

Uncertificated Securities Market (USM) Introductory Briefing

Operation Division
Post Trade

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Part 1: What is USM?



1. Overview of USM (1/2)

USM

In June 2021, the Securities and Futures and Companies Legislation (Amendment) Ordinance 2021 (USM Amendment Ordinance)¹ was enacted to enable the implementation of an uncertificated securities market (USM) in Hong Kong.

By implementing USM, Hong Kong's financial market infrastructure will be further elevated, and market participants will also benefit. In particular:

- Better Legal Protection
- Greater Efficiency & Enhanced Financial Market Structure
- Ecological Impact

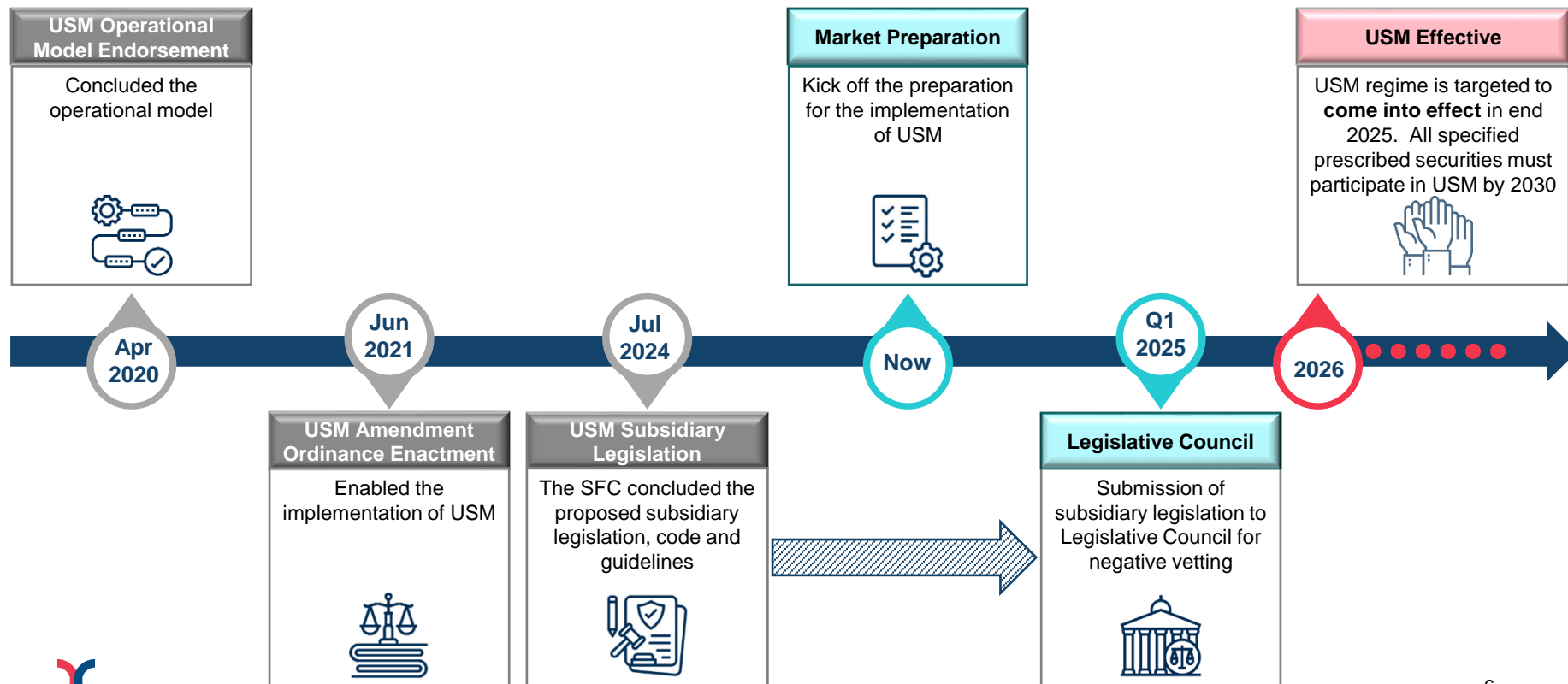
Scope of Securities Covered	Retain HKSCC Nominees structure	Electronic Communication	Electronic Records
<ul style="list-style-type: none">- All securities² listed on the SEHK except structured products and debt securities	<ul style="list-style-type: none">- minimum market impact- retain existing workflow for securities held under HKSCC-NOMS- maintain the existing securities & funding settlement efficiency (net settlement)	<ul style="list-style-type: none">- facilitate efficient communication & processing- enable participating securities booking, stamp duty arrangement and related process	<ul style="list-style-type: none">- eliminate paper certificates & forms- Avoid cumbersome paper based operational flow & reconciliation- no rematerialisation (once dematerialised)



1. The USM Amendment Ordinance can be accessed at <https://www.elegislation.gov.hk/hk/2021/17!en>.
2. One of the securities is authorised CIS which is under the terms of issue of authorised CIS, may be withdrawn from a clearing and settlement system operated by, or on behalf of, a recognised clearing house. After the USM regime comes into effect, IPO securities must be in uncertificated form unless exempted by the SEHK on the basis of exceptional circumstances in the first year after the USM regime comes into effect.

