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THE INSTITUTE OF SECURITIES DEALERS LTD.

January 9, 2003

The Chairman
Panel on Financial Affairs
Legislative Council
Hong Kong

Dear Sir,

LegCo Panel on Financial Affairs
Special meeting on 16 January 2003
Business environment of the securities brokerage industry in Hong Kong

Not only are small to medium sized brokerage firms facing reduced trading volume , shrinking investors' wealth and reduced retail investors' trading activities, the whole securities industry and even a large number of other industries within the economy as a whole are facing the same grim pro spects. It could be reasoned that the poor economy is caused by a number of outside factors but one has to question why Hong Kong has been the slowest in amongst all the Asian economies to recover. We believe that policies set down by the Government have a lot to answer for.

Ever since April of last year, the Institute has been relentless in seeking dialogue with various Government departments and relating bodies to try to find somesort of solution to the problem of abolition of minimum brokerage commission, but our effort has been frustrated at every turn with the same excuse – "established policy". The root of the problem lies with the Government having serious prejudice against small to medium sized brokerage frms, this can been clearly demonstrated by the minimum commission abolition and the Government's willingness to turn a blind eye on banks and online brokerage firms which blatantly contravene the minimum brokerage requirements. It is a

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fact that there have been unscrupulous members within the securities industry who have caused loses to investors, but isn't that true with any industries? Surely having a few rotten apples is not a good enough reason to force all small to medium brokerage firms out of business.

In actual fact, small to medium brokerage firms play an indispensable role in Hong Kong's Securities Industry development. Abolition of minimum brokerage commission will certainly cause a price war; in order to gain market share, large firms will slash commission to drive small to medium sized brokerages out of the market. The end result will be the majority of such firms will go out of business; large firms and banks will monopolise the market which becomes inefficient as a result. Tens of thousands will lose their jobs in the process but the real losers will ultimately be local investors and listed companies. It is therefore reasonable to question why the Government is so determined in abolishing minimum brokerage commission. To assimilate Hong Kong with the international market has been cited as an excuse to support this irresponsible "policy" but isn't it a fact that Hong Kong has already one lowest cost of transaction in the world? It is perhaps reasonable to argue that large firms' corporate governance will tend to be better than small to medium sized firms. However, it is also worth remembering that large firms are far from perfect as cases like ENRON and Baring remind us that failures in such magnitude can be quite spectacular.

The Government has always pride itself on being "fair, open and just". But is it fair or even just for the Government to allow banks and online brokers to charge commission well under the existing minimum commission requirement? The

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Government argues that banks and online brokers are not under the same regulatory supervision as registered securities dealers. But why then are they not under the same regulatory supervision when banks, online brokers and securities dealers are ultimately providing exactly the same service i.e. buying and selling shares for investors? What the Government is doing is to encourage unfair competition within the Securities Industry and if this is not a policy failure, we don't know what is.

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