Comments from HKIFA members

- Hong Kong should indeed align itself with international norms and move towards full dematerialisation whilst retaining CCASS and the nominee structure which is the international standard.

- The following comments are limited to ETFs only.

  - Nearly all HKEX-listed ETFs have already been dematerialised thereby reducing costs associated with the relevant service provider which is in the interest of investors. If the proposed reform is implemented, it must be made optional at the discretion of the relevant ETF issuer, otherwise this could add to the cost of listing ETFs on HKEX.

  - The proposal would require the appointment of Registrars and a corresponding increase in costs which would be borne by the ETFs and ultimately by the underlying investors even if most them do not choose to hold their shares/units directly.

  - More importantly, it is important to note that listed funds are subject to AML and FATCA/CRS obligations which are not imposed on other listed companies. This proposal would make it very difficult for fund managers to comply with these AML and FATCA/CRS obligations as they do not control the register, and would potentially need to rely on other parties (such as brokers) that have a direct relationship with the investor, to perform and discharge any AML/FATCA/ CRS obligations. Furthermore, consideration would need to be given as to how effective KYC ongoing monitoring can be performed when the find manager does not control the register. Fund managers may also be forced to delegate this function to the Registrars over which they have no control. This proposal would therefore drive up ETF costs which would ultimately be borne by the investors and it would create an unacceptable level of regulatory risk for fund managers who would remain liable for any non-compliance with their FATCA/CRS/AML obligations.

  - We also note for completeness that in Australia, notwithstanding investors can appear directly on the register of an (Australian domiciled) ETF, there are still substantial implementation issues associated with discharging FATCA and CRS obligations in respect of such investors that appear directly on the register. These concerns remain unresolved and are the subject of ongoing dialogue between the Australian ETF industry and the Australian regulators.

- Any perceived risks relating to CCASS and the current nominee structure as regards shares/units in ETFs could be addressed in the relevant ETF's offering documentation but we believe such risks to be minimal, especially given the concept of beneficial ownership is entrenched and well defended under the Hong Kong law

(End)