



THE HONG KONG INSTITUTE OF COMPANY SECRETARIES
香港公司秘書公會

Hong Kong Exchanges and Clearing Limited
7th Floor, Vicwood plaza
199 Des Voeux Road Central
Hong Kong

Attention: The Scripless Project Team

31 December 2003

By Fax (2541 3234) & By Post

Dear Sirs,

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

I refer to your letter of 24 October 2003 on the above-referenced consultation paper inviting the Institute to make submission and to our email exchanges earlier this month regarding the Institute's intention to make submission.

I have pleasure in enclosing the Institute's position paper.

Yours truly,

Linda Wong
Director, Professional Development

Encl.

cc: Ms Angelina Kwan, Director, Supervision of Markets, Securities & Futures Commission

The Hong Kong Institute of Company Secretaries
(Incorporated with limited liability)

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I C S A



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

The Hong Kong Institute of Company Secretaries ("HKICS") takes the view that it is of paramount importance to the continuing development of Hong Kong as a major international financial centre to move to a scripless securities market environment whereby (a) investors trading in Hong Kong securities as registered members of listed companies may do so in a secure, convenient and cost effective manner, and (b) there will be greater transparency of the Register of Members. HKICS therefore supports the principles underlying the operational model for a scripless securities market proposed by the Hong Kong Exchanges and Clearing Limited ("HKEx"). HKICS also supports HKEx's continuing efforts, as stated in Paragraph 9.3 of the Consultation Paper, to work closely with the SFC, the Federation of Share Registrars and other parties to finalise the operational model.

HKICS' comments on the Consultation Paper appear below.

The Proposed scripless securities market model

The proposed complete Register of Members will comprise (a) the Issuer Register which consists of two categories: uncertificated shareholders and certificated shareholders; and (b) the CCASS Register which consists of four categories: HKSCC Nominees, CCASS Participants, CCASS Participant Sponsored Accounts and Investor Participants. Shareholdings recorded on these two Registers are mutually exclusive.

Whilst this split register model forms the basis for the proposed scripless market, it should be appreciated that from a listed issuer's viewpoint currently there is only one register listing all shareholders in alphabetical order. The Consultation Paper is silent on the way the two component Registers and indeed the six categories of shareholding position will be presented in practical terms. As it will be confusing for a listed issuer to deal with more than one register, HKICS suggests that whilst maintaining the split register model consideration be given to the need, for practical purpose, of consolidating in a coherent manner both component Registers and their respective sub-components in one master register of members in relation to a listed issuer.

New category of participant – Registrar Participant

The Consultation Paper suggests in Paragraph 3.16 that, to meet the need for a mechanism to facilitate future technical development relating to the scripless market infrastructure, approved share registrars become participants in CCAASS. This will effectively subject those registrars to CCASS regulatory and operational regime.

To the extent that HKEx is a shareholder in a share registrar and the latter is an approved share registrar for the purpose of the proposed scripless market, the issue of conflict of interest is likely to arise.

Access to shareholders

In relation to corporate communications, it is proposed that non-disclosed Investor Participants registering their shares in the name of HKSCC Nominees under the CCASS Register may request through their brokers and custodians to receive corporate communications directly from the issuers whilst HKSCC will consolidate such requests and pass the detailed information to the relevant share registrars.

The HKSCC Nominees category of shareholding for non-disclosed Investor Participants is a new category additional to the three existent SFC proposed categories under the CCASS Register as described in the SFC "Consultation Conclusions on Proposals for a Scripless Securities Market" published in September 2003. This offers not only an additional shareholding option to the investors but also introduces a further custodian service into the market. An investor who wishes to have his identity undisclosed should be treated as an investor who holds his shares through a custodian and should be able to rely on HKSCC Nominees as its custodian as regards disseminating corporate information. An issuer should no longer discharge such function.

Fees and charges

The Consultation Paper states at Paragraph 8.7 that consideration of changes to fee structures is beyond its scope and indicates that the issues relating to fees should be left to be dealt with through the normal operation of market forces and the established processes. However, providing a cost effective way for investors is an objective of the proposed scripless market exercise, and cost remains an area of concern to listed issuers particularly in view of the likely rationalisation of share registrars in the market. It is hoped that in considering an appropriate model, indication of costs affecting all parties concerned will be addressed.

December 2003