

LIST OF QUESTIONS

Q1

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

Agreed.

Q2

Do you have any concerns or comments about the key features of the proposed Revised Model? If yes, please provide details.

Retaining the nominee structure can minimize the impact to the existing process. However, we would be interested to know if the rules or regulation would mandate the selection of HKSCC-NOMS, USS or USI model based on investors' business type or it will remain as optional for investors to choose or for custodians to offer.

With the phased approach on the roll-out, market participants would have to manage processes across dual platform i.e. CCASS and the new HKEX system. We hope that the roll-out would cover all products in Hong Kong as soon as possible so as to centralize all processes on a single platform.

Q3

Do you have any concerns or comments about the key features of the USS account? If yes, please provide details.

We have the following comments:

- (1) The responsibilities, obligations, liabilities as well as regulatory and licensing requirements of a sponsoring CP will need to be clearly defined in order to assess the impact versus the existing coverage of a custodian bank.
- (2) With reference to cash entitlement payments, it is imperative to credit to the USS holder's cash account at the sponsoring CP instead of direct payment to USS holder's own cash accounts. This is to avoid cash discrepancy between the USS holder's cash records versus the cash account that's opened under custody with the sponsoring CP to facilitate settlement.
- (3) The scope of KYC requirement on USS account is to be defined. Generally, KYC requirements at the custodian bank would be conducted at the legal entity level of the institutional investors i.e. fund level and we would expect the same process to apply to the USS account opening at the sponsoring CP.
- (4) The time taken to update the legal title at the Share Registrar System (SRS) via the new HKEX system is critical to trading and settlement. In the case of a turnaround settlement, we would expect the transfer of legal title to be reflected on a real-time basis at each settlement batch run i.e. incoming receipt to be updated real-time with enhanced linked trade references capability to facilitate the onward delivery within the same settlement batch run.
- (5) Stock borrowing and lending transactions have to be updated real-time in order to meet the onward delivery at each settlement batch run to avoid buy-in. If the update of legal title is not real time which results in delay in settlement and buy-in, we hope that the rules and regulations will make it clear that buy-in exemption is applicable without restriction on the number of requests per participant.
- (6) We understand that USS account structure would probably be the option to registered holders who are resident enterprises and do not wish Enterprise Income Tax to be withheld from the dividend payable as H shares would be registered in their own name instead of nominees structure in

uncertificated form. We would appreciate if further information on this subject can be covered in the definition of “Institutional Investors” for USS holders.

(7) BCP plan must be clearly defined in the event of outage of HKEX new system and how the registration request is to be handled.

Q4

Do you have any concerns or comments about the key features of the USI account? If yes, please provide details.

No comment.

Q5

Do you have any concerns or comments about our proposal that USS accounts be limited to institutional investors, and USI accounts be available to all investors, including institutional and retail investors? If yes, please provide details.

No comment.

Q6

Do you agree with our expectation that institutional investors that open a USS account are unlikely to open or need to open a USI account as well? If no, please provide details.

No comment.

Q7

Do you anticipate any difficulties or limitations in opening and managing USS accounts for retail investors? If yes, please provide details.

No comment.

Q8

Do you have any concerns if cash entitlements payable in respect of securities held in an institutional investor’s USS account had to be paid to the institutional investor direct, rather than to its sponsoring CP? If yes, please provide details.

With reference to cash entitlement payments, it is imperative to credit to the USS holder’s cash account at the sponsoring CP instead of direct payment to USS holder’s own cash accounts. This is to avoid cash discrepancy between the USS holder’s cash records versus the cash account that’s opened under custody with the sponsoring CP to facilitate settlement.

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.

There has been growing concerns on providing identification numbers of individuals. Control measures have to be put in place at the issuers to assure individual investors of client data protection. Also note that passport numbers may be updated over time, hence this may require a robust data maintenance plan

Q10

Do you have any concerns or comments about our proposals on consolidating holdings belonging to the same registered securities holders but calculating securities entitlements separately in the case of USS holders with multiple USS accounts? If yes, please provide details.

