

**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 17 November 2014**

**Purpose**

This paper sets out the Administration's response to Members' questions raised at the meeting on 17 November 2014.

**Roles of the Hong Kong Securities Clearing Company Limited ("HKSCC") and Share Registrars in Operations under the Uncertificated Securities Market Regime ("USM Regime")**

2. The HKSCC will be the system operator of the USM regime while the share registrar will continue to play the role of agent of issuers. In addition, both will have a role in keeping and maintaining the register of members.

3. Under the new uncertificated securities market environment, the register of members will be divided into two parts—

- (i) the part recording details of shareholdings held in paperless form will be kept and maintained by the HKSCC; and
- (ii) the part recording details of shareholdings held in paper form will be kept and maintained by the share registrar.

The share registrar will also be responsible for keeping a complete record of all members of a company, which will be used for operational and inspection purposes.

**Division of Work between the HKSCC and the Share Registrar with regard to Corporate Action Services under the USM Regime**

4. In general, the HKSCC's main role in the provision of corporate action services will be to provide the USM system as a platform for facilitating the communication of information and instructions to and from share registrars and registered shareholders. This service can be used by investors who hold their shares in paperless form and in an account

administered by the HKSCC or a broker participant.

5. The share registrar's main role will be to act as the issuer's agent in sending and receiving communications and instructions to and from registered shareholders, including for the purposes of corporate actions. For those registered shareholders who hold their shares in paperless form in an account administered by a share registrar, the relevant share registrar will provide a means for the electronic communication of information and instructions with them.

6. The details of the processes and the fees relating to the roles of the HKSCC and the share registrars will be considered in the development of the USM regime. The Securities and Futures Commission ("SFC") will work together with the HKSCC and the Federation of Share Registrars towards ensuring that the interests of different investor groups are safeguarded and that competition is not impeded unnecessarily. More information will be available when the SFC consults the market on the subsidiary legislation to be made under the Securities and Futures Ordinance ("SFO") later in 2015.

### **Subsidiary Legislation to be made under the SFO**

7. The subsidiary legislation to be made under the new section 101AAO of the SFO ("USM Rules") will cover a wide range of technical and operational matters such as –

- (i) the pre-requisites and processes for various matters including –
  - the conversion of shares in certificated form into uncertificated form,
  - the entering of or amendments to details in the register of members (certificated shares) or register of members (uncertificated shares), including subsequent to an allotment, transfer or transmission, and
  - the inspection and/or confirmation of entries in the register of members (certificated shares) and/or register of members (uncertificated shares),
- (ii) the rights, obligations and liabilities of the system operator, issuers and share registrars, including in respect of –

- the matters described in (i) above, and
- the keeping of the register of members (certificated shares) and the register of members (uncertificated shares),

(iii) the authorization and regulation of share registrars, and

(iv) penalties for breach.

In accordance with section 398 of the SFO, the SFC will expose a draft of the USM Rules for public consultation before they are finalized.

### **Margin Financing under the USM Regime**

8. Under the uncertificated securities market environment, there will be arrangements and processes for enabling shares to be charged or mortgaged for margin financing and other purposes. The relevant information will be available when the SFC consults the market on the USM Rules later in 2015.

**Financial Services and the Treasury Bureau  
Securities and Futures Commission  
21 January 2015**