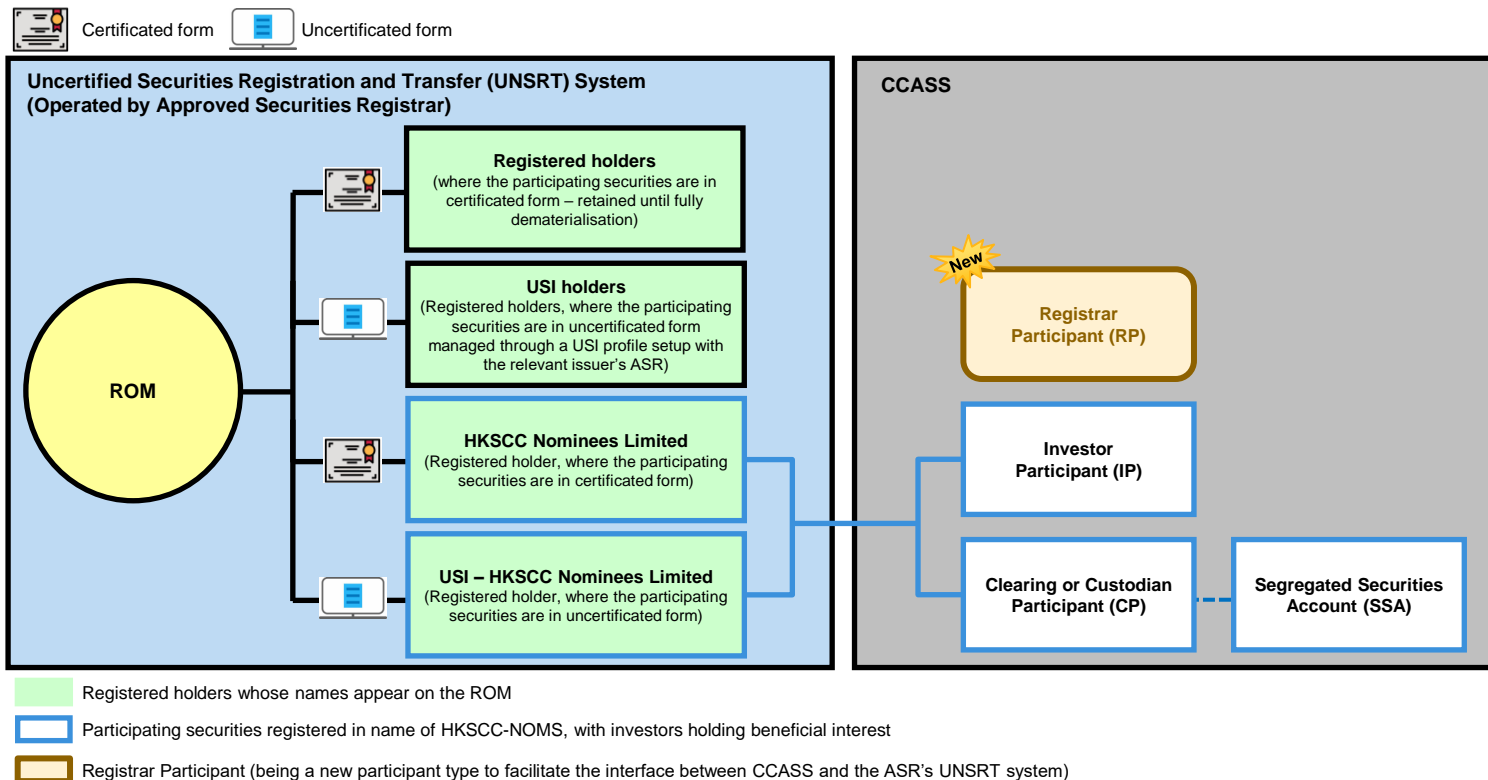
1. Overview of USM (2/2)

- The Securities and Futures Commission (SFC) has been working with Hong Kong Exchanges and Clearing Limited (HKEX) and the Federation of Share Registrars Limited (FSR) on implementing USM in Hong Kong



2. The operational model for implementing USM

- The diagram below illustrates the operational model that was endorsed in the [joint consultation conclusion](#) in April 2020:



Upon the USM regime effective, the securities market will run under “dual system” to cater for both uncertificated and certificated securities until full dematerialisation being achieved.

