

Letterhead of LINKLATERS & ALLIANCE

Paper No. CB(2)1200/99-00(01)

#36807

25 February 2000

Direct line 284 24819

e-mail pauline.ashall@linklaters.com

Our ref PAA

Your ref

The Honourable Ronald Arculli JP
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Mr Arculli

Securities (Amendment) Bill

Following on from the Bills Committee on Tuesday, representatives of the Group of 14, PASLA and the Hong Kong Securities Industry Group had a meeting with the Financial Services Bureau and the Securities and Futures Commission yesterday. We attach a letter sent to Bryan Chan at the FSB to follow up on the points discussed at that meeting.

As you will see, the most significant issue where the Administration's position remains unresolved relates to sales of stocks which have been loaned out and where the loan has not been recalled at the time of the sale. We believe this is potentially the issue where the Bill could have the most damaging impact on the Hong Kong market, for the reasons outlined in the attached letter.

As regards the documentary assurance required from the seller, and the criminal sanctions attached to non-compliance with the requirements of the Bill, we believe that there is hope of reaching a compromise that will meet the Administration's policy objectives, without imposing unduly burdensome requirements, and undue risks of criminal liability, on the industry. While the solution is far from

25 February 2000

optimal for the industry, it would also require a commitment from the Administration to make significant drafting changes to the Bill as regards:

- reducing the amount of information to be provided by the seller at the time of placing the sale order; and
- imposing criminal liability only for deliberate or reckless non-compliance.

If the Bills Committee would like any further information from any of the organisations listed below, we would be very pleased to assist.

Yours sincerely

Pauline Ashall

The Chase Manhattan Bank
Credit Lyonnais Securities (Asia) Limited
Credit Suisse First Boston (Hong Kong) Limited
Deutsche Securities Asia Limited
Donaldson Lufkin & Jenrette Asia Limited
Goldman Sachs (Asia) L.L.C.
Jardine Fleming Securities Limited
JP Morgan Securities Asia Pte Ltd
Kleinwort Benson Securities (Asia) Limited
Merrill Lynch (Asia Pacific) Limited
Morgan Stanley Dean Witter Asia Limited
Nomura International (Hong Kong) Limited
Salomon Smith Barney Hong Kong Limited
Warburg Dillon Read
and
The Hong Kong Securities Industry Group

cc. Bryan Chan - Financial Services Bureau
Mark Dickens - Securities and Futures Commission
Constance Li - Legco