



INSIDE CLEAR TALK

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ClearTalk

Clear Talk is the information bulletin of Hong Kong Securities Clearing Company Limited. All contributions, enquiries, letters to the editor, and any other items of interest are most welcome and should be addressed to:

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SECURITIES ADMINISTRATORS FROM CHINA AND TAIWAN VISITS HONGKONG CLEARING

Sixteen delegates from the China Securities Regulatory Commission (CSRC), Shanghai Stock Exchange, Shanghai Securities Administration Office, Shenzhen Stock Exchange, Academy of the Central Committee of the Communist Party of China, Hong Kong and Macao Affairs Office of the State Council and the Securities & Exchange Commission of Taiwan, visited Hongkong Clearing in October 1996.

As part of the 5th PRC Secondment Programme co-organised by the Securities & Futures Commissions and the Stock Exchange, a one-day visit to Hongkong Clearing was arranged for the delegates.

Picture shows the delegation together with staff members of Hongkong Clearing.



HONGKONG CLEARING CELEBRATES SEVENTH ANNIVERSARY

Acting Secretary for Financial Services, Lessie Wei, addressing guests at Hongkong Clearing's Seventh Anniversary Reception. (Details see Page 2-3)



SECURITIES BORROWING AND LENDING BULLETIN BOARD IMPLEMENTED

A securities borrowing and lending bulletin board service on CCASS screen was implemented on 30 September.

Maintain Stock Borrowing Requests

The Maintain Stock Borrowing Requests function allows participants to input their stock borrowing requests for other participants' enquiries and response.

All borrowing requests are automatically purged from the system at day end. Participants should re-input unfilled borrowing requests on the following business day.

Enquire Stock Borrowing List

The Enquire Stock Borrowing List function allows participants to make general enquiries about stock borrowing requests by participants. Confidential information, such as

the identity of requesting participants, will not be displayed. However, participants will be able to contact the borrowers' representatives according to the information provided.

Enquire Stock Lender List

Enquire Stock Lender List replaces the hard copy lender list circular. It allows participants to make on-line enquiries about the list.

The information is maintained by Hongkong Clearing and is updated periodically. Potential stock borrowers should contact the lenders who, however, are under no obligation to conclude a deal.

Amendments have been made to the CCASS Terminal User Guide covering the new service and copies of the amendments are available at Hongkong Clearing's service counters hall on the 2nd Floor of Vicwood Plaza.



HONG KONG CLEARING

Hongkong

Clearing celebrated its seventh anniversary on 29 October at a reception which brought together hundreds of guests from the financial industry.

CELEBRATES SEVENTH ANNIVERSARY

Hongkong

Clearing chairman, John Chan, said: "This year has been a special year for Hongkong Clearing. The opening of our own central depository enabled us to widen the range of electronic services offered to

our participants, and to reduce the costs.

Guest of honour, Lessie Wei, Acting Secretary for Financial Services, said that the establishment of CCASS was among the most important and far-reaching reforms in the securities market in the past decade.

"These achievements helped us meet our mission to reduce risk and cost, and improve efficiency in securities trade processing.

"CCASS has played an important role in our risk management system, to the benefit of all investors. It has reduced systemic market risks and uncertainty, reduced transaction costs, increased market capacity and paved the way for new products," Mrs Wei said.

"Hongkong Clearing is in a sound financial condition. This has enabled us to give further discounts on our charges to our participants --- yet again," Mr Chan said.





QUICK QUIZ COMPETITION



Lessie Wei, Acting Secretary for Financial Services (fourth from left) and Stewart Shing, Hongkong Clearing chief executive (fifth from left) with representatives from the five winners of the Quick Quiz Competition: (from left) Nava SC Securities Ltd, Pasay Stock & Shares Ltd, Goldman Sachs (Asia) Securities Ltd, Union Securities Co and Po Sang Bank Ltd at the Seventh Anniversary Reception.

Hong Kong Clearing has organised a Quick Quiz Competition open to all CCASS participants as a special feature of this year's anniversary celebration. Following are answers to the Quiz:

1. What is the mission of Hongkong Clearing?

The mission of Hongkong Clearing is to reduce cost and risk, and improve efficiency (1 mark) (1 mark) (1 mark) of post-trade processing in the securities market.

Total: 3 marks

2. What is the settlement period of the Exchange trades?

Trade date plus 2 settlement days. (1 mark) (1 mark)(1 mark)

OR

T+2 (2 marks only)

Total: 3 marks

3. When a black rainstorm warning is issued on a business day, under what situation will that day be treated as a 'non-trading settlement day'?

