

## Comment for Joint Consultation Paper on a Revised Operational Model for Implementing an Uncertificated Securities Market in Hong Kong

Questions	Comments
<b>Part I – Executive summary</b>	
<i>Pg. 1 - 7</i>	No comments.
<b>Part II – Development of the operational model</b>	
<i>Pg. 8 -10</i>	No comments.
<b>Part III – The revised model</b>	
<i>Pg. 10 - 22</i>	
<b>Comparison with current model and 2010 Model</b>	
<u>Questions</u>	
1. Do you agree that the Revised Model presents a better option for taking forward the USM initiative? If no, please provide details.	Yes, it presents a better option as opposed to the previous proposal (i.e. delivery-versus-payment settlement model proposal).
2. Do you have any concerns or comments about the key features of the proposed Revised Model? If yes, please provide details.	<p>We anticipate only a small group of our clients utilising the USS accounts. From our reading of the Revised Model, the USI account structure would not impact us as a sponsoring clearing or custodian participant (sponsoring CP), given that we would have no involvement except for the transfer of assets in and out of the accounts.</p> <p>Nonetheless to better understand the set up, we would appreciate clarification on the following-</p> <ul style="list-style-type: none"> <li>i) The dematerialization process - are we also moving away from hard copy stock deposit / transfer forms which usually form part of the dematerialisation process? If yes, we would appreciate if the regulators can share the proposed dematerialization flow with the industry, so as to assess the associated costs.</li> <li>ii) The support expected from sponsoring CPs and intermediaries such as brokers and providers of wealth management services in order to support the Revised Operation Model across the front to back trade cycle.</li> <li>iii) Potential impact across front to back IPO subscription process.</li> <li>iv) The estimated cost for a USS account holder to keep shares in paperless form. It now costs an investor \$3.50 to print a share certificate.</li> <li>v) Since the proposal potentially could trigger a change in the collateral management process for clients who choose to adopt USS accounts, we would appreciate if</li> </ul>

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	<p>more time could be provided for the industry to assess the implementation readiness when formulating the timeline. For instances, we envisage potential impact on the right of use on asset posted as collateral for margin lending.</p>
<p><b>New accounts for uncertificated holdings – USI and USS</b></p> <p>3. Do you have any concerns or comments about the key features of the USS account? If yes, please provide details.</p>	<p>We would appreciate clarification from the SFC, HKEX and the FSR on the scope of “institutional investor” and “retail investor”. Would individual investors from wealth management business fall under the definition of “institutional investor” as opposed to “retail investor”?</p>
<p>4. Do you have any concerns or comments about the key features of the USI account? If yes, please provide details.</p>	<p>Not applicable to sponsoring CPs</p>
<p>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.</p>	<p>If an individual investor from wealth management business is regarded as a “retail investor” and not an “institutional investor”, we would appreciate if the USS account could also be made available to individual investors from wealth management business.</p>
<p>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.</p>	<p>We generally agree with the assumption that institutional investors that open a USS account are unlikely to open or need to open a USI account.</p>
<p>7. Do you anticipate any difficulties or limitations in opening and managing USS accounts for retail investors? If yes, please provide details.</p>	<p>The proposal is not applicable to a sponsoring CP if individual investors from wealth management business can be regarded as “institutional investors”.</p>
<p>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>	<p>Yes, we would like an option for the cash to be paid to the sponsoring CP.</p>
<p><b>Requirement to provide unique identification number</b></p>	

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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.	None at this stage
<b>Consolidation of holdings for entitlements distribution</b>	
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.	The proposal could create additional fractional breaks when securities are paid or taken with a ratio.
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.	None at this stage
<b>Part IV – Key processes under the revised model</b>	
Pg. 22 - 28 <b>IPO</b> 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.	None at this stage
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.	None at this stage
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.	Should a sponsoring CP transfer shares to HKSCC NOMS account for further settlement obligation, we would appreciate clarification on the turnaround time. This is because the change in legal title and stamp duty calculation has to be completed prior to any such transfer.

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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.	See the response to question 14, on the understanding that the proposal is associated with further settlement obligation.
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.	Current industry practice does not consider a half-day trading day as a valid settlement date. If the proposed off-exchange trade settlement is made available, it constitutes a challenge to the systems of a sponsoring CP. The current configuration cannot determine whether it is a valid Settlement Date.
<b>Corporate actions</b>	
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.	Under the current practice Exchange Participants would have to submit forms for GBP currency elections to CCASS. In the case for both USS and USI, would it still be necessary to send currency selection forms for each account? Particularly for USI accounts, if the clients are to be paid directly by CCASS, do we need to specify their banking details on the form?
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.	We understand from paragraph 54 of the consultation paper that in the case of cash entitlements, it is understood that there may legal limitations that prevent these being paid to a USS holder via its sponsoring CP and require them to instead be paid to the institutional investor direct. We would like to seek further clarification around securities entitlement resulting from a corporate action.
<b>Part V – Scope and phased approach to full dematerialization</b>	
<p><i>Pg. 28-34</i></p> <p><b>Product scope</b></p> <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.</p>	No specific concerns, however we would like to align the processing of any new products consistent with existing cash equity products.

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<p>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.</p>	<p>No specific concerns, however we would like to align the processing of any new products consistent with existing cash equity products.</p> <p>Concerning subscription offers, we would appreciate clarification on what model will be followed in order to lodge the election and funding the subscription costs to participate based on a USM account holding.</p>
<p>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.</p>	<p>No specific concerns, however we would like to align the processing of any new products consistent with existing cash equity products.</p>
<p><b>Timeline to full dematerialization</b></p> <p>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>	<p>Yes, we welcome the move to full dematerialization. Please see our comments relating to dematerialization under question 2.</p>
<p>23. Do you have any concerns or comments about our proposals for requiring paperless IPOs only? If yes, please provide details.</p>	<p>Please see our comments relating to dematerialization under question 2</p>
<p>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.</p>	<p>Please see our comments relating to dematerialization under question 2</p>
<p>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.</p>	<p>Please see our comments relating to dematerialization under question 2</p>
<p><b>Encouraging electronic communications</b></p> <p>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.</p>	<p>Please see our comments relating to dematerialization under question 2</p>

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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.	None at this stage
<b>Part VI – Further legislative amendments needed</b>	
<i>Pg. 34 – 38</i>	No specific concerns at this stage.
<b>Part VII – Proposed timetable and next steps</b>	
<i>Pg. 38</i>	No specific concerns at this stage.