

(For reference only)

(Translation)

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All Members of the First Legislative Council
of the Hong Kong Special Administrative Region

Dear Sir/Madam,

Regarding the Securities (Amendment) Bill 1998 currently being examined by the Legislative Council, I would like to put forward certain views and opinions on behalf of all the aggrieved members of the Committee On Claims Against the Ming Fung Group (明豐集團客戶索償委員會).

- (1) The existing compensation limit of HK\$8 million payable to claimants from the Compensation Fund against any single broker is obviously no longer appropriate given the present market conditions. As evidenced by events in the past, compensation which claimants may receive from the Fund was far less than the amount involved in illegal activities engaged by defaulting brokers. Moreover, nothing could be done after the occurrence of those events.
- (2) One of the proposed amendments to the Securities Ordinance is the introduction of an additional compensation limit of \$150,000 per eligible claimant. Regarding this proposed amendment, what formulae, data or precedents has the Government based on in determining the amount? We do not think this compensation arrangement should be rigidly applied to each and every case. For example, in the Ming Fung incident, the amount involved was enormous and the Group could not have a negative asset after winding-up. It was very unfair to the clients who had more than \$150,000 in their accounts with the Group. We do not think that the additional compensation of \$150,000 can be used as the sole statutory base in respect of claims.
- (3) Clause 5 of the Securities (Amendment) Bill 1998 provides that the Stock

Exchange of Hong Kong Limited (SEHK) has certain discretionary powers in respect of claims. We do not think that the SEHK should be vested with such powers. Some rogue broker members of the SEHK are currently in power. They hinder the implementation and execution of regulatory policies formulated by the Government, and certain brokers sometimes even show their objections to those regulatory policies. It is doubtful whether there is a conflict of interest in granting the so-called discretionary powers to the SEHK. Restructuring the SEHK and the Hong Kong Futures Exchange Ltd (HKFE) are pressing matters at the moment.

- (4) Seven broker's firms have recently ceased business one after the other within a short period of time. This shows that the closure of each broker's firm is not an isolated incident. There are in fact loopholes in the legislation drawn up by the Securities and Futures Commission (SFC) as well as default on part of SFC in enforcing the legislation. We urge the Government to consult experts, academics and market participants immediately so as to set up a sound regulatory system and draw up new legislation for the purpose of strengthening regulation.
- (5) Thousands of investors are now in a sad plight. They trust the Government and pay transaction levy as well as stamp duty for each transaction. They are bold in bearing the risk of investment, yet become victims because of the default on part of the authorities concerned in regulating securities companies. We should be grateful if the Legislative Council would help these innocent investors.

Yours faithfully,

WONG Sze-cheong (黃時昌)
Convenor, Committee On Claims
Against the Ming Fung Group