

Feedback to the questions contained in the Joint Consultation Paper on a Revised Model for
implementing an Uncertificated Securities Market in Hong Kong

| Q. No. | Question | Feedback |
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| 1 | Do you agree that the Revised Model presents a better option for taking forward the USM initiative? If no, please provide details. | Based on the information available at this point, the revised model appears to minimize the impact of the USM initiative on institutional investors and CPs when compared to the 2010 model. However, in order to undertake a comprehensive assessment of the 'Revised Model' we will more details on several aspects, e.g. implications to the CP of sponsoring a 'USS account' for an investor, proposed regulatory changes, System's design/enhancement required (if any), etc. |
| 2 | Do you have any concerns or comments about the key features of the proposed Revised Model? If yes, please provide details. | <p>We would require more details on the implications/liabilities to a Participant in relation to sponsoring a USS account. This includes, but is not limited to, details on documentation required, ongoing monitoring expectations, incremental reporting, etc. expected from a CP in relation to any 'USS account' they sponsor.</p> <p>Additionally, as the revised model is expected to be on the new HKEX system, but will be limited to Hong Kong securities and rolled out in a phased manner, we expect that the new HKEX system will apply to both USM and non-USM securities, i.e. market infrastructures will not be expected to connect to multiple HKEX systems for USM and non-USM securities.</p> <p>Finally, the impact to the Stamp Duty processes should be clearly set out. This includes, but is not limited to, the declarations that will be required from CPs, the process for collection of such declarations, liability of the CP w.r.t. such declaration, etc.</p> |
| 3 | Do you have any concerns or comments about the key features of the USS account? If yes, please provide details. | <p>As the USS account is to be restricted to 'Institutional Investors', the SFC/HKEX should provide a definition for 'Institutional investor' to ensure clarity w.r.t. who can be sponsored by a CP for a 'USS account'.</p> <p>The SFC/HKEX should define a clear process for the set-up of USS accounts, including relevant Customer Identification & KYC requirements required to be completed by a sponsoring CP and also prescribe acceptable Identification numbers, e.g. LEI, etc. to be obtained by the sponsoring CPs for set-up of a USS account.</p> <p>Given the sensitivity around data storage and management, the regulatory standards that ASRs will need to adhere to w.r.t. the storage and management of any investor information should be published so this is transparent to investors and CPs.</p> |
| 4 | Do you have any concerns or comments about the key features of the USI account? If yes, please provide details. | We do not have any comments. |

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| 5 | 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. | We do not have any comments. |
| 6 | 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. | While we agree with this expectation, we will not be in a position to validate or confirm this as it is completely dependent on the needs/requirements of a particular Institutional investor. |
| 7 | Do you anticipate any difficulties or limitations in opening and managing USS accounts for retail investors? If yes, please provide details. | We do not have any comments |
| 8 | 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. | <p>Institutional Investors typically appoint a Global Custodian (GC) who in turn appoints a Local Custodian (LC) in each market, e.g. the CP in Hong Kong. The institutional investor does not recognize the LC nor the accounts maintained by the GC with the LC.</p> <p>A LC is required to track, record and collect all Corporate Action entitlements on behalf of the GC and their clients. Hence, the established process is for CPs to receive all cash entitlements into their designated CP cash account so the necessary entitlements can be reconciled and benefits then paid into the relevant GC's omnibus cash account. Payments directly to the cash account of the investor will create operational challenges for CPs in addition to requiring CPs to manage dual processes for USM securities and non USM securities.</p> <p>Additionally, this proposal would mandate segregated cash accounts, which is contrary to the established Omnibus cash account structure adopted by GCs and would potentially create significant accounting and reconciliation challenges for CPs, GCs and Institutional Investors in addition to entailing possible legal implications w.r.t. default liability provisions, etc.</p> <p>Finally, as trade settlement proceeds as well as IPO refunds will be credited to the sponsoring CPs designated bank account, the process for cash entitlements on Corporate Actions should be consistent.</p> <p>In view of the above, we recommend that cash entitlements on a security held in a USS account be paid to the designated bank account of the sponsoring CP in line with the existing practice.</p> |
| 9 | 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. | The HKEX/SFC should prescribe acceptable Identification numbers, e.g. LEI, etc. to be obtained by sponsoring CPs for set-up of a USS account. Given the diverse geography and nature of foreign Institutional Investors that invest in Hong Kong, it |