Part 2: Scope of USM Securities



3. Scope of Securities

Prescribed securities:

- ✓ Shares
- ✓ Depository receipts
- ✓ Stapled securities
- ✓ Interests in an authorised collective investment scheme (CIS)¹
- ✓ Subscription warrants
- ✓ Rights under a rights issue
- ✗ Debt securities
- ✗ Structured products (e.g. Callable Bull/ Bear Contracts and Derivative warrants)



Issuers incorporated in:

- Hong Kong
- PRC²
- Cayman Islands²
- Bermuda²



**Specified
Prescribed
Securities**

1. Under the terms of issue of authorised CIS, may be withdrawn from a clearing and settlement system operated by, or on behalf of, a recognized clearing house.
2. Those securities whose home laws are compatible with the USM regime. This will cover all prescribed securities constituted under Hong Kong law. The SFC is also currently aiming to cover, as far as possible, all prescribed securities constituted under the laws of Bermuda, Cayman Islands or Mainland China, but the SFC will review and adjust this list as appropriate when the subsidiary legislation for implementing USM is submitted to the Legislative Council for negative vetting (e.g. if other jurisdictions can be added by that time).



Other jurisdictions include Australia, BVI, Canada, England, Israel, Italy, Japan, Jersey, Luxembourg, Russia, Singapore and USA.

4. How the Securities Participate in the USM Regime? (1/2)

Upon USM Regime Effective



Securities registrars become **Approved Securities Registrars (ASRs)**, approved by the SFC



Issuers are required to **appoint an ASR** to maintain the register of holders and provide an UNSRT system through which securities may be evidenced and transferred without paper instruments (e.g. securities certificates)

Participation in USM Regime



All specified prescribed securities will have its **own specific deadline (within the 5-year timeline)**. Each such deadlines will be determined jointly by the issuer's ASR, HKSCC and the SEHK¹

2026

2030

IPO ²					
1 st Batch	2 nd Batch	3 rd Batch	4 th Batch	...	N th Batch
<ul style="list-style-type: none">List Co A1List Co B1...	<ul style="list-style-type: none">List Co A2List Co B2...	<ul style="list-style-type: none">List Co A3List Co B3...	<ul style="list-style-type: none">List Co A4List Co B4...	<ul style="list-style-type: none">...	<ul style="list-style-type: none">List Co ANList Co BN...



Issuers announce a **participation date** and the relevant disclosure



On the participation date, the issuers' prescribed securities become **participating securities** and, from that date, new issuances of new units of such securities must be only in uncertificated form



1. The timetable will be announced on the SFC and HKEX websites respectively from time to time.
2. IPO securities will have to be in uncertificated form unless exempted by the SEHK on the basis of exceptional circumstances in the first year after the USM regime comes into effect.

Part 3: Participants Preparation



5. Highlights of Changes under USM Regime

	Yet to become Participating Securities	Participating Securities
Legal Title	➤ Evidenced and transferred with <u>certificates</u>	➤ Evidenced and transferred electronically through UNSRT system
IPO	➤ Allotted with certificates	➤ Allotted in uncertificated holdings
CCASS Depository	➤ Certificates are physically maintained in HKSCC Vault	➤ All certificates in HKSCC Vault will be converted into uncertificated holdings (i.e. dematerialised) according to the respective participation date.
Transfer into HKSCC-NOMS	➤ Login Deposit/Demat Order (new CCASS function) – deposit certificates into CCASS Depository with the issuance of new certificates in the name of HKSCC-NOMS	➤ Login Deposit/Demat Order (new CCASS function) – dematerialise certificates with transfer into HKSCC-NOMS' uncertificated holdings ➤ USI Transfer Request (new CCASS function) to transfer into HKSCC-NOMS' uncertificated holdings
Transfer out from HKSCC-NOMS	➤ Withdraw certificates out of CCASS Depository, investor to deliver certificates to securities registrar for re-registration with new certificates in name of the investor	➤ USI Transfer Request (new CCASS function) to transfer out from HKSCC-NOMS' uncertificated holdings to the USI holder's uncertificated holdings
Stamp Duty Payment	➤ Currently not part of the CCASS services	➤ Stamp Duty Payment Request (new optional CCASS services) – facilitate CP to pay stamp payment for CBO ³ transfers without change of legal title
Other Key Features		
Immediate Credit	➤ Available for physical certificates deposit only	➤ Available for transfer into HKSCC-NOMS with physical certificates only



