

HSBC HOLDINGS PLC

CONSULTATION PAPER ON PROPOSALS FOR A SCRIPLESS SECURITIES MARKET

Introduction

HSBC supports the proposals put forward by the SFC to move towards a scripless securities market. The consultation paper has correctly identified the benefits of a scripless market, which will bring Hong Kong into line with international market practices.

Our comments on the proposals are as follows (using the numbering in the consultation paper):

Implementation Working Group (p.3)

You may wish to consider inviting a representative from a listed issuer to ensure that all parties' interests are covered.

Transfer on the CCAS register should be final (p. 14)

The proposed restriction on the circumstances under which a share register could be rectified by means of a court order needs to be carefully considered. It is not clear, for example, how a genuine mistake would be corrected where both parties to a transaction are unable to agree to an amendment. In addition, companies such as HSBC Holdings plc are incorporated in the United Kingdom and subject to the provisions of the Companies Act. HSBC has a branch register of shareholders in Hong Kong, but this forms part of the principal register of shareholders maintained in the UK. A third party would be able to obtain a UK court order to rectify the principal register, including the Hong Kong portion of that register. Companies incorporated in other jurisdictions may face similar conflicts, and this aspect needs to be addressed.

On a related matter, by virtue of the provisions of the UK Companies Act only Hong Kong residents may appear on the Overseas Branch Register. At present, if a shareholder purchases shares on the Hong Kong market and submits a transfer form to the Hong Kong Registrars with an overseas address, the shares will be automatically removed to the UK Register and a certificate issued and dispatched to the shareholder from the Principal Register. We understand that CCASS Investor Participants must be Hong Kong residents, and have an addresses in Hong Kong; it is less clear whether CCASS Participants must be Hong Kong residents, although we understand that they must provide Hong Kong addresses. It is important that this restriction remain in place, otherwise HSBC would be required to remove the holding to the Principal Register if an overseas address is used.

Scripless registration on the Issuer register (p.18)

It is proposed that registered shareholders who do not wish to retain scrip should have the option of delivering their certificates to the registrars for cancellation. However, there may be registered shareholders who are unable to locate some of their share certificates, but who nonetheless wish to take advantage of the scripless option. It would seem to be an unnecessary exercise to have to go through the formalities of obtaining a replacement in order for the certificates to then be returned and cancelled.

An alternative would be to allow the shareholder to simply provide a declaration that he/she wishes to have a scripless registered holding, in which event the certificates will be cancelled by the registrars. If, as has been suggested in the paper, the practice is reviewed of CCASS accepting for immediate credit shares deposited into CCASS, there should be no danger of a cancelled certificate being used either mistakenly or fraudulently, and no difference to the present situation where a certificate which has previously been reported lost is subsequently found and used in the same manner.

MWS

14 May 2002

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