PSA in order to be entitled to AGM/EGM attendance. They may risk losing such rights if they fail to complete the switching/registration on time, especially when they are out of town.
- 1.4 Given that it is not compulsory for a listed company to announce a record date for meeting entitlement under the current market rules, it will cause huge difficulty and confusion in the market and between the CCASS Participants and their clients on their entitlement to attend AGM/EGM.
- 1.5 Customers of CCASS Participants may be confused when part of their holdings is held under CPA (if the customer do not wish to attend the AGM/EGM of a particular listed company) and part of their holdings is held under PSA/IPA/ISA (if the customer wish to attend the AGM/EGM of another listed company). Customers may receive different notifications from both CCASS Participants (ie. their own brokers/banks/custodians) and share registrars with different details (e.g. deadlines).
- 1.6 Given that all listed securities will be converted into "scripless" model by phases, non-PSA investors may get confused during the transitional period as they will only be eligible for attending the AGM/EGM of those yet-to-convert listed securities.

2. Know Your Customer ("KYC") Requirements

- 2.1 We believe that it will be sufficient for CCASS Participants to perform KYC on their immediate customers, particularly due to the fact that the immediate customers may not prefer to disclose their identities or present relevant identity documents of their underlying clients who have no contractual relationship with the CCASS Participants. As the KYC requirements may vary among CCASS Participants, a clear and workable KYC guideline from the regulators in this respect should be issued to the public after consultation with HKAB to enable CCASS Participants to communicate the same to their customers.



- 2.2 The KYC, if required, may take longer time than normal such that the AGM/ EGM may be missed by the shareholder.

3. Impact on Industry

- 3.1 The model with the introduction of PSA will drive up operational costs for the industry/custodian banks which may ultimately be passed on to their customers.
- 3.2 The new proposal will have significant impact on the day-to-day securities trading business, as the majority of retail banks in Hong Kong are managed on a "nominees name" basis. In particular, the current day-end net settlement with brokers will be affected and system enhancements will be required to exclude those shares held in PSA. Further system changes are necessary to cater for the handling of securities held in customer's own name and nominee's name.
- 3.3 It is not clear in respect of the way to handle the common multiple-layer custodian relationship in the light of the proposed PSA arrangement. A multiple-layer custodian arrangement refers to the scenario where Investor X is a direct client of Custodian A which in turn holds the shareholdings via Custodian B which is a CCASS Participant.

4. Impact on CCASS Participants

- 4.1 In our previous response, we stated our view that the new model should not lead to excessive corporate actions related instructions due to the introduction of the PSA which may not be critical to a scripless environment. We believe that the new proposal will bring huge additional workload to CCASS Participants, including but not limited to movement of shares before and after the record date, settlement under segregated account (i.e. PSA) instead of pool account (i.e. CPA), further system changes to cater for the handling of portfolio holding in customer's own name and nominees' name, etc..
- 4.2 CCASS Participants may be compelled to open PSA for their customers in order to enable the latter to attend AGM/ EGM notwithstanding that this may not be the business model of the CCASS Participants. In addition to excessive corporate actions related instructions with the introduction of PSA, it will lead to customer confusion/missing instruction deadline with the communications from multiple parties, i.e. the bank and the registrar. In particular, the actual feasibility of PSA operation model is not yet known and defined.



- 4.3 For some investors who prefer to hold their portfolios with the CPA but wish to attend a corporate event, they may choose to transfer their portfolios to PSA and after the event, switch back to the CPA and close the PSA. This will bring operational inefficiency to the market and CCASS Participants.

Finally, please find enclosed Appendix 1 showing the number of customers of some of our members who were appointed to attend AGM/EGM in the past 12 months for your reference.

We hope you will find our above comments helpful. Should you have any questions, please do not hesitate to contact us.

Yours sincerely

Enc.

Appendix 1

Bank	No. of Clients who wanted to attend shareholders' meeting in past 12 months
Bank 1	40
Bank 2	120
Bank 3	147
Bank 4	250
Bank 5	2,400
Bank 6	Multiple thousands