

MEMO# 31745

May 6, 2019

HK SFC Joint Consultation Paper on a Revised Operational Model for Implementing an Uncertificated Securities Market (USM) in Hong Kong

[31745]

May 6, 2019 TO: ICI Global Members

ICI Global Pacific Chapter

ICI Global Regulated Funds Committee

International Operations Advisory Committee SUBJECTS: International/Global Operations

Trading and Markets RE: HK SFC Joint Consultation Paper on a Revised Operational Model for Implementing an Uncertificated Securities Market (USM) in Hong Kong

On 28 January 2019, the Hong Kong Securities and Futures Commission (SFC), the Hong Kong Exchanges and Clearing Limited (HKEX), and the Federation of Share Registrars Limited (FSR) released a joint consultation paper on a new mechanism for implementing an uncertificated (*i.e.*, paperless) securities market (USM) in Hong Kong.[\[1\]](#)

The consultation paper proposes a framework to modernize the existing securities market regime in Hong Kong, which relies on the use of paper documents. The proposal aims to provide investors with the option of holding securities (*e.g.*, shares), in the investor's own name and in electronic form. The consultation period ended on 27 April 2019, and ICI Global did not comment on the consultation paper.

Below is a brief summary of the aspects of the proposal that are particularly relevant to SFC authorized listed collective investment schemes.

The USM regime

Currently, Hong Kong law requires the issue of paper certificates and the use of paper instruments to evidence and transfer legal title to certain securities, including shares. Under the proposed USM regime, investors will have the option to hold and transfer securities in their own name without share certificates or paper documents. Investors who hold securities in their own name will enjoy a direct relationship with the issuer and better legal protection. Expected benefits of the digitization of securities holdings also include increasing overall market efficiency and enhancing Hong Kong's market competitiveness.

globally.

Application of the USM regime to SFC authorized listed funds

According to the SFC, the USM regime will affect funds that are listed, such as REITs, ETFs, leveraged and inverse products, and other closed-end funds authorized by the SFC and listed on the Hong Kong Stock Exchange. In the first phase, the USM regime will apply to Hong Kong domiciled listed funds. The SFC will consider the timing of applying the regime to listed funds domiciled in other jurisdictions, having regard for any legal or regulatory impediments.

Next Steps

The SFC aims to issue its conclusions paper by July 2019. The USM regime may start to be implemented, in phases, in early 2022. If you have any questions or concerns, please contact Jennifer Choi at jennifer.choi@ici.org or Alexa Lam at alexa.lam@iciglobal.org.

Irene Leung
Regional Lead, Member Relations and Research, Asia Pacific
ICI Global

endnotes

[1] The consultation paper is available at:
https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/January-2019-USM/Consultation-Paper/USMCP_2019_EN.PDF

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