

**Response to SFC consultation on uncertificated securities market (USM)**  
**Submitted by the Chamber of Hong Kong Listed Companies**  
**June 30, 2023**

SFC consultation paragraph no.	Context	Comments
25 Prerequisites	<ul style="list-style-type: none"> <li>- Issuer will need to appoint an Approved Securities Registrar (<b>ASR</b>) to: (i) provide and operate a UNSRT system<sup>1</sup> in respect of those securities; and (ii) maintain its Register of Members (<b>ROM</b>)</li> <li>- Issuer may also need to amend the articles of association or by-laws to cater for USM</li> </ul>	<p>The consultation paper does not provide sufficient information for listed companies to consider (a) the timeline for the implementation of the USM; (b) the time allowed for the preparation of the implementation of the UNSRT system; and (c) the overall initial costs and on-going operating costs of the UNSRT system.</p> <p>Suggest SFC and HKEX provide guidelines and suggested amendments to articles of association or by-laws for reference, with reference to the local laws of different jurisdictions.</p>
29 Issuers' initial prerogative and subsequent obligation	<ul style="list-style-type: none"> <li>- It will not be possible to dematerialize existing units of prescribe securities unless holder requests to dematerialize or transfer</li> </ul>	<p>It implies that listed companies and the Registrars will have to continue to maintain the securities in certificated form while implementing the new UNSRT system.</p> <p>Since the ROM will become the sole means to evidence title, the ASR shall have greater responsibility than the issuer in ensuring the accuracy of ROMs because they will effect updates to the ROM.</p>
32-33 Transfer / 94-95 Instructions from joint holders	<ul style="list-style-type: none"> <li>- Where the prescribed securities are already in uncertificated form, the transfer process/ instruction is expected to be electronic. "Specific request" will replace the traditional instrument of transfer in the USM environment. Specific request will comprise two</li> </ul>	<p>Same comments as above.</p> <p>HKEX/SFC should provide more details on "authenticated message". For example, who can send such messages?</p>

<sup>1</sup> "UNSRT system" refers to an uncertificated securities registration and transfer system

	<p>electronic messages – one from the transferor and one from the transferee. Such electronic messages must be in the form of “authenticated messages”.</p> <ul style="list-style-type: none"> <li>- [Exceptions] Circumstances where a holder cannot send transfer instructions electronically, e.g. holder is an elderly person and not tech-savvy, or joint holders are involved and ASR is unable to accept electronic instructions from all joint holders<sup>2</sup></li> </ul>	<p>When will the message deemed to be received by the other side? How can issuers ensure the authenticity and confidentiality of messages received? What will stamping of transfers in the USM environment be effected?</p>
<p>58-60 Keeping of ROM / 129 ROM maintained by ASRs / 132 Maintain ROM in HK</p>	<ul style="list-style-type: none"> <li>- ROM particulars expected to be updated within 2-5 days<sup>3</sup></li> <li>- ROM to be maintained in HK by ASRs</li> <li>- (p.62) all entries in the ROM relating to a person may be destroyed after the end of 10 years from the date on which that person ceased to be a holder of the prescribed securities</li> </ul>	<p>Will there be any prohibition on subcontracting by ASR?</p>
<p>77-83 Dematerialization and rematerialization at issuer’s initiative</p>	<ul style="list-style-type: none"> <li>- Issuers are to take every opportunity to dematerialize existing units of prescribed securities</li> </ul>	<p>Listed companies will consider the timeline that is sufficient for them to prepare the necessary system to implement the USM.</p>
<p>84-88 Mandatory dematerialization</p>	<ul style="list-style-type: none"> <li>- Deadlines will be set to facilitate market’s transition to full dematerialization</li> </ul>	<p>ditto</p>
<p>97-100 Fees</p>	<ul style="list-style-type: none"> <li>- Certificate holders are also required to pay dematerialization fee and fees for setting up USI facility<sup>4</sup></li> </ul>	<p>No incentive for existing holders to actively take part in dematerialization unless they are forced to do so, for example, in a trade of the stocks.</p>

<sup>2</sup> Para. 94: All joint holders of securities are required to sign the instrument of transfer when effecting a transfer, ... replicating this in the USM environment will make the design of UNSRT systems much more complex, and hence their build much more expensive. In view of this, and given that joint holdings make up a relatively small portion of the investor base, ... propose to retain the option for joint holders to send transfer instructions in paper form which can then be entered electronically by the ASR ..., at least at the initial stage.

<sup>3</sup> Timeframe for updating ROM is not specified in the legislation at the outset to allow flexibility for the market to adjust.

<sup>4</sup> “USI facility” refers a facility for managing prescribed securities in uncertificated form. The investor has to sign up with an ASR to use its UNSRT system, and the securities will be registered in the name of the investor concerned, and managed directly by that investor

		The consultation paper does not provide sufficient information for listed companies to consider whether they would be required to bear/share any costs or make any monetary contributions towards the implementation of the dematerialization.
107-112 System, financial, other resources, operational and business requirements	- ASRs are subject to certain system, financial, other resources, operational and business requirements	ASR should also report on the integrity of their system and the occurrence of cybersecurity incidents if any.  How can listed companies ensure no confidential information is retained by the outgoing ASR? Where there is an incoming ASR, will SFC be involved in the handover to ensure it is properly done?
134-136 No period with ASRs	- If no ASR is appointed for securities already listed, SEHK must suspend trading in the securities before the next trading session	Any safeguards for listed companies if ASR failed to comply with any of the abovementioned system, financial, other resources, operational and business requirements?