Notes:

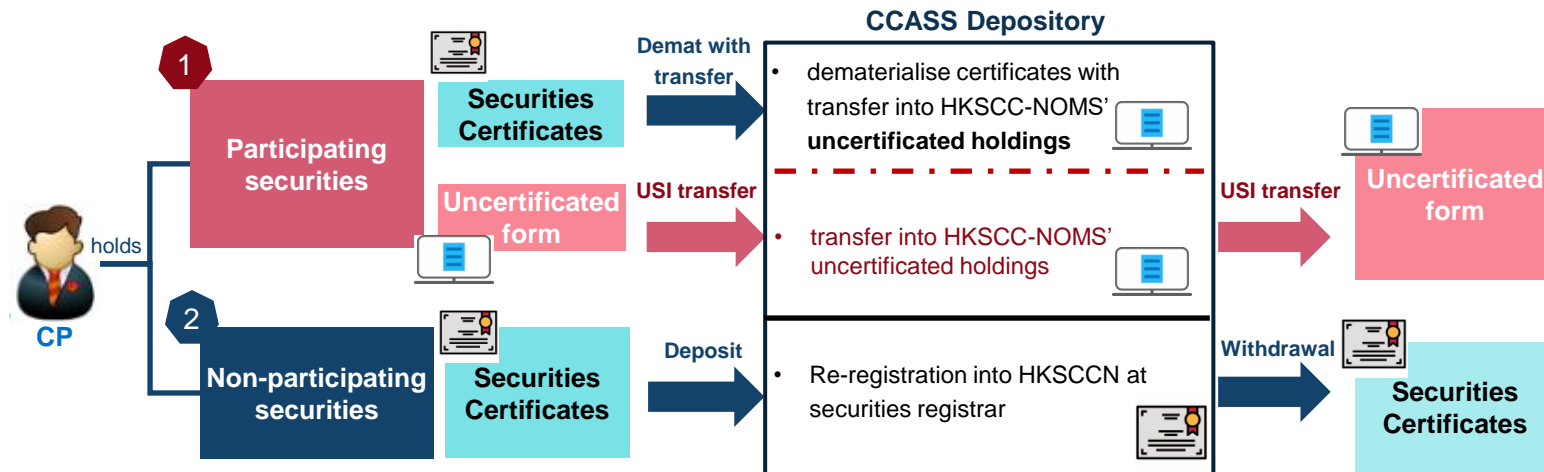
1. Inland Revenue Department

2. No change in beneficial ownership

3. Change in beneficial ownership

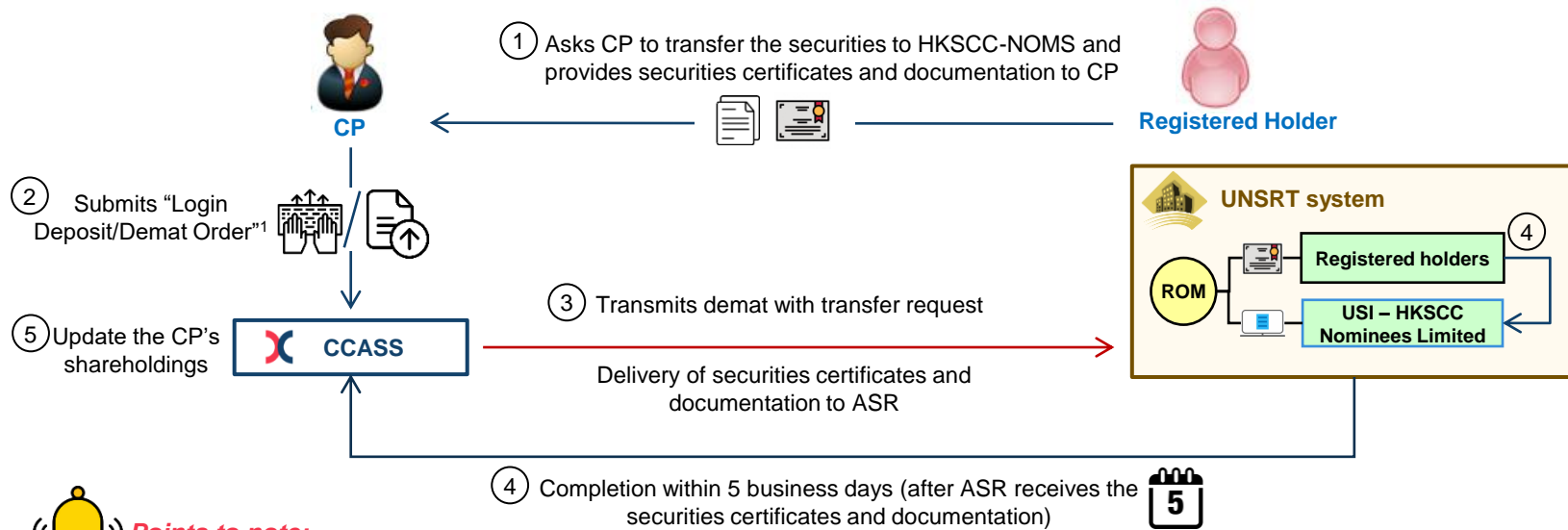
6. How to Transfer Securities to/from HKSCC-NOMS?

