

Response to the Joint Consultation Paper on a Revised Operational Model for Implementing an Uncertificated Securities Market In Hong Kong

Q1 Do you agree that the Revised Model presents a better option for taking forward the USM initiative? If no, please provide details.

Response: Agree.

Q9 Do you have any concerns or comments about our proposal to require registered securities holders to provide a unique identification number to the issuer? If yes, please provide details.

Response: I don't have any concerns in requiring registered securities holders to provide a unique identification number to the issuer (or the issuer's share registrar). This is the common practices for ID verification when opening accounts with banks or brokerage firms, so people should understand that this is essential and for their benefits. Usually, at account opening, we will submit our ID in person. Will it be the same for opening a USI account, or will the whole process be completed online?

I hope SFC/FSR will come up with a good online verification method. Various virtual banks and brokerage firms have defined the different approaches: for example: to upload a copy of the ID, upload pic of the person holding ID. Ideally, everything can be done online securely and efficiently. It is important to verify that the registered security holder is providing his/her own identification card/number, but not someone else.

Q11 Do you have any concerns or comments about the proposals for establishing a Common Platform across all share registrars? If yes, please provide details.

Response: The idea of the Common Platform is great for the investors - easy for the account holders to view a consolidated view of their portfolio and can manage all actions in one place, rather than one login account per share registrar.

Concerns about the Common Platform Architecture - in particular, the integration with the Share Registrar Systems.

Referring to #73 - the Common Platform is a web-based portal

Referring to #78 - A final point to note that the Common Platform is different from the Share Registrar Systems mentioned in paragraph 45 above, although the two will be connected.

My interpretation of the paragraphs #73 - 77, the Common Platform is a web-based portal providing functionalities as stated in paragraph 74.

Will the Common Platform hold a database (replica) of ROM data (consolidated from all share registrars) to provide those functionalities? Or will the Common Platform be a thin layer of web UI and get the data from the share registrar system(s) on demand basis?

If it is the first case (hold a replica database of ROM data) - I have concerns about data integrity and capacity of the system. If the ROM data in the Common Platform has discrepancy from the share registrar system(s), how to reconcile and resolve the inconsistency. Whom should the investor contact to ask questions regarding the discrepancy between their own record and the balance shown in the Common Platform? Hope there are procedures defined clearly to state each involved party's responsibility to avoid the ball being thrown from one to the other and the investor will not get answers on a timely fashion. Once the investors are used to the Common Platform, they don't need direct interact with the share registrars (no like in old days to have to go to their counter to request transfer of paper certificate or mail the proxy forms to the respective share registrar). Therefore, I hope the Common Platform should provide customer support to provide assistance to the investors, and the Common Platform is responsible for resolving any issues with the share registrars.

If the Common Platform is merely a pass-thru to request the information from each share registrar system on the fly to retrieve the holding information. What will the performance be? If it is too slow to get data from all share registrars and then to provide the consolidated view, this might not be acceptable. What happens if one of the share registrars' system is down, will the Common Platform continue to return data to the investor of holdings from other share registrars?

For either implementation/architecture, it needs a well-defined interface/protocol to communicate between the Common Platform and the share registrars' systems. In the banking world, there are many standard messaging protocols used by banks, brokerage firms and financial institutions globally. Example: SWIFT, FIX, openbankproject etc. Hope this initiative will also come up with a standard messaging protocol to be used by all share registrars to communicate with the Common Platform.

Minor question/comment to paragraph 74:

For each period: will I get one statement from each share registrar or a consolidated statement to be provided by the Common Platform? It will be nice to have a consolidated statement so I don't need to know which stock is associated with which share registrar.

Q15 Do you have any concerns or comments about the proposed process flows for effecting other transfers under the Revised Model(i.e. between two USI holders, between two USS holders or between a USI and USS holder)? If yes, please provide details.

From the diagram on Page 46, my understanding is that both parties have to submit the request to the Common Platform/Share Registrar System. What type of information do they need to provide to identify the other party for the transfer?

For example: When the transferor submit the transfer, what type of information of the transferee he has to provide to uniquely identify this person or entity? Will each USI account has a unique account number (like a bank account)? This can avoid the need to provide the HK ID to other parties to complete the transfer. Similar to bank transfer of money, all we need to provide is the bank account number and name (for verification).

Q22 Noting the general market consensus that Hong Kong should move to a USM regime, do you agree with the general approach for moving the market to full dematerialization? If no, please provide details.

Response: Agree, I think this is the right approach and has many great benefits. Many investors who are trading through brokers and banks do not hold the paper certificates anyway, therefore, this will not be a drastic new approach for them to adopt.

Conditions are:

1. The system (Common Platform or Share Registrar Systems) has to be easy to use - user-friendly, and intuitive to use, reliable and secure.
2. The transfer process should be easy to execute and should take shorter duration to complete. The system should help to automate as much as of the process as possible to avoid human error and delay with document search and manual checking.
3. SFC should regulate the share registrars and the Common Platform entity.

Q27 Do you have any concerns or comments about our proposals for encouraging issuers and registered securities holders to communicate electronically rather than in paper form? If yes, please provide details.

Response: Absolutely Agree. For our environment and our ease of use (email/SMS) rather than spending extra time to wait for the mail to arrive, or to make a trip to the share registrar office to submit paperwork.