

Tel: 2810 2178
Fax: 2147 3873
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Mr Charles Lee, GBS, JP
Chairman
Hong Kong Exchanges and Clearing Limited
12/F One International Finance Centre
1 Harbour View Street
Central, Hong Kong

URGENT BY HAND

Minimum Brokerage Rate

I understand that the HKEx would like to know the Administration's stance on the proposal from certain quarters of the stockbroking industry to preserve indefinitely the HKEx rule which mandates its participants to impose a minimum stock brokerage rate on their clients.

It is the Administration's long-held position that, with the merger of the pre-existing exchanges and clearing houses and subsequent listing of the merged entity, the level of commission charged by its participants should be a matter essentially between the participants and their clients. This is in line with our overall competition policy, which aims to allow participants to compete freely in the market, and hence provide more choices for both participants and investors. We note that the deferral of the expiry date for the rule last January has already allowed the industry a three-year transition period

in preparing for the change which in our view, is reasonable. We believe that with the expiry of the rule in April 2003, the ensuing liberalisation of the commission rate will be in the best interests of the public.

In relation to this, we understand that in practice some Exchange participants have ceased to observe the rule and are already offering different commission rates to their clients. We also note your recent advice that, whatever the legal position, this particular rule is difficult to enforce.

We trust that the HKEx Board will make a decision on this matter having taken all relevant factors into account, and in accordance with the law. We confirm that we shall fully respect and support the decision of the HKEx Board.

In setting out the Administration's stance to the HKEx, we have duly considered the views of the Securities and Futures Commission expressed to the Administration on this matter.

The Administration acknowledges the contribution of the stock brokerage industry, including the small and medium sized brokers, to the financial markets of Hong Kong. We also fully recognize the difficulties faced by the stock brokerage industry in prevailing market conditions. Therefore, I intend to set up a tripartite Forum among the Financial Services and the Treasury Bureau, Securities and Futures Commission and HKEx to consider ways to assist the brokers, in particular the small and medium sized ones, in strengthening their competitiveness in the current business operating environment.

Subject to your views, I will assign Miss Au King Chi, Deputy Permanent Secretary for Financial Services and the Treasury (Financial Services), to take this initiative forward as soon as possible together with your colleagues and the Securities and Futures Commission, with a view to putting forward specific recommendations in three months' time.

(Frederick Ma)
Secretary for Financial Services and the Treasury

cc Chairman SFC
AA/FS
PSFS