- Depending on the form of participating securities being held by the CP's client, the CP can facilitate the transfer of securities to/from HKSCC-NOMS, as shown in the below diagram:





6. How to Transfer Participating Securities to HKSCC-NOMS? - Demat with transfer

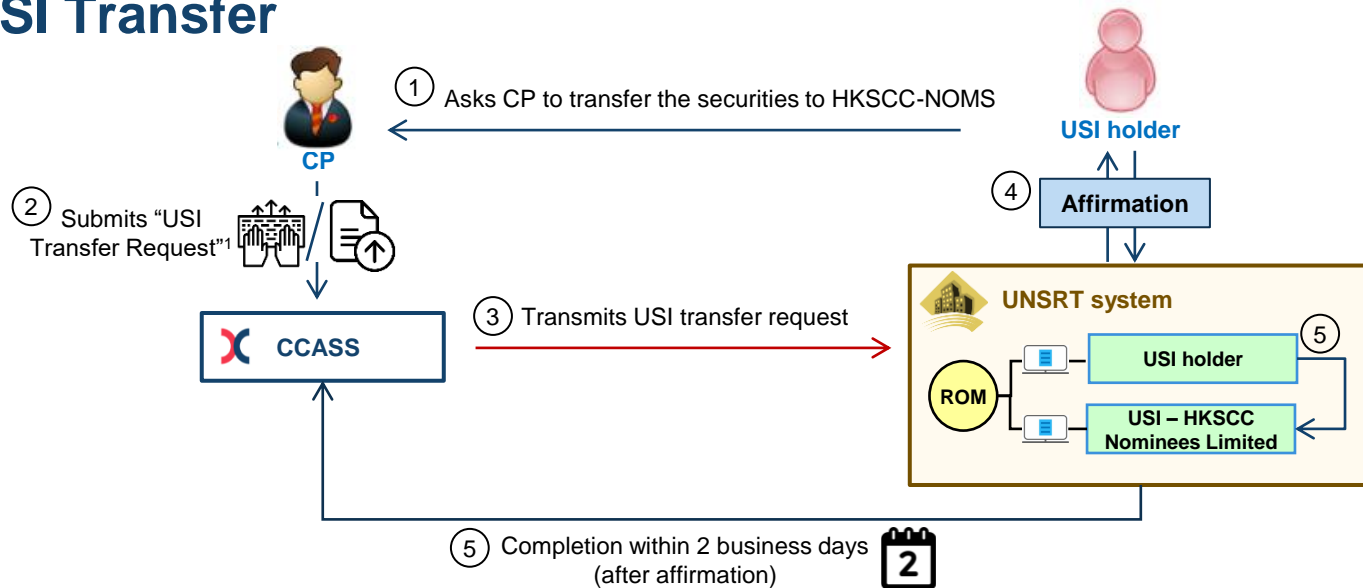


Points to note:

- To safeguard the integrity of HKSCC as a central securities depository, only **No Change of Beneficial Ownership (NCBO) transfer** is allowed
- CPs are reminded that the inputted transferor name **must be an exact match** with the name shown on the securities certificates
- There would not be an option to rematerialise securities that are in uncertificated form in any circumstances, except delisting