If a black rainstorm warning is issued between 9:00 am to 10:00 am and ceased after 12:00 noon, that day will be treated as 'non-trading settlement day'.

Total: 1 mark

4. What is the stock deposit fee for a deposit of 100 board lots of Hong Kong and China Gas Co. Ltd. stocks (stock code: 003) into the CCASS Depository?

None. (Hongkong Clearing does not charge any stock deposit fee.)

Total: 1 mark

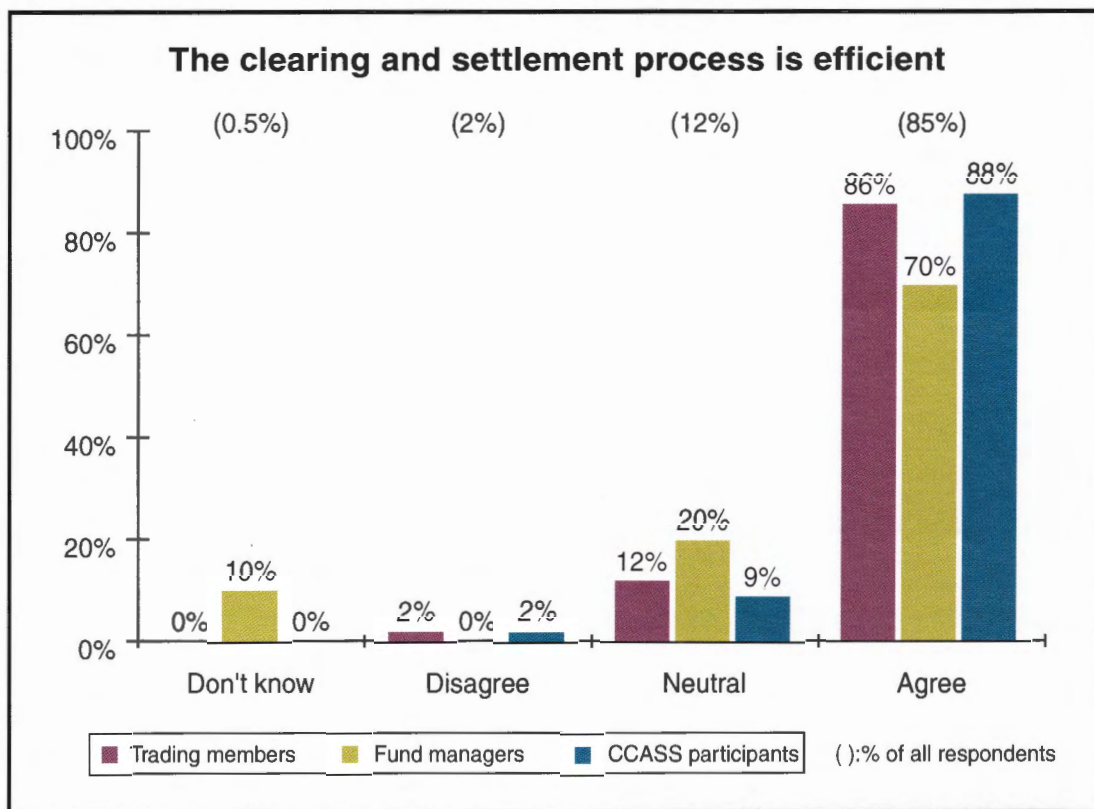
5. A client has instructed custodian participant ABC to transfer 100 board lots of Cheung Kong Holdings Ltd. stocks (stock code: 001) to broker participant XYZ. This transaction was done by inputting Settlement Instructions (SIs). The SIs matched and the stock was transferred. If the stock price was \$55 at the time of transaction, how much should Hongkong Clearing charge per side for this transaction?

*SI input fee : \$1
 Stock settlement fee : Gross value of the SI transaction x 0.005%
 = (100 x 1,000* x \$55) x 0.005%
 = \$275 (subject to a maximum of \$250)
 Total fee charged : \$1 + \$250 = \$251*

**One board lot of Cheung Kong represents 1,000 shares*

Total: 1 mark

SURVEY SHOWS MARKET PRACTITIONERS SATISFIED WITH CCASS



Market practitioners are highly satisfied with the services provided by Hongkong Clearing and consider the clearing and settlement fees fairly reasonable. These were among the major findings of the Secondary Market Survey 1996, of major users of the securities secondary market conducted by the Stock Exchange in June.

