

**LETTERHEAD OF FINANCIAL SERVICES BUREAU, GOVERNMENT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION**

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25 February 2000

Ms. Pauline Ashall
Partner
Linklaters & Alliance
10th Floor
Alexandra House
Chater Road
Hong Kong

Dear Ms. Ashall,

Securities (Amendment) Bill 2000

Thank you for your letter of today's date. I am glad that the group found the meeting yesterday constructive.

I hope you would agree that the Administration and the Securities and Futures Commission have maintained an open mind on the issue and that we have tried our best to clarify the industry's concerns and accommodate your suggestions. However, there are also matters that the Administration will not be able to compromise as a matter of policy.

I should emphasise that the Administration does not believe that what we are proposing is far off the mark from the practices in other major overseas markets including the US. In fact, the proposal of reporting on covered short sales will bring our regime in line with those of the US and Australia in terms of statutory effect. The requirement for documentary assurance as a proof of evidence of who has done what to fulfil its statutory obligation under the proposed amendment bill is not only essential to support prosecution but also

important for the protection of interests of both the intermediaries as well as their clients. You would know that there is at present a similar requirement by the Hong Kong Futures Exchange upon their members, including most, if not all, firms in the group and we are not aware from the futures industry that there is insurmountable problem, in terms of both technology or actual implementation. Some of the members of the group also indicated previously and at the Bills Committee meeting that they have also employed taping devices in dealing with clients to protect themselves from any subsequent disputes. We welcome the proposals stated in your letter and will consider them in detail with the SFC.

As we promised at our meeting yesterday, we will send a copy of the proposed amendments to the Bill to the group when they are available and will welcome any further comments thereon. The Administration is fully aware of its duty to explain to the public, the market, and above all, the Legislature, the need of the proposed legislation and in this connection, we have always found our dialogue with the market useful. I hope the group would look at our communication on the same basis.

We are giving further consideration to the position of stock lenders in general and will let the group and other interested market groups know once we have reached a policy decision on it.

Yours sincerely,

p.p (Bryan P K Chan)
for Secretary for Financial Services

c.c. The Hon. Ronald Arculli,
Chairman, Bills Committee on Securities (Amendment) Bill 2000

Mr. Mark Dickens
Executive Director, SFC