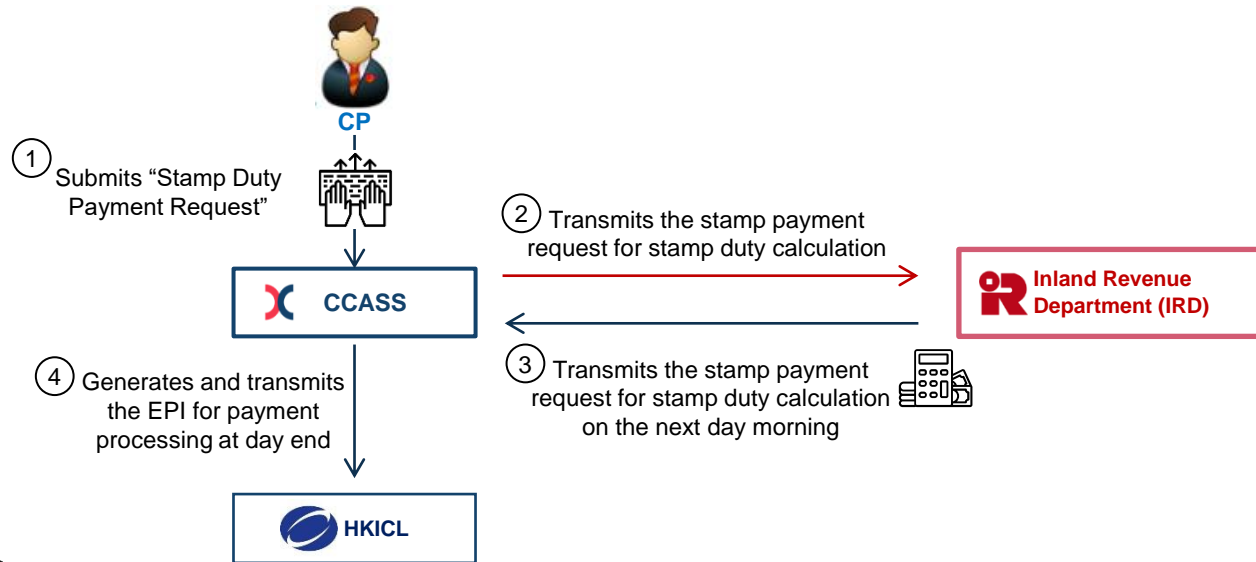
6. How to Transfer Participant Securities to HKSCC-NOMS? - USI Transfer



Points to note:

- To safeguard the integrity of HKSCC as a central securities depository, only **No Change of Beneficial Ownership (NCBO) transfer** is allowed, and CP must be an **Authorised Person (AP)** approved by IRD
- CPs are reminded that the inputted name **must be an exact match** with the name recorded on the USI profile
- If the USI transfer request is submitted and validated in CCASS **by 13:30 HKT**, CCASS will transmit the USI transfer request to the ASR's UNSRT system **on the same day**.

7. Other Service – Stamp Duty Payment Request - Stamp Duty Payment for CBO Transfer



Points to note:

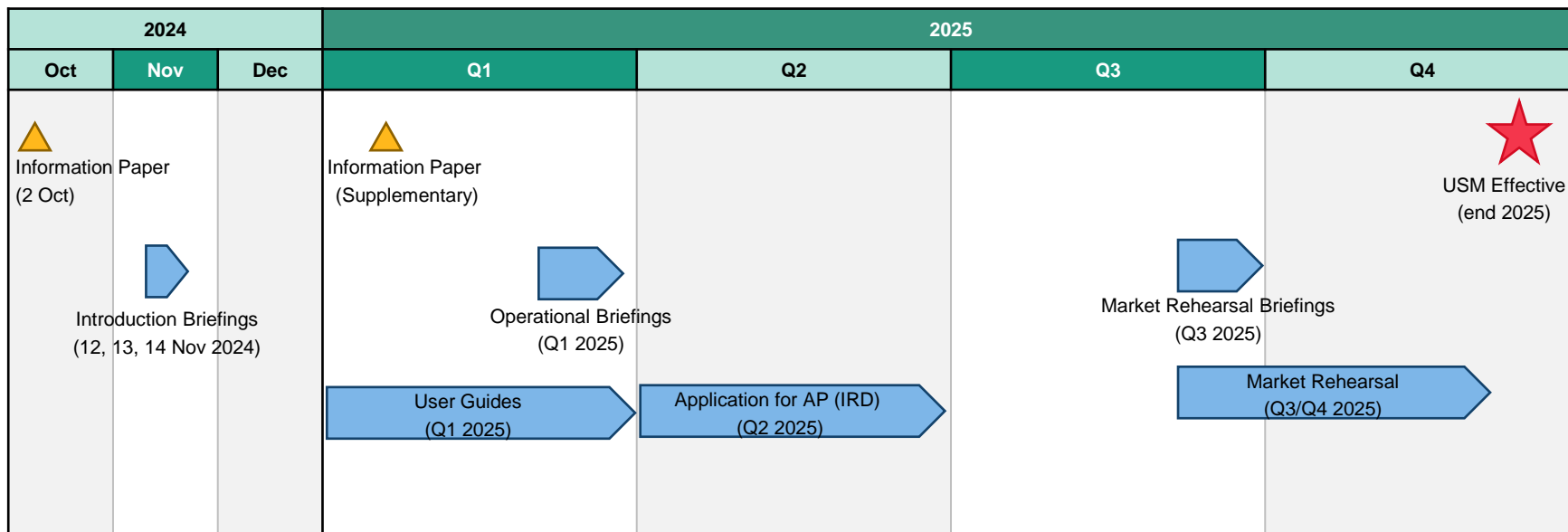
- CP must be an **Authorised Person (AP)** approved by IRD to use the stamp duty payment service for **CBO transfers of participating securities**
- CP (AP) must **imprint the contract notes** in accordance with the Stamp Duty Ordinance to complete the stamping process
- CP (AP) is responsible to **retain relevant records of stamp payments, transfer information** for IRD's inspection
- IRD will issue **guidance notes** to elaborate the stamp duty payment arrangements and requirements