The Stock Exchange surveyed its trading members, local fund managers and non-Exchange member participants in CCASS. The overall response rate was 64 per cent.

The survey showed that CCASS's clearing and settlement process was perceived as

efficient. Around 85 per cent of the respondents were satisfied with the system. (see figure)

A high degree of satisfaction was also obtained regarding Hongkong Clearing's share depository services (78% satisfied vs 3% dissatisfied) and nominee services (66% satisfied vs 5% dissatisfied). The clearing and settlement fees charged by Hongkong Clearing were considered fairly reasonable (33% agreed vs 21% disagreed).

Stock Exchange members in general supported the direct participation of investors in CCASS (52% agreed vs 10% disagreed).

Further risk reduction achieved with the implementation of RTGS

Implementation of RTGS, Real Time Gross Settlement by the banking system, will help further reduce Hongkong Clearing's risk exposure and will only slightly affect the settlement procedures.

Cash prepayment through CHATS

Payments through the banking system's Clearing House Automated Transfer System (CHATS) will be settled by RTGS, scheduled for implementation in December. There will be no need for Hongkong Clearing to impose bank concentration limits on payments through CHATS. CCASS Operational Procedures will be amended to remove the checking requirement. However, broker participants who wish to use the cash prepayment service will still be required to call the Settlement Services Department in advance.

Release of allocated shares

After implementation of RTGS, allocated shares will be released to broker participants on S+1 after Hongkong Clearing's banker confirms completion of interbank clearing of direct debit

instructions. This will help reduce Hongkong Clearing's exposure to paying bank defaults. Hongkong Clearing expects to release allocated shares no later than 10:45am on S+1 if no CCASS payment instructions have been returned by any Designated Bank; and no later than 11:55am if there are any returns. Arrangements have been made to ensure as far as possible that allocated shares are released before the first batch settlement run on S+1.

Broker participants will be notified by Broadcast Message through their CCASS terminals when the allocated shares have been released.

Broker participants who require earlier release of allocated shares are advised to pay for them through CHATS, Internal or Hexagon Transfer on settlement day.

CCASS STATISTICS

The upward trend in the market continued during the two months of August and September 1996. Hang Seng Index increased 1,221 points during these two months and closed at 11,902.

Exchange Trades

In August, an average of 37,536 trades were processed daily in CCASS, involving 1.71 billion shares valuing \$4.5 billion. The daily average of Exchange trades increased to 42,609 in September, involving 2.22 billion shares valued at \$5.1 billion.

During these two months, CCASS processed 99.93 per cent of Exchange trades daily.

Netting Efficiency of CNS Trades

A daily average of 36,701 trades with a total value of \$3.92 billion went through CCASS for continuous net settlement (CNS) in August. An average of 73,402 novated contracts was created daily and netted to 18,750 CNS positions, leaving 25.65 per cent of novated contracts for settlement.

In September, the daily average number of trades went through CCASS for CNS rose to 41,726 at a value of \$4.47 billion. An average of 83,452 novated contracts was created daily and netted to 20,063 CNS positions, leaving 24.40 per cent for settlement.

In August, novated contracts generated a daily average of \$8 billion in money obligations which were netted to \$2.5 billion. The daily money obligations generated from novated contracts in September was \$9 billion and were netted to \$2.9 billion. The daily average funds netting efficiency for August and September were 68.78 and 67.76 per cent respectively.

Settlement Efficiency of CNS Stock Positions

The daily average settlement efficiency rate of CNS stock positions for August was 95.64 per cent on the due day and 99.78 per cent on the settlement day following the due date. The figures for September were 95.94 per cent and 99.82 per cent.

Settlement Instructions (SIs)

In August, an average of 12,558 SIs were settled daily in CCASS, involving 2.42 billion shares with a market value of \$13.5 billion.

The average number of SIs settled daily in CCASS in September was increased to 13,575 which involved 3.28 billion shares valued at \$15.5 billion.

Depository Transactions

In August, the CCASS Depository handled an average of 1,248 deposit/withdrawal transactions per business day, and processed 36,000 share certificates a day. The corresponding figures were 1,250 transactions involving 39,000 share certificates per business day in September.