We would require further guidance on the calculation methodology of securities entitlements based on consolidated holdings. As a single USS account holder could have multiple sponsoring CPs, the securities entitlements calculations based on consolidated holding basis may result in decimal entitlements and that could have an impact on operational process.

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.

No. This would probably streamline the workflow as it would synchronise the inputs made on the new HKEX system across all share registrars in Hong Kong.

Q12

Do you have any concerns or comments about the proposed process flows for IPO applications in respect of securities that are to be credited to a USI account? If yes, please provide details.

No comment.

Q13

Do you have any concerns or comments about the proposed process flows for IPO applications in respect of securities that are to be credited to a USS account? If yes, please provide details.

No concern so long as the securities are credited to the USS security accounts held at the sponsoring CP i.e. custodian.

Q14

Do you have any concerns or comments about the proposed process flows for effecting transfers to or from HKSCC-NOMS under the Revised Model? If yes, please provide details.

We are concerned on the timing of the legal title transfer and its impact to trading and settlement. We would expect the timing to be real time at each settlement batch run so as to support turnaround trading and also to meet onward delivery which may have a buy-in impact at the last settlement batch run. i.e. incoming receipt to be updated real-time with enhanced linked trade references capability to facilitate the onward delivery within the same settlement batch run.

If the timing is not real time and resulted in buy-in, we hope that the rules and regulations will make it clear that buy-in exemption is applicable without restriction on the number of requests per participant

Further, we may anticipate higher number of transfers between USI/USS and HKSCC-NOMS on behalf of onshore registered holders who are resident enterprises and do not wish Enterprise Income Tax to be withheld from the dividend payable as H shares would be registered in their own name instead of nominees structure in uncertificated form. Timing of updating the legal title of these transfers is also critical to avoid any delay in settlement.

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.

Please refer to our comments in Q14.

Q16

Do you have any concerns or comments about our proposal to offer off-exchange trade settlement and transfer services on half-day trading days? If yes, please provide details.

No concern.

Q17

Do you have any concerns or comments about the proposed process flows for effecting corporate actions in respect of holdings in a USI account? If yes, please provide details.

No comment.

Q18

Do you have any concerns or comments about the proposed process flows for effecting corporate actions in respect of holdings in a USS account? If yes, please provide details.

No particular concern if the corporate actions securities entitlements are credited to the USS holders accounts held at the sponsoring CP. And that the sponsoring CP should be able to instruct on behalf of the USS holders. We would expect real time update of records at the share registry on corporate actions securities entitlements to avoid any impact to USS holders who wish to sell the shares.

Q19

Do you have any concerns or comments about including SFC-authorized listed funds within the USM initiative at an early stage? In particular, do you perceive any difficulties in doing so? If yes, please provide details.

No comment.

Q20

Do you have any concerns or comments about including rights issues, subscription warrants and depositary receipts within the USM initiative at an early stage? If yes, please provide details.

No particular concern but we would require more details on the operational flow for implementation.

Q21

Do you have any views as to whether the USM initiative should be extended to cover other products, in particular CBBCs and DWs? If yes, please provide details.

It would be positive to extend USM to cover all products in Hong Kong to reduce administrative and operational burden of maintaining dual platform.

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.

Agreed.

Q23

Do you have any concerns or comments about our proposals for requiring paperless IPOs only? If yes, please provide details.

No concern.

Q24

Do you have any concerns or comments about our proposal that there should be no option to rematerialize securities that are already in uncertificated form? If yes, please provide details.

No particular concern but we would need clarity on the treatment of delisted securities under USM regime.

Q25

Do you have any concerns or comments about our proposals for dematerializing securities that are held in the new HKEX System? If yes, please provide details.

No concern.

Q26

Do you have any concerns or comments about our proposal to cease the parallel trading arrangement for securities held within the new HKEX System that have already been dematerialized? If yes, please provide details.

No concern.

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.

No concern.