

**Bills Committee on Securities and Futures and Companies Legislation
(Uncertificated Securities Market Amendment) Bill 2014**

**Follow-up actions arising from the discussion
at the meeting on 18 July 2014**

Purpose

This paper sets out the Administration's response to Members' questions raised at the meeting on 18 July 2014 regarding the operation and process in respect of trading/transfer of shares in uncertificated form under the uncertificated securities market regime.

Background

2. The Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Bill 2014 mainly seeks to amend the Securities and Futures Ordinance ("SFO") and the Companies Ordinance ("CO"). The broad regulatory framework of the uncertificated securities market will be stipulated in these two pieces of primary legislation. The details relating to the operations of the uncertificated securities market environment will be set out in new subsidiary legislation to be made under the SFO ("rules"). The Securities and Futures Commission ("SFC") is working out the technical details of the operational model of the uncertificated securities market and preparing the rules. The SFC will consult the public on the draft rules in due course.

Proof of share ownership for trading/transfer

3. Under the uncertificated securities market regime, investors can choose to hold and transfer securities without paper documents and register the securities kept in the Central Clearing and Settlement System ("CCASS") in their own names, thus enjoying the full benefits of legal ownership. An investor holding shares in the uncertificated form will have the choices to register the shares in his own name or to hold the shares in the name of a nominee.

4. Investors will be able to hold uncertificated securities through four different account types as depicted in the diagram at **Annex**. The operation of share ownership for trading/transfer will depend on the choice of individual investors-

- (a) If an investor holds shares through a broker (i.e. CCASS Participant Account (“CPA”)), the shares will be registered in the broker’s name and operational arrangements will be more or less the same as now.
- (b) If an investor chooses to register shares in his own name, he can hold the shares in any of the following accounts:
 - (i) a segregated account with a broker (i.e. CCASS Participant Sponsored Account (“PSA”));
 - (ii) an account with the relevant share registrar (i.e. Issuer Sponsored Account (“ISA”)); or
 - (iii) an account for investor participants with Hong Kong Securities Clearing Company Limited (“HKSCC”) (i.e. Investor Participant Account (“IPA”)).

If shares are held via PSA, IPA or ISA, for trading purposes, the shares will need to be transferred from investors’ account to an account held with their brokers (i.e. CPA).

5. In the absence of certificates for shares in uncertificated form, entries in the members register (uncertificated shares) will provide evidence of ownership. (Please refer to paragraph 9 below for the details of the arrangements for register of members under the uncertificated securities market environment.)

Share trading/transfer by an investor who may engage different intermediaries or securities firms from time to time

6. For securities to be held and transferred without paper, they will have to be held and transferred through an uncertificated securities market system which will be operated by the HKSCC. Investors will be able to hold or trade shares through different intermediaries or securities firms, as in the case of today. We do not expect that there will be any major changes to the operational arrangements for share trading or transfer.

Margin financing

7. Under the uncertificated securities market environment, arrangements will be provided to enable shares to be charged or mortgaged for margin financing. Details will be provided in due course.

Options for investors to receive dividend payment and chargeable fees (if any)

8. SFC is discussing the operational details in this regard with the HKSCC and the share registrars. Details will be provided in due course.

Registration and disclosure of shareholders' names and other information (such as amount of shares owned) in relation to requirements under the CO

9. Under the uncertificated securities market regime, the register of members of a participating company will consist of two parts: one recording uncertificated shares which will be kept and maintained by the system operator of the uncertificated securities market system, i.e. HKSCC ("members register (uncertificated shares)"); and the other recording certificated shares which will be kept and maintained by the relevant share registrar ("members register (certificated shares)").

10. The details to be entered in the two parts of the register of members described in paragraph 9 above will be set out in the rules, and will include those matters currently required to be entered in a register of members under section 627 of the CO, i.e. the name and address of a shareholder as well as the number of shares held. The rules will also provide details on how the two parts of the register of members are to be kept and maintained, and the extent to which matters entered in them may be available for inspection. The SFC will consult the market in the course of making the rules.

**Financial Services and the Treasury Bureau
Securities and Futures Commission
24 September 2014**