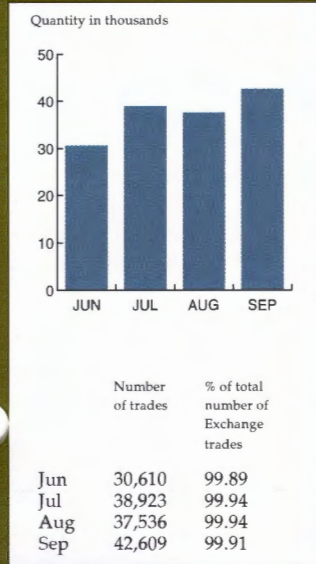
As at the end of September, 838 stocks had been admitted into CCASS for clearing and settlement. About 192 billion shares were under the custody of the CCASS Depository, representing 42.85 per cent of the total issued share capital of the admitted stocks. The total market value of the shares was \$874 billion, representing 28.73 per cent of the total market capitalisation of the admitted shares.

Participants

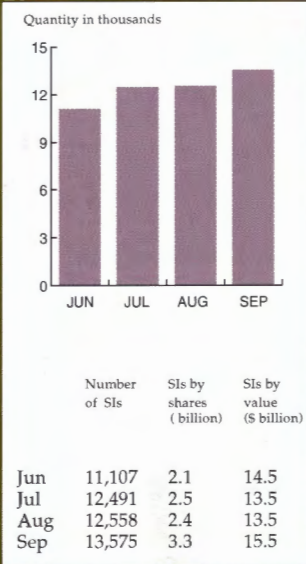
At the end of September, there were 555 CCASS participants including 487 broker participants, 63 custodian participants, four stock pledgee participants, and one clearing agency participant.

OPERATIONS HIGHLIGHTS (JUN - SEP 1996)

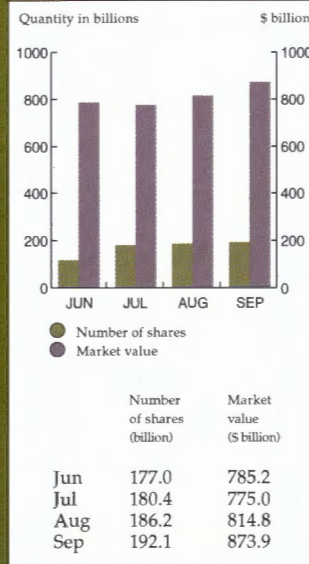
Average daily Stock Exchange trades processed in CCASS
(including CNS trades, isolated trades and cross trades)



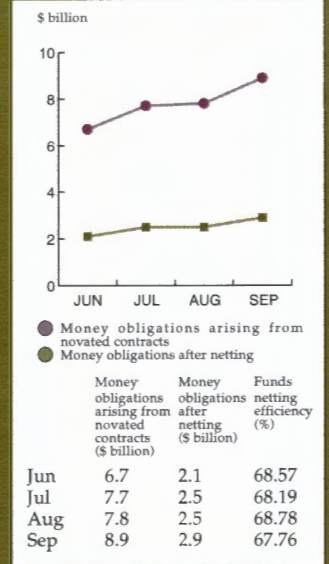
Average daily Settlement Instructions (SIs) settled in CCASS
(both receiving and delivering SIs are counted)



Securities under CCASS custody
(balances at the end of each month)



Average daily funds netting efficiency under CNS



Quick Quiz

1. How much is in Hongkong Clearing's Guarantee Fund? How much does each component of the fund contribute?

2. Under what circumstances will a participant be able to effect settlement with a stock account other than the Stock Clearing Account?

3. If the number of a participant's votes FOR and AGAINST an AGM/EGM resolution is less than his total shareholding, what will happen to the shares of which no vote is cast?

Answers on page 10.

HONGKONG CLEARING REPORTS 12% GROWTH IN SURPLUS

Hongkong Clearing reported an after tax surplus of \$101 million on revenue of \$407 million for the year ended 30 June. This was an increase of 12 per cent over the previous year's surplus.

In the recently published annual report, John Chan, chairman, attributed this to increased stock market turnover, especially during the second half of the financial year.

He said integration of depository services into CCASS had made the Company more responsive to participants' changing needs, and had resulted in cost savings for the Company and improved

services for its participants.

"A CCASS terminal enhancement project to upgrade the current CCASS terminal into a more intelligent PC is underway," Mr Chan said. "The enhanced terminal will support business requirements, such as mainframe to

mainframe connection and provide a better platform for Hongkong Clearing to deliver further enhancements in the future."

Mr Chan said the Company was developing a working model for direct investor accounts in CCASS. A report on the working model would be submitted to the Board of Directors and a decision

would be made by the end of 1996 if at all possible.