Part 4: Timeline and Support



8. Timeline

- CP should follow the timeline to prepare for the implementation of USM accordingly



Information Paper for the overview of USM and key changes is now available in [HKEX website](#).

9. Enquiries and Support

For any enquiries about the USM, please contact HKSCC Hotline or Email indicated below:



Channel	Details
	2979 7111
Hotline	<i>During normal office hours from 09:00 to 18:00 (Mondays to Fridays, excluding public holidays)</i>
Email	ClearingPS@hkex.com.hk
Website	https://www.hkex.com.hk/Services/Settlement-and-Depository/USM?sc_lang=en

Q & A Session



10. Appendices

1. Details of Listed Issuers
2. List of Functions
3. List of Reports
4. List of Consultation Papers and Conclusion relating to USM



Appendix 1. Details of Listed Issuers

Market Capitalisation by Place of Incorporation 31 Jul 2024				
Place of Incorporation	No. of Companies	Market Capitalisation (HK\$ b)	% of Total in Market Capitalisation	
Hong Kong	204	7,356.17	23.63%	93.62%
Cayman Islands	1,575	14,718.55	47.28%	
Bermuda	452	1,192.82	3.83%	
PRC	346	5,877.76	18.88%	
Others	47	1,869.25	6.38%	
TOTAL	2,624	31,038.92	100%	
Other Places of Incorporation				
Australia	3	47.38	0.15%	
BVI	12	34.73	0.11%	
Canada	5	17.11	0.05%	
England	3	1,494.89	4.80%	
Israel	1	1.48	0.01%	
Italy	2	152.26	0.49%	
Japan	3	2.65	0.01%	
Jersey	2	5.68	0.02%	
Luxembourg	2	82.90	0.27%	
Russia	1	-	-	
Singapore	12	56.92	0.18%	
USA ¹	1	93.38	0.29%	

Appendix 2. List of Functions (1/2)

Function Name	Description	Availability
1. Login Deposit/Demat Order	<ul style="list-style-type: none"> New function will enable CP to submit i) a deposit request for non-participating securities; or ii) a demat with transfer request for participating securities 	<ul style="list-style-type: none"> New function will be available for both participating securities and non-participating securities The function time will be from 08:00 to 17:00 HK time from Monday to Friday (except public holidays)
2. USI Transfer Request	<ul style="list-style-type: none"> New function will enable CP to submit a USI transfer request for participating securities (transfer to/from HKSCC-NOMS) – 	<ul style="list-style-type: none"> New function will be available for participating securities only The function time will be from 07:30 to 19:00 HK time from Monday to Friday (except public holidays) The cutoff for transmitting the USI transfer request to ASRs on same day is 13:30 HK time
3. Login Deposit/Demat Order Batch File Upload	<ul style="list-style-type: none"> New function will enable CP to upload a file for i) deposit requests for non-participating securities; or ii) demat with transfer requests for participating securities 	<ul style="list-style-type: none"> New function will be available for both participating securities and non-participating securities The function time will be from 08:00 to 17:00 HK time from Monday to Friday (except public holidays)

Appendix 2. List of Functions (2/2)

