Press release

LCQ1: Charges for the transfer of stocks

Wednesday, February 16, 2011

Following is a question by the Hon Chim Pui-chung and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (February 16):

Question:

I have received a complaint from an investor that when he transferred his holdings kept in the Central Clearing and Settlement System (CCASS) to other persons, he was charged HK$1.5 per Board Lot by the Hong Kong Securities Clearing Company Limited (HKSCC). The shares he held, however, were only traded at HK$0.05 per share in Board Lots of 2,000 shares, meaning that the value per Board Lot was only HK$100. In this connection, will the Government inform this Council:

(a) given that the stamp duty on stock transaction levied by the Government is only 0.1% on the value of each transaction, whether it has assessed if the fee charged by HKSCC at a rate equivalent to 1.5% is excessive; if it has assessed, of the outcome;

(b) given that investors can hold and transfer their securities electronically via CCASS at present, and that the process involved in handling securities traded in Board Lots of 2,000 or 100 million shares is the same, whether it has assessed if HKSCC is oppressing investors by imposing the above charges; if it has assessed, of the outcome; and

(c) whether the Government will initiate investigation on the above charges and remove the monopoly of HKSCC in order to further internationalise the stock market of Hong Kong?

Reply:

President,

My replies to the sub-questions are as follows:

(a) According to the existing tariff of Hong Kong Securities Clearing Company Limited (HKSCC) of the Hong Kong Exchanges and Clearing Limited (HKEx), the only fee item to be charged at HK$1.50 per board lot is the Registration and Transfer fee. Nevertheless, the Registration and Transfer fee will be charged only during execution of certain designated corporate actions (e.g. distribution of dividends or rights, mandatory takeovers, etc.), and is irrelevant to transfer of stocks.

According to the Securities and Futures Ordinance, prior approval shall be obtained from the Securities and Futures Commission (SFC) for fees imposed by HKEx. In approving HKEx's fees, SFC shall make reference to relevant fees imposed by exchanges and clearing houses in major overseas markets, and have regard to the level of competition in Hong Kong for the matter for which the fee is imposed and whether HKEx has created unfairness to certain market participants by abusing its monopolistic status.

Given that the market is still based upon physical share certificates, it remains necessary for HKSCC to maintain and operate a vault for physical share certificates behind electronic book entries. The above fees are required to offset part of the expenditure for operating the vault. Upon the formal implementation of a scripless market for which preparation is underway, as the functions of the vault for physical share certificates may gradually be phasing out, fees associated with physical share certificates can also be adjusted or abolished.

(b) HKEx is reviewing its fees in light of the implementation of a scripless securities market, including examination of HKSCC's fee structure. In the course of formulating its new fee levels, HKEx would cautiously assess and take into account factors like the development and annual maintenance costs to be borne by the Central Clearing and Settlement System in supporting the implementation of the scripless initiative, as well as their potential effects to relevant persons. In the process, HKEx will listen to market views, while maintaining competitiveness of HKSCC's services and fees. Upon completion of the relevant fee review, HKEx will submit the fee proposals to SFC for approval.

(c) According to the Securities and Futures Ordinance, HKSCC has no monopoly in providing clearing services in Hong Kong. SFC may, after consultation with the Financial Secretary, recognise other companies as clearing houses.

Ends