



INSIDE CLEAR TALK

“
ISSUE 30”

NOVEMBER 1997

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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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HONGKONG CLEARING ACCEPTS STOCK AS COLLATERAL

Hongkong Clearing will accept stock as collateral as an alternative to cash marks early next year.

Kim Mok, Director of Compliance Department, said this would increase participants' flexibility in funding arrangements; reduce pressure on money market liquidity; and increase the pace of immobilisation.

"When the securities market is volatile, participants may require to pay substantial cash marks to Hongkong Clearing which could create a liquidity squeeze. Accepting stock as collateral in lieu of cash will provide extra flexibility to participants' funding arrangements and relieve liquidity pressure in money markets.

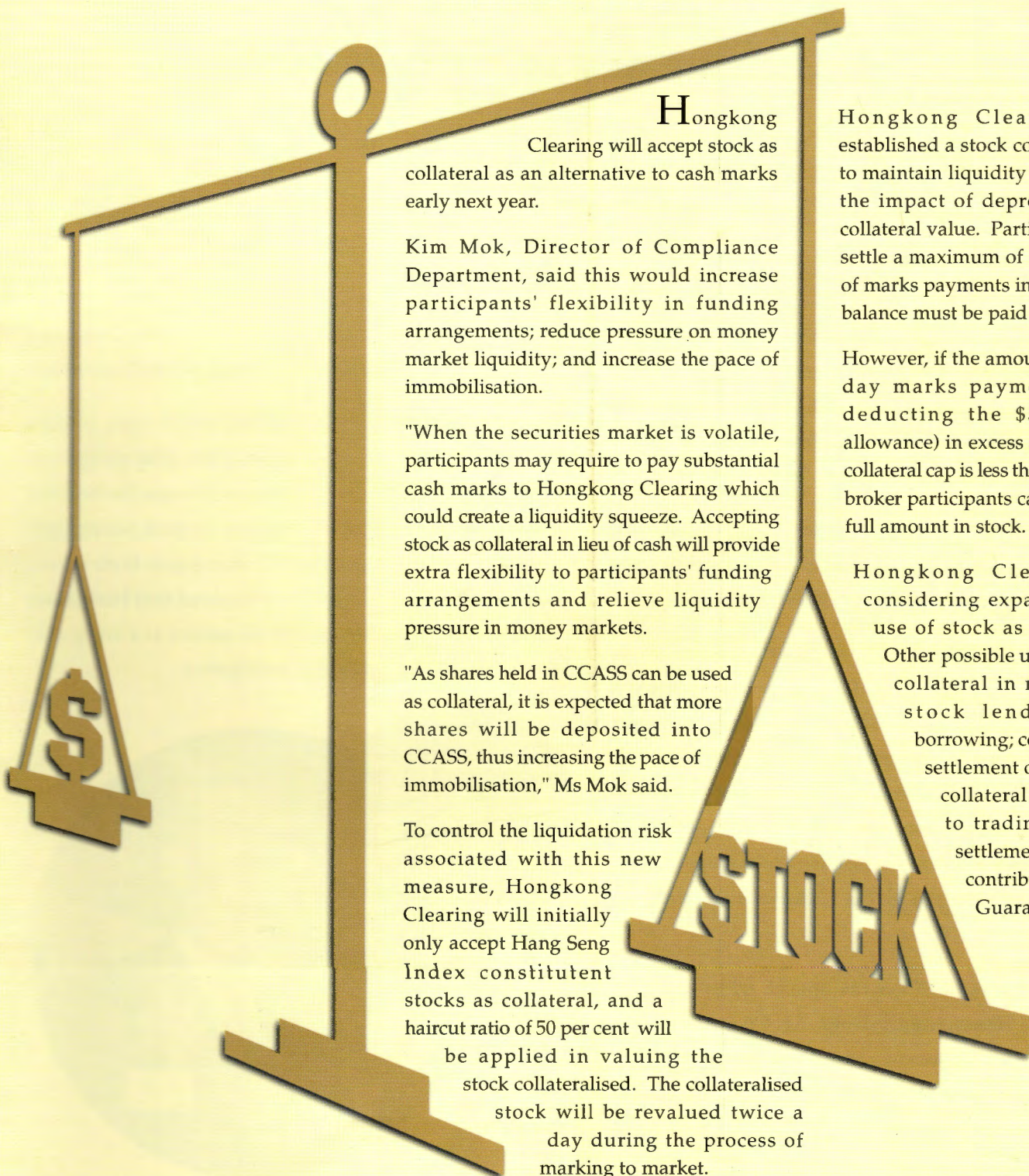
"As shares held in CCASS can be used as collateral, it is expected that more shares will be deposited into CCASS, thus increasing the pace of immobilisation," Ms Mok said.

