



30 December 2009

Consultation begins on operational model for scripless securities

The Securities and Futures Commission (SFC), Hong Kong Exchanges and Clearing Limited (HKEx) and the Federation of Share Registrars Limited (FSR) have jointly issued a consultation paper on a proposed operational model to introduce a scripless securities market in Hong Kong (Note 1).

The scripless regime will allow investors to hold and transfer securities electronically, in their own names (Note 2). It will be implemented gradually, allowing investors to switch from physical certificates to paperless securities at their own pace. Meanwhile, issuers of initial public offerings will be able to offer a scripless option. When the market is ready some years later, the public will be consulted again to make the regime compulsory.

The proposed model contains these key features:

- Investors may choose to hold their securities in scripless or paper form, in their own name or in the name of a nominee, in an account that they can control directly, or through an account controlled by their brokers, banks or custodians.
- All scripless securities will be held inside the Central Clearing and Settlement System (CCASS) while all paper securities will be held outside CCASS (Note 3). An uncertificated sub-register will record all holdings in CCASS and a certificated sub-register will record all holdings outside CCASS.
- To the extent possible, the regime will also apply to shares and debentures of overseas companies that are listed in Hong Kong.

The joint working group believes that by enabling investors to hold securities in their own names, shareholder transparency can be enhanced while investors will be able to enjoy the full benefits of ownership. In addition, with the reduced need for paper documentation, opportunities for straight-through processing will open up, thus enhancing market efficiency while promoting environmental protection.

“The new model will set the foundation for how scripless securities are implemented in Hong Kong,” said the SFC’s Chief Executive Officer Mr Martin Wheatley. “This will strengthen our market infrastructure and facilitate the long-term development of Hong Kong’s financial markets.”

The consultation period will last for three months until 31 March 2010. Details of further legislative amendments needed to support the new model will be discussed in a separate consultation (Note 4).

End

Notes:

1. A working group – with representatives from the SFC, HKEx and the FSR, and led by the SFC – was set up early this year, with the support of the Government, to develop an operational model for Hong Kong that would be generally acceptable to the market, provide adequate investor choice, and enhance shareholder transparency.
2. Currently, investors can hold and transfer securities electronically but not in their own names – the securities must instead be held in the name of HKSCC Nominees Ltd.
3. The two diagrams attached show the existing market structure and the structure under the proposed operational model.
4. The legislative amendments for implementing a scripless securities market will be as follows: 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 small but significant step will lay the foundation for implementing a scripless securities market in Hong Kong. Further amendments – including 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 amendments will need to take into account the operational model that is eventually agreed upon.
5. For enquiries, please contact Betty Mark at 2283 6807 or Ernest Kong of the SFC at 2840 9335.

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Diagram 1 – existing market structure

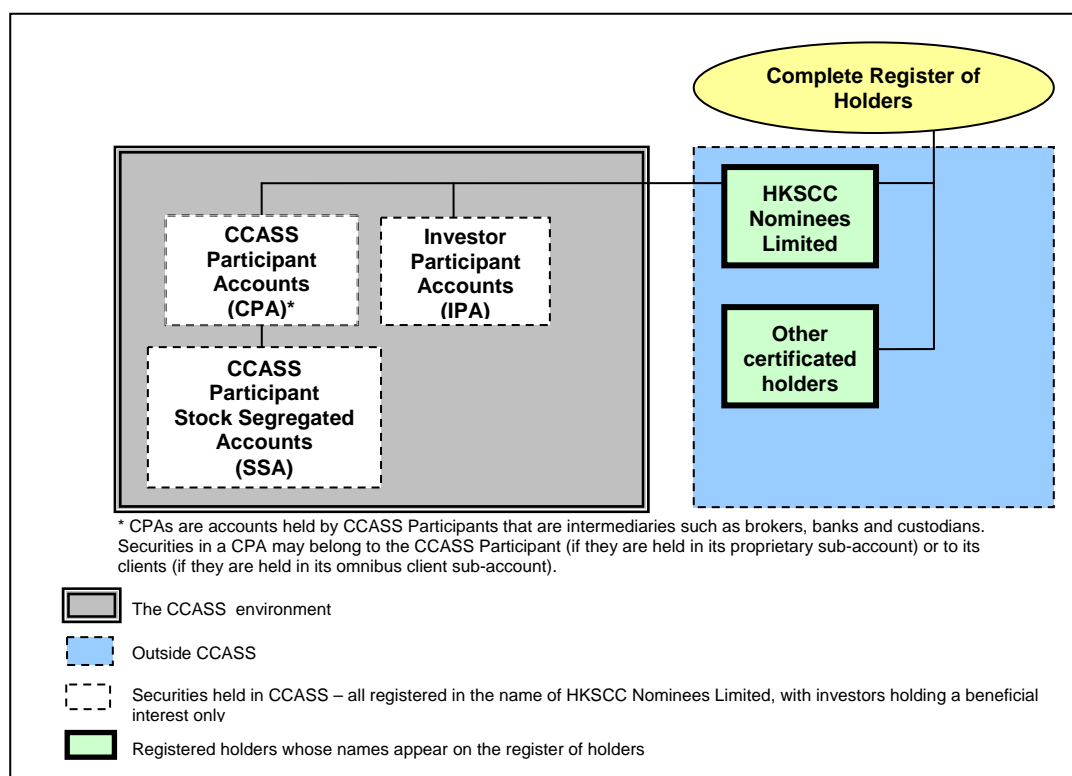


Diagram 2 – structure under proposed model

