

Summary of Comments Received on the SFC's Consultation Paper on New Investor Compensation Arrangements for Hong Kong, September 1998

Nineteen written submissions on the proposals were received. Responses were received from the Stock and Futures Exchanges, the Hong Kong Securities Clearing Company Limited, securities firms, brokers' associations, Consumer Council, professional bodies, Government departments, insurance companies and a political party. A breakdown of the comments received is as follows :-

a) General Support for New Arrangements

With only a few exceptions (from the securities firms) there was broad agreement in principle to the scheme and to the setting up of an independent investor compensation company.

b) Structure/Operating Costs

Not many specific comments received. Some concern expressed over proper oversight of expenses.

c) Proposed Financing Structure

In respect of the proposed financing structure (i.e. the three tiered structure of risk retention by NewCo, insurance and a back-up credit facility from Government or private lenders), concerns were expressed that the assets of NewCo could be quickly depleted. The \$250 million retention risk is viewed as too high.

d) Imposition of a Levy for Funding

Those who commented gave general support to the proposal for the imposition of a levy, should it be necessary, in order to raise funds for the compensation arrangements. Some suggested that the levy should be paid, in part at least by investors.

e) Setting of Per-Investor Compensation Limits

Broad support (a broker's association and two securities firms being the exceptions) was given to the proposal to abolish the per broker payment limit in favor of a per investor payment limit.

f) *Imposition of a Contingent Premium on SEHK Members*

Comments were mixed, with the SEHK and Law Society giving some support. Concern was expressed by a brokers association. The Hong Kong Society of Accountants expressed concern.

g) *Improved Audit Requirements*

Responses were mixed from those commenting. Some support was given by the SEHK, but concerns were expressed by the Hong Kong Society of Accountants.

h) *Improving Client's Rights in Securities*

Those who commented were supportive of the proposal.

i) *Including Dealers Who Are Not Exchange Members*

Of those commenting on the proposal, several suggested that these other entities should purchase compulsory fidelity insurance instead.