

23 December 2003

The Scripless Project Team
Hong Kong Exchanges and Clearing Limited
7/F., Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

By fax and by mail

Dear Sirs,

Consultation Paper on Proposed Operational Model for a Scripless Securities Market

We would like to provide our comments on the Consultation Paper issued by HKEx in October 2003.

As a key custodian player we support the direction of going scripless, with the objectives of further enhancing the financial market infrastructure of Hong Kong, improving processing efficiency, reducing the overall costs to market players, and, most important of all, promoting greater transparency and investor protection.

The introduction of a scripless market will no doubt bring along changes to existing procedures and practices. While maintaining the current choices provided to investors will help acceptance of changes in the short term, we would urge regulators to re-consider whether 'Rematerialisation' would still be a necessary option upon implementation of the new model. Elimination of the rematerialisation process will give the market a clearer, simpler and more efficient operations model.

The proposed model as recommended under Diagram 3-1 of the consultation paper is complex and difficult to understand. The roles and responsibilities of different parties in the proposed model need to be clearly defined to avoid unnecessary duplication of effort and costs.

From a cost perspective, the consultation paper suggests that CCASS participants modify their back office systems to support the various features of the scripless model (such as Shareholder Reference Number 'SRN' and Electronic Deposit Instruction 'EDI'). These changes will affect the end-to-end processing of a securities transaction. To ensure seamless trading and settlement operations, we believe that market participants have to review and revise their current operating systems. The costs of investment will be a great concern to such participants.

Specifically, we have the following comments:

1. The roles and responsibilities of the operators of the CCASS Register (Hong Kong Securities Clearing Co. Ltd.) and the Issuer Register (to be appointed by the issuer) should be clearly defined to avoid duplication in order to achieve better operations and cost efficiencies. As a market player and from an operations efficiency standpoint, we would prefer a single point of contact either at the depository or at the Share Registrar (for both timely receipt of corporate events information and issue of responses for company events such as proxy voting and benefit selection).
2. The timing and finality of transfer of title upon completion of CCASS settlement (as described in subsections 3.28 and 3.29) is still unclear. From the perspective of an investor, once payment is effected he should have a clear and legally-enforceable title and enjoy the shareholder benefits.
3. For CCASS IP Account services (subsection 3.20), we doubt whether there is still a need for HKEx to provide an option for IPs to choose to continue to register their shares in the name of HKSCC Nominees (non-disclosed IPO Accounts), given the fact that retail investors under the proposed model will have the choice to safekeep their assets with CCASS Participants on a 'Beneficial Owners' basis.
4. We have particular concern about the removal of the current 'immediate credit' policy (subsection 3.26). In a recent case, we experienced delay in obtaining immediate credit for a securities counter that had come across a one-month book-close period. The shareholder interest in term of trading efficiency is seriously affected. Under the proposed scripless model, we would like to urge HKEx to ensure that the removal of the 'immediate credit' policy will not affect the trading efficiency of shares in scrip form.
5. For Initial Public Offerings, we understand that HKEx and the Securities and Futures Commission are now reviewing the overall mechanism. We are supportive of any recommendation that will help improve market efficiency.
6. Regarding Shareholder Reference Number ('SRN') described in subsections 8.1 to 8.5, we are of the opinion that it is not a user-friendly model and security could be a major concern. For reasons of operations efficiency and user-friendliness, we would suggest HKEx and the Share Registrars explore possibilities of having a unique investor number for all securities counters.

Yours faithfully,