證券商協會有限公司
THE INSTITUTE OF SECURITIES DEALERS LTD.

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BY HAND

December 23, 2003

Hong Kong Exchanges and Clearing Limited
7/F 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

After careful consideration and extensive consultation amongst our members, the Institute is of the opinion that the proposed operational model as set out in the captioned consultation paper should not be adopted.

It can be anticipated that the initial costs of implementation and subsequent costs of maintenance of a scripless system will be substantial, so will the cost of dematerialisation. We believe that these costs will inevitably be borne by investors in the form of higher charges and that cost of operation of brokers will also increase. Mindful of the fact that Hong Kong is only just coming out of a prolonged period of depression, every care must be taken to avoid policies that may adversely affect market sentiment.

We are also concerned with the lack of safeguards to prevent multiple orders given to different brokers by one investor to sell the same lot of shares. It could also create complications in transfer instructions which now involve multiple entities, i.e. the issuer registrars. As stated in 8.2 of the consultation papers, the issue of security of SRN number is yet to be resolved. The SRN proposal also poses additional practical problems such as SRN would only be given at settlement day (T+2) and if investor wants to buy stock at one broker and sell at a different broker on the same day, no SRN number will be available for the selling broker. We believe these are real issues that need to be addressed seriously in any proposed model before we could consider its merits.

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Furthermore, we are given to understand that over 50% of all issued shares are deposited into the CCASS Depository, a figure that will only increase in time. In addition, almost all SEHK trades already involve immobilised stocks. Given that the present system is already functioning with efficiency, we are not convinced that we need to adopt a model which is drastically different to what we have.

There also appears to be insufficient arguments for a complete dematerialisation of shares. We strongly believe that there are still a sizeable number of investors who would prefer to hold onto physical scripts for various reasons. Not withstanding the above, the proposed dematerialisation programme of 12 months also appears to be over optimistic.

In conclusion, we do not believe that the proposed operational model is appropriate for Hong Kong at this moment in time.

Yours faithfully,

The Institute of Securities Dealers Limited

Cham Yau Nam *(Chairman)*

c.c. Hon. Henry Wu

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