To control the liquidation risk associated with this new measure, Hongkong Clearing will initially only accept Hang Seng Index constituent stocks as collateral, and a haircut ratio of 50 per cent will be applied in valuing the stock collateralised. The collateralised stock will be revalued twice a day during the process of marking to market.

Hongkong Clearing has established a stock collateral cap to maintain liquidity and reduce the impact of depreciation in collateral value. Participants can settle a maximum of 70 per cent of marks payments in stock. The balance must be paid in cash.

However, if the amount of intra-day marks payment (after deducting the \$5 million allowance) in excess of the stock collateral cap is less than \$500,000, broker participants can settle the full amount in stock.

Hongkong Clearing is considering expanding the use of stock as collateral. Other possible uses include collateral in relation to stock lending and borrowing; collateral for settlement obligations; collateral in relation to trading beyond settlement cap; and contribution to the Guarantee Fund.



Picture shows: John Chan (second from right), Chairman, proposes a toast to the future of Hongkong Clearing.

HONGKONG CLEARING CELEBRATES ITS EIGHTH ANNIVERSARY

"Hongkong Clearing has proved again and again that its CCASS is robust, sound, secure and highly efficient, no matter which way the market goes, no matter how high the volatility," said Rafael Hui, Secretary for Financial Services.

Mr Hui was speaking as guest of honour at the eighth anniversary reception of Hongkong Clearing on 30 October, 1997. He congratulated all members of the staff for their contribution to the strengthening and continued improvement of CCASS over the years.

More than 600 guests from the financial services industry, government and business sectors joined Hongkong Clearing to celebrate its eighth anniversary.

Mr Hui also addressed the future development of Hongkong Clearing. "Your Chairman has outlined a number of future improvements including the much awaited direct investor participation at a reasonable cost. And I also understand that the clearing company is in active and detailed discussion with the Hong Kong Monetary Authority on further improving the linkage of the clearing system with the HKMA's real time gross settlement system," he said.

Mr Hui's remarks echoed the speech of John Chan, Chairman of Hongkong Clearing. Mr Chan stated that Hongkong Clearing was in good shape, both financially and operationally. "Our systems were fully capable of meeting the demands of the Hong Kong securities

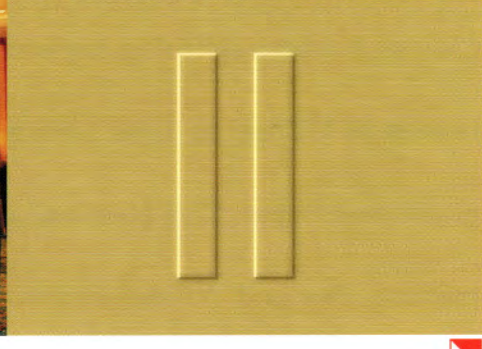
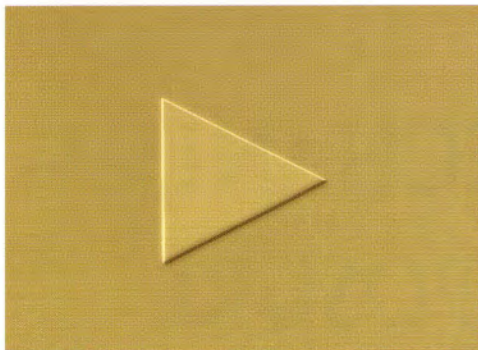
market during the recent period of global turbulence and high volatility. The introduction of additional risk management measures and the upgrading of computer systems have contributed to our success," he said.

