

佐雄証券有限公司  
**DL BROKERAGE LIMITED**  
(香港聯合交易所會員)  
(MEMBER OF THE STOCK EXCHANGE OF HONG KONG LIMITED)

22 DEC 2003

Our Ref: 23122201

22 December 2003

Hong Kong Exchanges & Clearing Limited  
7/F, Vicwood Plaza  
199 Des Voeux Road  
Central, Hong Kong

Attn: The Scripless Project Team

Dear Sirs,

**Re: Proposed Operational Model for a Scripless Securities Market**

In response to the above Consultation Paper, we hereby attached our comments as for your consideration.

Thank you,

Yours truly,  
For and on behalf of  
DL Brokerage Limited

  
Dennis Lee  
Director

**Comments on**  
**A Proposed Open Market**  
**A Scriptless Securities Market**

**DL Brokerage Limited**  
**1/F, Wing's Building**  
**110-116 Queen's Road**  
**Central, Hong Kong**

**22 December 2002**

## **Background**

The SFC has published the Consultation Conclusions on Proposals for A Scripless Securities Market in September, and subsequently in October the HKEx has published a Consultation Paper on a Proposed Operational Model for a Scripless Securities Market.

We realize that there will be long term goal to establish "a dematerialized system where securities will no longer be represented by certificates". Also, another structural proposal to allow the future share registrars to also have the functions as a mini clearing company in handling shareholders' assets.

We hereby provide our comments as follow:

### **1. Market efficiency**

Our view as a Market Participant and also as an investor, we believe that the industry has a generally acceptance that the current immobilization basis of shares as the "Scripless trading and settlement" solution. The settlement efficiency is highly acceptable to the industry in all respects.

All local listed companies, with the exception of HSBC, are controlled by individuals or family members, most of these controlling shareholders still prefer to use physical certificates (in jumbo lots) or under custodian accounts for their holdings.

Overseas investment funds will prefer to use local custodian banks for services and thus majority of their holdings will be held off the market.

In recent years, more and more Red Chips and H shares as State Owned Enterprises have listed in Hong Kong, where the majority is still held by the Chinese Government and outside the HKSAR, they are effectively de-mobilised and thus would not cause any inefficiencies in the system.

The current immobilization model has been providing sufficient services to the market for a reasonable cost, as investors can still have their choices in:

- Physical scrip in their own names;
- Nominee name such as banks;
- Custodian name such as brokers;
- Individual Participants ("IP") accounts.

We are of the view that to develop any new model, it must provide investors with the same level of choice, efficiency and low costs.

**2. Complexity in the Proposed Model**

As from the consultation paper, we cannot imagine how the industry, which includes market participants, share registrars, clearing house, banks, and individual investors can understand and accept the complexity of the model as the mentioned benefits to the market. We wonder how we can educate ALL parties, especially individual investors, to follow the proposed model without causing any confusion, eventually become market risks, into the system. We do not agree as mentioned in the consultation paper that CCASS is a monopoly in the system. We have to look clearly into the system in respect of the operation procedures, in doing daily huge trading and settlement process, which involves millions of transfer instructions, the proposed "split-register" will just multiple the work load to different parties, hence will bring up a lot of un-identified risk that the market might not be sustained. If we remain to accept CCASS to carry on the existing full services function, it might only be a cost effective modification to the system, i.e. Enhancement on the current IP accounts, which can fulfill the same proposed benefits.

**3. Regulation and Supervision under the Proposed Model**

The existing 14 share registrars are currently self-regulated bodies, as they are not allowed to handle any shareholders asset. Taking the well-known "Dora Ts'o" case experience, as it had exposed the weakness point of the current regulation and compensation system. In the consultation paper, it proposed that the future registrar could also become functioning like a mini clearing company, which will in the same time involve transfer of assets. Then the future regulation and supervision will become a very crucial issue as to ensure all shareholders interest will be fully protected. This is our serious concern as we do not see any proposed regulatory structure in the paper.

**4. Use of the SRN's**

The proposed model will introduce the use of the SRN's, it is not immediately clear how it will be practically implemented.

If there will be a unique SRN for each shareholder on each share to each share registrar, the market acceptance of this practice will still be a question.

The security issue of SRN's will be another important issue since the shareholder will have to release the number to different parties in order to complete any trading and settlement procedures.

**5. Development and Future Operation Costs**

We believe that the costs of developing and operating this huge infrastructure system will be expensive. Also, the paper does not mention who will be responsible for the dematerialisation cost. However, in view of the above, we will have the question that if it is disproportionate to the benefits to be achieved, especially we are of the view that the future system should also maintain the existing shareholders' choice with low costs. Besides, ultimately if the costs have to be recovered, again who will be responsible, HKEx, SFC, Government Funding, Participants, or investors in terms of tariffs?

**6. Conclusion**

We concur that there are benefits in the long term goal to establish "a dematerialized system where securities will no longer be represented by certificates". However, in view of a balance among the above-mentioned issues, as potential market risks, settlement efficiency and development and operating costs, we believe that we have to identify each single issue and work out carefully with another detailed proposal to support this strategic infrastructure enhancement. Since we do not see any solid recommendation or solution clearly stated in the consultation paper, we can only conclude that at this stage of progress, we still have reservation to support the proposed model.