"Meanwhile, the availability of stock segregated accounts with statement service was increased from 50 to 1,000 per

participants and the service charge was reduced from \$100 to \$10 per account per month to encourage more investors to use the service," Mr Chan said.

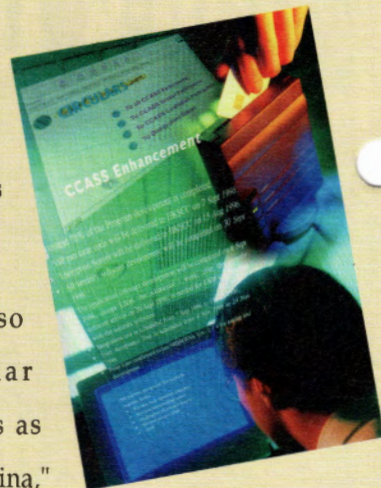
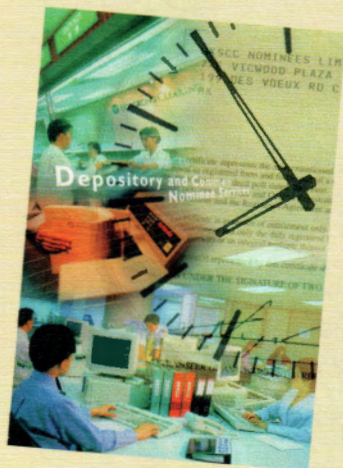
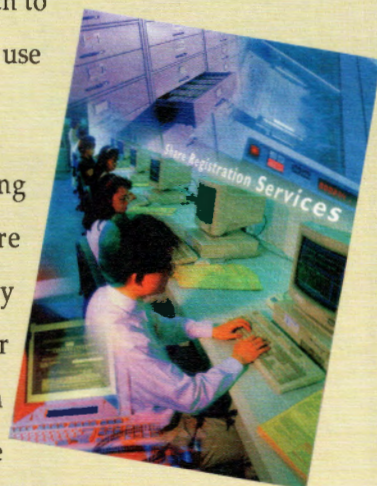
"The Company is preparing for the admission of more debt securities into CCASS by the end of 1996. Further developments of the system are also being studied for the clearing and settlement of foreign currency denominated securities," he said.

Mr Chan reported that the Company was working closely with its banker, participants' designated banks and the Hong Kong Association of Banks in preparation for the launch of Real Time Gross Settlement by the banks, scheduled for December.

"The Company continued to work closely with the government, the Securities and Futures Commission and the financial services industry on developments to help strengthen Hong Kong's international position.

"Good relations were also maintained with similar international organisations as well as our counterparts in China," Mr Chan said.

In his Administration Report, outgoing chief executive, Richard Heckinger said the Company's staff and systems had again demonstrated their capacity and resilience. "Participants enjoyed 99.96 per cent system availability for the year," he reported.



ENHANCED CCASS TERMINAL PROJECT UPDATES

Hongkong Clearing will implement the Enhanced CCASS Terminal Project in the first half of 1997. Following are two of the Enhanced Terminal features :

Smart Card Device

- * Local Access Control
 - Access to specific function and functions' combination can be controlled by CCASS participants.
- * Avoid Interruption by Third Party
 - If terminal user leaves the terminal temporarily (and removes his smart card), the screen will be locked to prevent third party interruption for a certain period.
- * No Duplication
 - Secret information on the smart card cannot be duplicated.
- * Protection of Password and other Secret Information
 - Secret information on the smart card cannot be decoded through the PC or captured by intruder programs running on the PC.
- * Digital Signature
 - Data/files upload to CCASS will be digitally signed to identify the sender of the data/files.
- * Internal Real Time Clock
 - Useful for digitally signed transactions that require a true time stamp
 - Cannot be altered by any user / PC.

Host to Host Connection

Host to host connection means that CCASS participants' host computer can be electronically linked to that of Hongkong Clearing's.

- * Multiple Platforms
 - Can connect to different machine platform (e.g., PC, Sun, HP, AS/400, IBM mainframe and etc) via the terminal.
- * Standard Program Interface
 - Provide a standard program interface to all different machine platforms.
 - Participants' host computers require installation of a computer program called 'MQ Series' which can be purchased separately from computer vendor.
 - Participants would require to develop their application to connect the standard program interface.
- * More Efficient Data Communication
 - CCASS reports, data images could be downloaded directly to participants' host computer for further processing.
 - Data prepared in participants' host computers (e.g., SI and ATI) could be uploaded directly. This would eliminate the step of generating a computer diskette or file to store the data before uploading to CCASS.
- * Maker-Checker Facility
 - Provide an option to view and authorize each data upload request.

