

23 December 2003

Hong Kong Exchanges and Clearing Limited  
7<sup>th</sup> Floor, Vicwood Plaza  
199 Des Voeux Road Central  
Hong Kong

Attention: The Scripless Project Team

Dear Sirs,

**Consultation Paper on a Proposed Operational Model for a Scripless Securities Market**

The Hong Kong Association of Online Brokers has concern on whether the proposed operational model for a scripless securities market would actually improve the overall market efficiency, and at the same time, reduce cost and risk being borne by the market participants.

We would like to submit our views on your Consultation Paper on the following aspects: -

In Chapter Three: -

- **The complete register of members** - The daily copying by the HKSCC of the CCASS Register to the respective share registrars electronically in order to produce a complete register of members is likely to increase registrar cost. Under the present arrangement, a registrar will only update the register of member upon receipt of a transfer. Since allocation of costs is based on user-pays principle, investors will be required to bear the cost irrespective of whether they have requested a transfer or not.
- **The CCASS Register (name-on-register account type)** - Shares deposited in the new CCASS Participant Sponsored Account on the CCASS will be registered in the name of the holder of the account. Investors may choose to transfer his shares to the Issuer Registrar or use the IP Account services. Every investor must have an account of a certain type for which he must pay a maintenance fee under the scripless system. For investor who holds a listed bond to maturity or relies on dividend as regular income will be placed in a very disadvantageous position. It may also be difficult to effect OTC transactions under the scripless system, i.e. effecting transaction and transfer by preparing buy/sold note for IRD stamping. In Australia, a standard transfer form for non-market transactions is provided for this purpose.

/2.....

Page 2

To Hong Kong Exchanges and Clearing Limited  
23 December 2003

In Chapter Seven: -

- **The implication of the scripless securities market model for market operations** - CCASS Participants have to modify their back office system in order to handle account opening document for CCASS participant Sponsored Accounts and to tighten its internal control in respect of handling the SRNs. Also, significant enhancement to the systems of shares registrars will be involved. The project will be costly and we have concern that whether the market turnover will be high enough to generate income for the intermediaries to pursue with such change.

In Chapter Eight: -

- **The design and application of the Shareholder Reference Number ("SRN")** - Share registrar will no longer have to retain signature of the shareholders. An investor will be given a unique SRN which has to be given to the broker in order to transfer his shares. Since the SRN is suggested to be sent to an investor by mail, a broker will be exposed to various risk exposures as mentioned in the Consultation Paper.

In conclusion, we have strong reservation on whether the implementation of a scripless system will in fact improve the overall market efficiency and achieve the benefit of cost reduction and better risk control. We hope HKEx will further assess the cost and benefit of the scripless model to the overall market before any actions is taken to implement the model.

We thank you for giving us the opportunity to express our view. Please feel free to contact us should you require further discussion on any of the above points.

Yours faithfully  
For and on behalf of  
**The Hong Kong Association of Online Brokers**



Steve Chan  
Chairman