

**Consumer Council**

**Submission to the Legislative Council Bills Committee on  
Securities and Futures and Companies Legislation  
(Uncertificated Securities Market Amendment) Bill 2014**

**(6 October 2014)**

**Introduction**

1. Consumer Council (CC) is pleased to submit its views to the LegCo Bills Committee regarding the Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Bill 2014 (the Bill).
2. In principle, CC supports the introduction of an uncertificated securities market regime in Hong Kong to bring about reduced usage of paper to promote economic efficiency and environmental sustainability. CC adds that a proper consumer education programme or campaign should be in place via the Investor Education Centre to ensure average investors/consumers could have the understanding and be ready for the introduction of the new regime.
3. The following provides CC's views to the legislative proposals in the Bill which have direction implications to the interests of investors.

**Dual system for securities market**

4. As stated in its previous submission<sup>1</sup>, CC supported a phased implementation and transitional approach be adopted in the introduction of a scripless securities market in Hong Kong. CC is therefore glad to note that the uncertificated securities market initiative will be implemented in phases, and that there will be a transitional period during which a dual system will operate, i.e. the existing paper-based system will continue to operate in parallel with the proposed uncertificated securities market (USM) system. CC considers it important to have transitional period in place to allow for a well-managed and gradual shifting from paper-based certificate system to a scripless system to provide investors sufficient time to adapt to the changes.
5. CC fully appreciates that the Bill provides an option to investors for them to choose between holding their securities in paper form or in uncertificated form, and be able to convert their holdings from one form to the other at any time. Though cost implication for rematerializing securities that have been dematerialized would be of concern to investors.

6. With regard to the timeframe for implementing a fully USM regime, CC is glad to note that the proposed regime will only be made compulsory when the

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<sup>1</sup> In 2010, CC has made a submission on a "Proposed Operational Model for Implementing a Scripless Securities Market in Hong Kong".

market is ready. Apart from “further consultation” mentioned in the LegCo paper, CC reiterated its stance that thorough assessments on investing public’s readiness to a completely USM should also be conducted.

### **Register of members of participating companies**

7. On the proposal of setting up the register of members of a participating companies into two parts, i.e. one recording uncertificated shares and the other recording certificated shared, CC considers it necessary to have mechanism in place to ensure accuracy in the record details of holdings in these two parts.

8. CC also supports investor holding shares in uncertificated form will have the option to register their shares in their own names, thus enjoying the full benefits of legal ownership.

### **Regulatory oversight and rules**

9. Whilst agreeing to the regulatory oversight and rules by the Securities and Futures Commission (SFC) on the new USM environment, CC would emphasize the importance of collaboration efforts between different regulatory bodies in the financial markets, both local and overseas.

### **Fees and charges**

10. CC supports the proposal that the fees to be charged by a recognized clearing house (RCH) are subject to SFC’s approval. On top of the guiding principles listed in the proposal (e.g. fees should be reasonable, commensurate with services provided), CC is of the view that the following principles should also be observed:

- The charging method must be fair; and
- The charging system should be subject to review and monitor.

11. To foster wider acceptance of opting for uncertificated securities, CC also urges that the benefits of cost reduction in uncertificated securities trading should be reflected in the securities market through adjustment in fees and charges to be paid by investors.

### **Stamp duty**

12. CC welcomes the proposed exemption of the \$5 fixed rate stamp duty for transfer of participating shares without an instrument of transfer.