DETAILED REPORT FORMATS INCLUDED IN TERMINAL USER GUIDE

A new appendix on report specifications has been added to the CCASS Terminal User Guide For Participants.

Appendix G of the Terminal User Guide, issued in August 1996, displays the detailed specifications of all CCASS reports.

Presently, some CCASS participants process CCASS reports electronically, either through software they developed themselves, or use services provided by external software vendors. When CCASS services are enhanced, formats of some of these reports may be changed.

The report specifications in the new appendix will be updated and sent to participants when there are changes. This allow participants or their vendors to make adjustments to their software, if necessary, to handle the new reports resulting from enhancements.

CCASS NOTICE BOARD

INPUT OF SUBSCRIPTION INSTRUCTIONS MADE EASY!

When inputting a subscription instruction into CCASS for subscription to a rights offering or other subscription instructions to corporate announcements, you can make use of the ADD SUBSCRIPTION INSTRUCTION function.

OPERATION STEPS

1. On the CCASS terminal, choose **Maintain Subscription Instruction** from the Participant Menu Screen. Then choose **ADD SUBSCRIPTION INSTRUCTION**.
2. The **ADD SUBSCRIPTION INSTRUCTION DETAIL** screen appears.
3. When inputting a subscription instruction, simply fill in the following fields:
 - i) Announcement number of the corporate announcement being subscribed to
 - ii) Subscription stock quantity
 - iii) Stock account from which the stock quantity is to be debited
4. Press <ENTER> to display the stock and announcement type, and the calculation of the subscription money and charges.
5. Record the subscription instruction to CCASS by pressing <F10>.

NOTE:

- * The instruction recorded is at 'Pending' status.
- * A 'Pending' subscription instruction can be changed within the subscription period using the **CHANGE SUBSCRIPTION INSTRUCTION** function.
- * A 'Pending' subscription instruction requires authorisation using the **AUTHORISE SUBSCRIPTION INSTRUCTION** function (To be explained in the next issue of *Clear Talk*).

Details of the ADD SUBSCRIPTION INSTRUCTION function and its operations can be found in Section 4.16 of the CCASS Terminal User Guide for Participants.

HONGKONG CLEARING PARTICIPATES IN EXECUTIVE TRAINING PROGRAMME IN BEIJING



Eleven executives of Hongkong Clearing have participated in a Public Bodies Executive Development Programme in Beijing since 1995. The two-week Programme is designed by seven sponsoring companies in Hong Kong and organised by the National School of Administration in Beijing to increase the Hong Kong executives' general understanding on the political, social, economic and legal systems in China.

The seven sponsoring companies are Hong Kong Futures Exchange, Hongkong Clearing, Hong Kong Tourist Association, Hong Kong Trade Development Council, Hospital Authority, Securities and Futures Commission and the Stock Exchange of Hong Kong.

Picture (above) shows Judy Chan, assistant director of Personnel and Administration (second from left) and Henry Chan, executive director of Information Technology (middle) with executives from the Stock Exchange during a visit to Beiren Printing Machinery Holdings Limited in Beijing while attending the Programme. Picture (right) shows Suzane Chan, senior manager of Legal and Secretarial Services presented with a certificate during a graduation ceremony.



DIRECT STOCK ADMISSIONS

During the two months of September and October 1996, a total of 82 eligible new issues were admitted to CCASS of which 7 issues adopted Jumbo Certificate arrangement.

	Ordinary Shares	Registered Warrants	Rights	Total
Eligible new issues listed on the Stock Exchange and admitted to CCASS	6	70	6	82
Issues adopted Jumbo Certificate arrangement	6	1	N/A	7

Quick Quiz

1. On 26 September 1996, the size of the Guarantee Fund was increased to \$250 million, composed of the broker participants' \$100 million contribution, \$100 million in insurance cover and \$50 million retained earnings contributed by Hongkong Clearing.
2. When a participant initiates settlement by the input of

a Delivery Instruction, he can specify any of his Stock Accounts from which securities should be debited. In the case of a Settlement Instruction (SI) transaction, both participants are allowed to specify in the SIs the stock accounts to make and take deliveries of securities for settlement purposes in CCASS.

3. CCASS automatically calculates the total shareholding less the number of shares input FOR and AGAINST the resolution and treats the difference as abstentions.