

**For information
on 7 January 2008**

Legislative Council Panel on Financial Affairs

**Investor Participant Accounts Administered by the
Hong Kong Securities and Clearing Company Limited**

Purpose

This paper sets out the background of Investor Participant (IP) accounts and the measures that the relevant authorities have taken or are considering to promote the use of such accounts among investors.

Background

2. At present, most investors' securities are deposited with the Central Clearing and Settlement System (CCASS) in brokers' omnibus accounts. This is convenient for both brokers and investors because brokers have full control of the securities and money movements in their omnibus accounts while investors enjoy the convenience of trading without the need to be directly involved in processing securities and money movements. However, this also entails risks of possible misappropriation on the part of the brokers.

3. The Hong Kong Securities Clearing Company Limited (HKSCC) of the Hong Kong Stock Exchanges and Clearing Ltd. (HKEx) introduced in 1994 the Stock Segregated Account (SSA) with Statement Service, which is a sub-account segregating an investor's stocks from the stockholdings of other investors and the broker. Under SSA, the stocks of an investor remain under the full control of his broker and the investor is not recognized by HKSCC as a legal owner. However, the investor is informed of any stock movement in the SSA via SMS/email alerts, daily and monthly statements.

4. To enhance investor protection, HKEx further introduced IP account in 1998 as a direct custodian account of stocks opened with HKSCC in CCASS for investors. Holders of IP accounts are treated as legal owners by HKSCC. An investor has full control of his stocks kept in the IP account as only he himself can authorize the transfer of his stocks out of the account.

Measures Taken to Promote the Use of IP accounts and SSA

System Enhancement

5. In order to attract more investors to use IP accounts and SSA, HKEx has implemented numerous improvements and enhancements to the services of these accounts to streamline their operations and to make them more user-friendly based on suggestions and input from market participants and retail investors in the past few years. In terms of improvements to IP accounts, periodic reviews and enhancements to CCASS have been made. For instance, HKEx has –

- extended the service hours of the CCASS Internet System and Interactive Voice Response System to a 24-hour basis;
- allowed access to CCASS Internet System by using User ID and password instead of e-cert;
- facilitated SMS alerts for IP account users;
- issued electronic statements;
- enabled IP account users to demand for poll vote and to appoint corporate representatives to attend corporate meetings of listed companies; and
- extended the input deadlines for various corporate actions instructions on a par with those for brokers and custodian participants.

6. With regard to SSA, HKEx had also introduced various enhancements to its service in the past two years, in particular the two major enhancements in January and July 2007 upgrading the user-friendliness of SSA to a level comparable to that of IP accounts. These included, among other things –

- on-line SSA opening function for brokers and custodian participants;

- electronic account access by SSA users (enquire stock movements & balances, view statements);
- SMS/Email alerts for SSA users;
- Chinese statement (in addition to English statement) for SSA users;
- electronic voting service;
- removal of the limit of 1,000 SSA per broker/custodian;
- affirmation of share movement relating to SSA;
- money settlement for SSA outward share movement;
- account opening by broker/custodian through batch upload function; and
- simplified Chinese for SMS/Email/statement.

Promotional Measures

7. In the past few years, HKEx and the Securities and Futures Commission (SFC) have conducted various investor education programmes on the use of IP account and SSA services through the print media, the internet, television, radio and seminars. For example, HKEx has conducted promotion programmes and campaigns to attract the market awareness of the two services, while SFC has published six articles on selected newspapers, magazines and newsletters and five articles on the InvestEd website; produced two TV episodes and two radio segments; and conducted 15 talks at seminars. The Secretary for Financial Services and the Treasury has also written articles in his regular column in July 2006 and October 2007 to encourage investors to use IP accounts and SSA.

8. Nevertheless, despite all the efforts from different parties as set out above, the take-up rates of IP accounts and SSA services remain low. As of November 2007, there were only about 18,000 IP accounts and about 2,100 SSAs.

Further Measures

9. The Government attaches great importance to investor protection and education as they are crucial to maintaining a stable and healthy financial market. With this in mind, we have explored with SFC and HKEx possible measures that can be taken to attract wider patronage of IP accounts and SSA from retail investors.

(A) Promotional Measures

10. We believe that one of the major reasons for the low take-up rate of IP accounts and SSA is the lack of awareness of these accounts among retail investors. We have come up with some possible measures which aim at further promoting the use of IP accounts and SSA among retail investors -

- (i) SFC and HKEx to collaborate with brokers in organizing regular seminars on investor protection featuring IP accounts and SSA.
- (ii) SFC and HKEx to produce advertisements and organize publicity activities on IP accounts and SSA.
- (iii) SFC and HKEx to collaborate with brokers and financial institutions to raise awareness of IP accounts and to facilitate distribution of information leaflet / application forms of IP accounts and SSA at investment seminars, which are often well attended by retail investors, or through direct communications such as encouraging brokers to send the relevant materials to their clients or to display them in their offices.
- (iv) SFC to take stock of measures or actions taken by brokers for promoting IP accounts and SSA and to survey investors' attitude and understanding of IP accounts and SSA.
- (v) HKEx to seek the views of existing users of IP accounts to identify both the benefits and operational difficulties they experience in using the service. This information can be used for more effective marketing as well as considering possible improvement measures.
- (vi) HKEx to conduct a corporate fee review including the charges of IP accounts and SSA to examine the possibility of further streamlining and consolidating the existing fee regime to attract more investors to use these accounts.

SFC and HKEx will explore the feasibility of these measures and draw up implementation plans as soon as possible.

(B) *Longer Term Measures*

11. As mentioned above, brokers in Hong Kong are allowed to operate omnibus accounts under CCASS for their clients and the vast majority of investors, especially at the retail end, who deposit their securities with their brokers. In this respect, SFC and HKEx will conduct a longer term review to identify ways to address the inherent problems with the current asset custodian arrangements in order to minimize the risks of possible misappropriation, e.g. to examine the possibility for some brokers to outsource all CCASS-related clearing operations as well as the custody of their clients' securities to a general clearing participant who is subject to a higher minimum capital requirement.

12. Looking ahead, HKEx and SFC will continue to collaborate with the industry to educate and promote the wider use of IP accounts and SSA among investors. We also welcome suggestions and ideas from Members on ways to further streamline the operations and improve the services of IP accounts and SSA and above all their take-up rates.

**Financial Services and the Treasury Bureau
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