Function Name	Description	Availability
4. USI Transfer Request Batch File Upload	<ul style="list-style-type: none"> New function will enable CP to upload a file for USI transfer requests for participating securities (transfer to/from HKSCC-NOMS) 	<ul style="list-style-type: none"> New function will be available for participating securities only The function time will be from 07:30 to 19:00 HK time from Monday to Friday (except public holidays) The cutoff for transmitting the USI transfer request to ASRs on same day is 13:30 HK time
5. Stamp Duty Payment Request	<ul style="list-style-type: none"> New function (optional) will enable CP to make a stamp duty payment for CBO off-exchange transfers to IRD via CCASS 	<ul style="list-style-type: none"> The function time will be from 08:00 to 19:00 HK time from Monday to Friday (except public holidays)
6. Enquire Stock List function	<ul style="list-style-type: none"> Existing function enables CP to enquire a list of eligible CCASS securities, i.e. both participating securities and non-participating securities 	<ul style="list-style-type: none"> Pull-down menu of the field “STATUS” in prompt screen will be enhanced with a new field “Eligible for Demat / USI Transfer” to enable CP to enquire if the securities are participating securities. Participating securities will be marked as “Y” in this field
7. Corporate Representative / Proxy Instruction Maintenance	<ul style="list-style-type: none"> Existing function enables CP to provide its corporate representative / proxy information for the meetings 	<ul style="list-style-type: none"> A new field “Email Address for online meeting” will be added in detail screen. The new field will be applicable to both participating securities and non-participating securities



Appendix 3. List of Reports (1/2)

- Reports relating to the transfer of participating securities in uncertificated form will be available via CCASS to CPs including:

Report Name	Description	Availability
1. USI Transfer Request Activity Report	• New report will contain daily activities transacted by CP and housekeeping system activities	• New report will be available at day-end from Monday to Friday (except public holidays)
2. USI Transfer Request Status Report	• New report will list the latest status of the USI Transfer Requests	• New report will be available at day-end from Monday to Friday (except public holidays)
3. USI Transfer Request Batch Input Control Report	• New report will show the validation results of the uploaded USI Transfer Request files	• New report will be available shortly after batch validation triggered from Monday to Friday (except public holidays)

- Reports relating to deposits of participating securities and non-participating securities in certificated form will be available via CCASS to CPs including:

Report Name	Description	Availability
1. Deposit/Demat Order Maintenance Audit Trail Report	• New report will contain activities in relation to the CP's Login Deposit/Demat Order	• New report will be available at day-end from Monday to Friday (except public holidays)
2. Deposit/Demat Order Status Report	• New report will list the latest status of the "Login Deposit/Demat Orders"	• New report will be available at day-end from Monday to Friday (except public holidays)
3. Deposit/Demat Order Certificate(s) Detail Report	• New report will list the certificate details submitted and accepted by HKSCC	• New report will be available at day-end from Monday to Friday (except public holidays)
4. Rejected Deposit/Demat Order Certificate(s) Detail Report	• New report will list the certificate(s) detail, if any, being rejected by the relevant Securities Registrar on the day	• New report will be available at day-end from Monday to Friday (except public holidays)
5. Deposit/Demat Order Batch Input Control Report	• New report will show the validation results of the uploaded Deposit/Demat Order Batch Files	• New report will be available shortly after batch validation triggered from Monday to Friday (except public holidays)

Appendix 3. List of Reports (2/2)

- Reports relating to stamp duty payment request will be available via CCASS to CPs including:

Report Name	Description	Availability
1. Stamp Duty Payment Request Activity Report	• New report will list i) the daily activities in relation to the Stamp Duty Payment Request	• New report will be available at day-end from Monday to Friday (except public holidays)
2. Stamp Duty Payment Request Status Report	• New report will list out the latest status of the Stamp Duty Payment Requests for the day	• New report will be available at day-end from Monday to Friday (except public holidays)

- Existing reports relating to corporate action activities will be enhanced and available via CCASS to CPs including:

Report Name	Description	Availability
1. CRP Batch Input Control Report (CCNVT08)	• Existing report shows the validation results of the Corporate Representative/ Proxy (CRP)'s file	• Email address is added for hybrid/ virtual meeting
2. Nominee Functions Input Activities (CCNPT01)	• Existing report lists out the activities in relation to nominee functions	• Email address is added for hybrid/ virtual meeting

Appendix 4. List of Consultation Papers and Conclusion relating to USM

- (Jul 2024) Consultation conclusions on proposed subsidiary legislation, code and guidelines for implementing an uncertificated securities market in Hong Kong
- (Oct 2023) Consultation on proposed code and guidelines for implementing an uncertificated securities market in Hong Kong
- (Mar 2023) Consultation paper on proposed subsidiary legislation for implementing an uncertificated securities market in Hong Kong
- (Apr 2020) Joint Consultation Conclusions on Revised Operational Model for Implementing an Uncertificated Securities Market in Hong Kong
- (Jan 2019) Joint Consultation Paper on a Revised Operational Model for Implementing an Uncertificated Securities Market in Hong Kong
- (Sep 2010) Joint consultation conclusions on a proposed operational model for implementing a scripless securities market in Hong Kong
- (Dec 2009) Joint consultation paper on a proposed operational model for implementing a scripless securities market in Hong Kong