

CB(1)1051/09-10(03)

**Presentation to LegCo Financial
Affairs Panel –
A proposed operational model for
implementing a scripless securities
market in Hong Kong**

1 February 2010

Joint Working Group for Scripless Securities Market

Agenda

- 1. Benefits of implementing a scripless securities market**
- 2. Existing market structure**
- 3. Proposed operational model**
- 4. Profile of Hong Kong listed companies**
- 5. Proposed legislative changes**
- 6. Timeline**

1. Benefits of Implementing a Scripless Market

■ **Enhance corporate governance**

- Enhanced shareholder transparency by allowing investors to hold and transfer securities within the Central Clearing and Settlement System (“CCASS”) and in their own names
- As legal owners of securities, investors will be able to enjoy the full benefits of ownership

■ **Provide investor choice**

- Allowing investors to switch from physical certificates to paperless securities at their own pace, and in line with their own needs and preferences, with different options to hold their securities

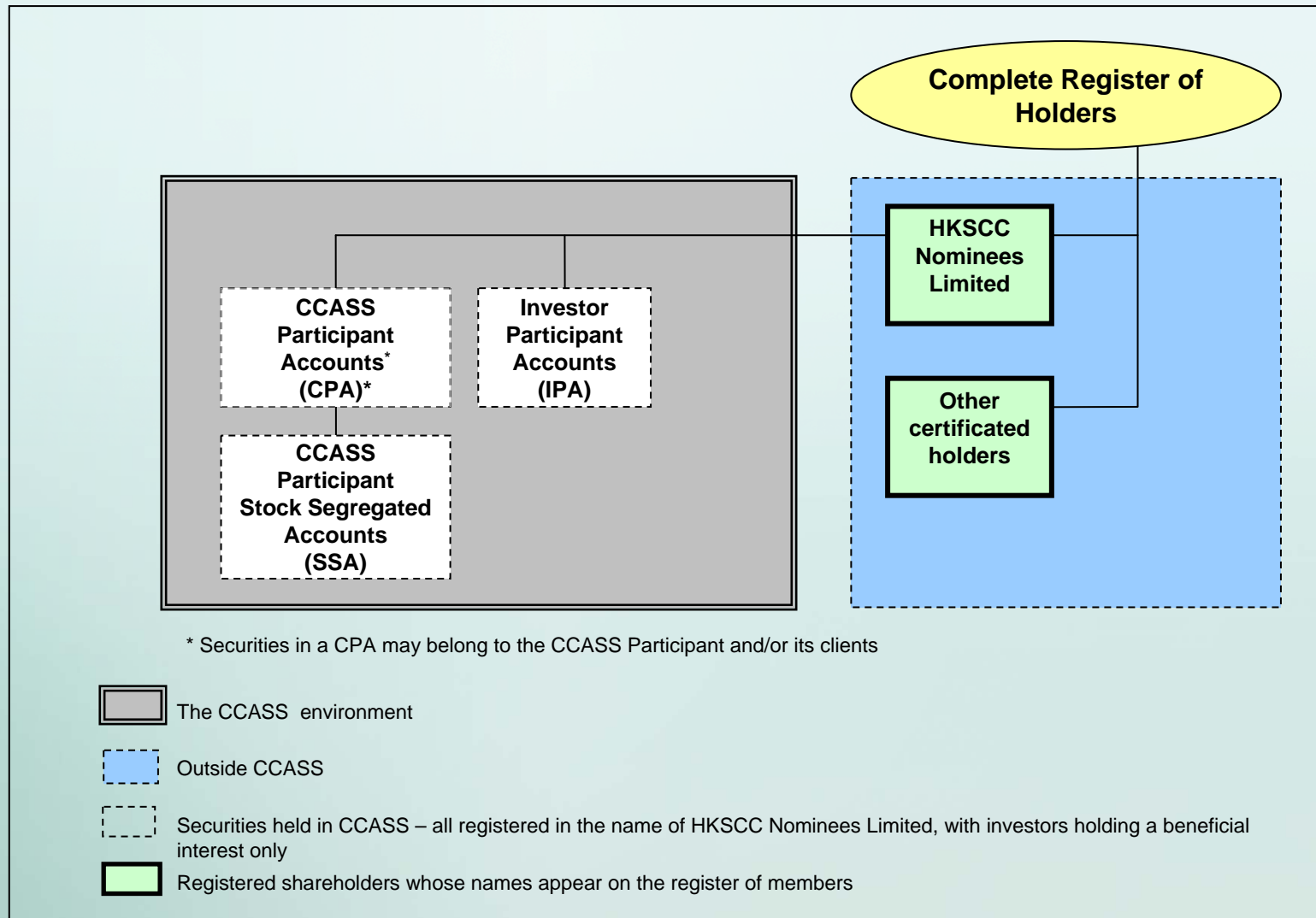
■ **Enhanced market efficiency**

- Further reducing the need for paper documents by allowing issuers of IPOs to offer a scripless option
- Bringing share registrars into CCASS
- Opening up opportunities for straight-through processing

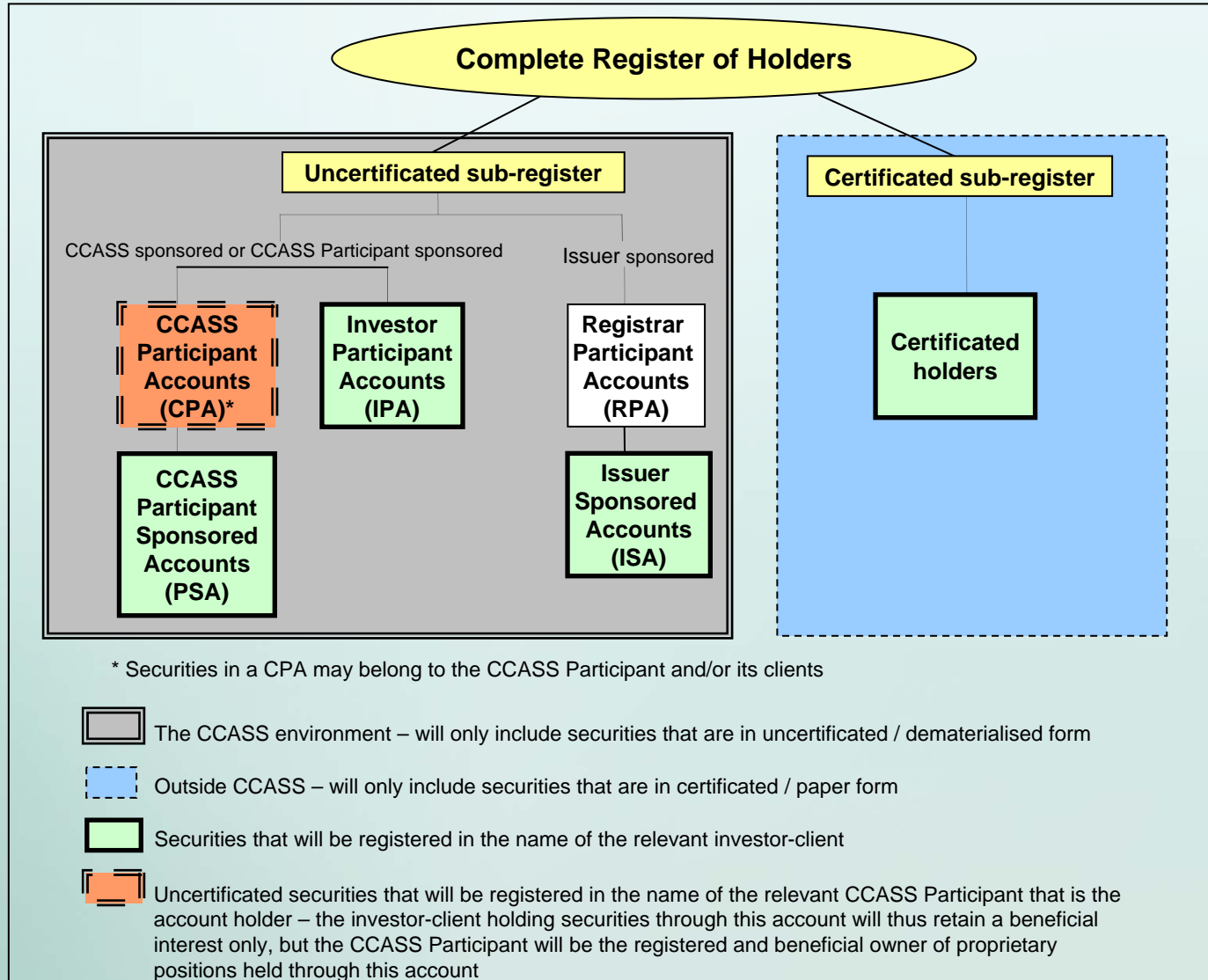
1. Benefits of Implementing a Scripless Market (cont'd)