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| | | <p>would be a challenge for the sponsoring CP to identify a specific type of identification number that is to be used.</p> <p>Given the sensitivity around data storage & management, we welcome the SFC/HKEX commitment to place clear and stringent requirements and obligations on the use and management of the identification number and expect that these guidelines will be transparent to investors and sponsoring CPs.</p> |
| 10 | 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 do not have any comments. |
| 11 | Do you have any concerns or comments about the proposals for establishing a Common Platform across all share registrars? If yes, please provide details. | We do not have any comments. |
| 12 | 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. | We do not have any comments |
| 13 | 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. | We do not have any comments. |
| 14 | 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. | <p>We do not have any comments on the process flows defined for the transfer of securities between the various account types. We appreciate that details on the Stamp Duty arrangements will be shared shortly, but the following details should be included,</p> <ul style="list-style-type: none"> - The actual declaration that CPs are to collect and how this is to be communicated to the relevant authorities. - The validation (if any) required to be undertaken by the CP w.r.t. such declarations. - The liability to the CP in relation to these declarations. |
| 15 | 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. | We do not have any comments on the process flows defined for the transfer of securities between the various account types. |

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| 16 | 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. | <p>While we appreciate the objective to be consistent with share registrars in relation to processing securities transfers on half-trading days, this will lead to an inconsistency within the HKEx settlement process vis-a-vis non USM securities and potentially create complications for CPs.</p> <p>We therefore recommend that the off-exchange trade settlement and transfer services be consistent across all HKEX securities at least during the launch phase of USM with a review undertaken subsequently on the need/demand for off-exchange trade settlement and transfer services on half-day trading days.</p> |
| 17 | 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. | We do not have any comments. |
| 18 | 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. | <p>Yes. Any corporate actions that result in cash payments (e.g. dividend payments) for a USS account holder should be credited directly to the designated cash account of the sponsoring CP. The reasons for this are set out in our response to Q.8.</p> <p>Furthermore, the market cut-off times for a USS account and for the HKSCC-NOMS account should be consistent.</p> |
| 19 | 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. | We encourage the extension of the USM initiative to as wide a range of securities as possible to facilitate consistency across the settlement processes for the various types of securities currently available/traded within HK. That being said, as each security type may have its own unique characteristics/nuances, we would need more details on the proposal to include each additional security type under the USM initiative before we can provide more detailed feedback |
| 20 | 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. | We encourage the extension of the USM initiative to as wide a range of securities as possible to facilitate consistency across the settlement processes for the various types of securities currently available/traded within HK. That being said, as each security type may have its own unique characteristics/nuances, we would need more details on the proposal to include each additional security type under the USM initiative before we can provide more detailed feedback |
| 21 | 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. | We encourage the extension of the USM initiative to as wide a range of securities as possible to facilitate consistency across the settlement processes for the various types of securities currently available/traded within HK. That being said, as each security type may have its own unique characteristics/nuances, we would need more details on the proposal to include each additional security type under the USM initiative before we can provide more detailed feedback |

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| 22 | 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. | <p>While we acknowledge the initial phase targets a significant majority of the companies listed on the HKEX, a concern is if the laws or constitutional documents of even a single jurisdiction are not compatible with the participation in the revised model, the market would need to potentially support dual models indefinitely.</p> <p>We suggest that an assessment be undertaken on the impact on all jurisdictions prior to initiating the implementation of USM, with a strategy defined and agreed in relation to incompatible jurisdictions. This will help reduce uncertainty and costs that might arise due to the need to potentially maintain dual models for an extended period.</p> |
| 23 | Do you have any concerns or comments about our proposals for requiring paperless IPOs only? If yes, please provide details | We do not have any comments. |
| 24 | 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. | We do not have any comments. |
| 25 | 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. | We do not have any comments |
| 26 | 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. | We do not have any comments |
| 27 | 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. | <p>We welcome and fully support the proposal to encourage electronic communication.</p> <p>Having said that, as previously explained in our feedback to Q.8., Institutional investors typically recognize the accounts maintained with their GC. Consequently, all their internal processes, i.e. statements, reconciliations, etc. are set-up vis-a-vis these GC accounts and they will not recognize any communications, etc. from the LC or the issuer directly.</p> <p>We therefore recommend that sponsoring CPs be permitted to designate their electronic communication details to issuers so that any communication w.r.t. a USS account is received by the sponsoring CP on behalf of the USS account holder to be further disseminated to investors , as required per existing communication protocols.</p> |