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24 January 2002

Securities and Futures Commission  
12<sup>th</sup> Floor, Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong  
Attn: Supervision of Markets Division

Dear Mr Dickens,

**RE: Securities and Futures (Disclosure of Interests- Securities Borrowing and Lending) Rules under Part XV of the Securities and Futures Bill**

I am writing to you in response to the *Consultation Paper on the Securities and Futures (Disclosure of Interests - Securities Borrowing and Lending) Rules* issued by the Securities and Futures Commission in November 2001. Before taking the opportunity to outline a series of comments, I would like to acknowledge the considerable dialogue and productive consultation on the proposed Rules that has previously taken place between the Securities and Futures Commission and the Pan Asian Securities Lending Association (PASLA) on behalf of its members.

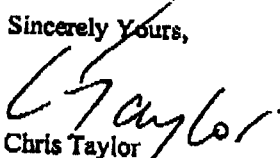
With respect to the simplified disclosure regime under the SBL Rules we request that you consider broadening the definition of "institutional investors". The current definition does not appear to encompass the following lender types; Central Banks, Monetary and Investment Authorities, Government Agencies and Instrumentalities, Supra Nationals and Charitable Foundation - all categories of active participants in the international securities lending markets. Furthermore we request that you outline a procedure for approval or exemption of specific lenders that may fall outside the broader definition.

The implementation of the proposed Disclosure of Interest Rules for securities lending and borrowing activities will result in reporting obligations unique to the Hong Kong market. Securities lending and borrowing transactions typically result in a transfer of title and a change in beneficial owner. However, market standard securities lending authorisation and borrowing agreements allow for the lender of securities to recall and sell the loaned position with notice. Likewise through the lending agreements the lender retains the full economic benefits of ownership. The proposed reporting requirements coupled with the current reporting requirements under Section

146 Securities Ordinance - Securities (Stock Lending) Rules Cap.333, Section 146(1) will add a further administrative burden to lenders and their agents. Although clearly simplified in their current form, the proposed reporting obligations, along with the consequences of non-compliance, are likely to initiate a review by market participants of their ongoing participation and current practices in the Hong Kong securities borrowing and lending market. Any reduction in the availability of Hong Kong securities for loan, either as a result of participants ceasing lending activities or limitations and restrictions being imposed in lending mandates in order to remain under the 5% threshold, will clearly have an adverse impact on the liquidity of securities and be detrimental to the market.

I trust our response has further served to clarify the nature of securities lending activities. Should you wish to discuss any aspect of this letter please do not hesitate to contact me on 612-8249-1110.

Sincerely Yours,

  
Chris Taylor  
Senior Vice President