- **In line with global trend**
 - Recommendations by Committee on Payment and Settlement Systems and International Organization of Securities Commissions (2001) – immobilisation or dematerialisation
 - Group of 30 (2003) – dematerialisation as the preferred solution
- **Promote environmental friendliness**
 - In line with other similar initiatives, e.g. electronic announcements and corporate communications by listed companies

2. Existing Market Structure



3. Proposed operational model



3. Proposed operational model (cont'd)

- **Dual system and a phased approach**

- Existing paper-based regime and new scripless regime
- Hong Kong securities will be dematerialised first

- **Register to comprise two parts**

- An uncertificated sub-register (which will record all holdings in CCASS) and a certificated sub-register (which will record all holdings outside CCASS)
- Share registrars will keep a record of the complete register to facilitate inspection, corporate action processing and corporate action entitlements calculation

- **Name on register**

- Investors will be able to hold securities in CCASS in their own name and to enjoy the full benefits of legal ownership

- **Investor choice**

- Investor choice in terms of the form, type of ownership and extent of control over their holdings

3. Proposed operational model (cont'd)

- **Share registrars to become CCASS Participants**
 - To allow share registrars to use the existing CCASS infrastructure to communicate directly with other CCASS Participants and handle instructions relating to uncertificated securities
 - To allow the setting up of accounts for holding securities in dematerialised form with the share registrar direct
- **Scope**
 - The proposed operational model could in general apply to all securities that are publicly traded on the Stock Exchange of Hong Kong, including –
 - Listed shares and debentures of Hong Kong incorporated companies,
 - (To the extent possible) shares and debentures of overseas incorporated companies that are listed here, and
 - Other listed securities such as derivative warrants, callable bull/bear contracts (CBBCs), etc.

4. Profile of Hong Kong listed companies

- Vast majority of companies listed in Hong Kong (about 84%) are incorporated overseas

Place of incorporation	Number of HK-listed companies		Market share (in terms of market capitalisation)	
	(Number)	(%)	(HK\$M)	(%)
Bermuda	465	35.55	1,601,912	9.15
Cayman Islands	482	36.85	2,816,871	16.08
Hong Kong	203	15.51	6,413,265	36.62
Mainland	154	11.77	4,697,213	26.82
United Kingdom	2	0.16	1,969,509	11.24
Australia	1	0.08	16,238	0.09
Canada	1	0.08	-	-
Total:	1,308	100.00	17,515,008	100.00

4. Profile of Hong Kong listed companies (cont'd)

- **The Working Group is considering whether shares and debentures of overseas incorporated companies can be held in dematerialised form and whether legal title to them can be transferred electronically within CCASS without an instrument of transfer**
- **The initial focus has been on companies incorporated in Hong Kong, Mainland China, Bermuda, Cayman Islands and the UK**

5. Proposed legislative changes

- **An initial first step will be to introduce technical amendments to the Companies Ordinance (CO) to provide exceptions to limitations arising from provisions that compel the use of paper certificates and instruments of transfer. This will lay the foundation for implementing a scripless securities market in Hong Kong. Relevant proposed amendments will be included in the Companies (Amendment) Bill 2010 to be introduced soon**
- **Further proposed amendments – including those to the Securities and Futures Ordinance (SFO) and the CO – will be needed to provide for the regulation of the scripless environment and those that play a key role in that environment. These proposed amendments will need to take into account the operational model that is eventually agreed upon. Details of further proposed legislative amendments needed to support the new model will be discussed in a separate consultation to be launched by the SFC**

6. Timeline

- **Consultation will last for three months until 31 March 2010**
- **To issue consultation conclusions in Q2 2010, and to finalise the operational model as soon as practicable thereafter**
- **To finalise the proposed legislative amendments**

Thank you