Mr Chan said Hongkong Clearing's record net surplus of \$288 million for the year had enabled the Company to give participants a further discount on settlement fees.

He said investor participation in CCASS, one of Hongkong Clearing's major projects this year, recognised both the need and desire of investors to enjoy the benefits of an electronic book-entry system of stock settlement; and to have legal and physical control over their shares deposited in CCASS. Mr Chan revealed that Hongkong Clearing might be able to offer the service at a lower cost to investors than originally anticipated.

Rafael Hui,
Secretary for Financial
Services, pays tribute to
Hongkong Clearing's robust,
sound, secure and highly
efficient clearing and
settlement system.





MARK-TO-MARKET MECHANISM CONTROLS RISK EXPOSURE

Hongkong Clearing adopts the Mark-to-Market mechanism as a risk management measure to minimise exposure to market fluctuations. Kim Mok, Director of Compliance Department

told Clear Talk that the mechanism functioned well during the turbulent market situations in October 1997.

Hongkong Clearing, acting as the settlement counterparty to all broker participants' Continuous Net Settlement (CNS) trades, is exposed to market risk caused by the fluctuations in stock prices.

"To monitor and control such risk exposure, Hongkong Clearing has been collecting day-end marks since the launch of CCASS in 1992. We mark-to-market participants' open CNS positions at the end of the trading day and collect unfavourable marks.

Collection of marks helps to confine our market risk to about a single day," she said.

Miss Mok said that Hongkong Clearing introduced intra-day marks in

February 1997 to further minimise market risk

during the day.

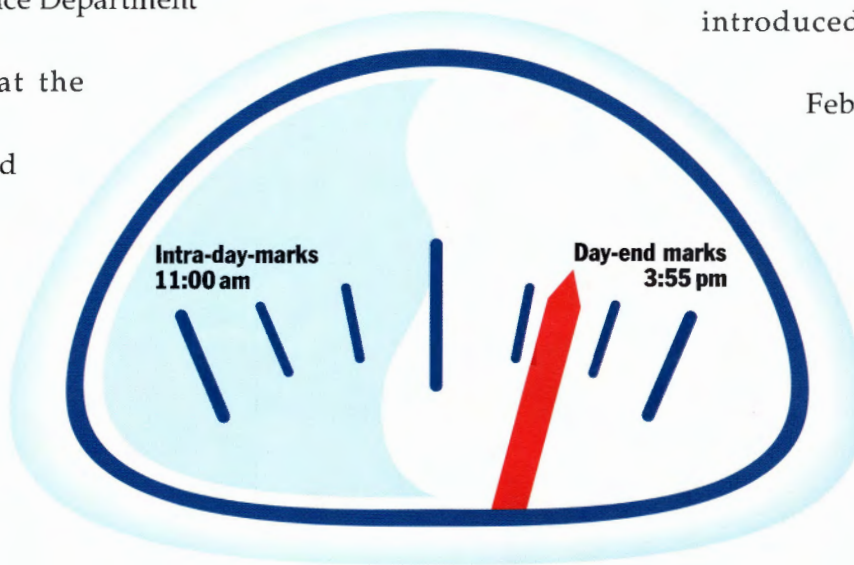
"Participants' open CNS positions are marked to market at

11:00 am daily and payment

of intra-day marks must be made to any of Hongkong Clearing's receiving banks by 2:00 pm," she said.

Hongkong Clearing collected a record of \$773 million intra-day marks from 64 broker participants on 23

October 1997.



**Kim Mok, Director of
Compliance Department**



COMPUTATION OF MARKS

		Contract value	Market value	Unfavourable Marks	Marks collection	Interest on marks payment
11:00 am	Long CNS stock position	\$10 million	\$4 million	\$6 million	<i>Intra-day marks</i> \$1 million (after deducting allowance of \$5 million)	Non-interest bearing as payments are either refunded at the end of the day, or offset against day-end marks.
3:55 pm	Short CNS stock position	\$15 million	\$20 million	\$5 million	<i>Day-end marks</i> \$4 million (\$1million intra-day marks already collected)	Interest-bearing. Interest for \$5 million calculated at the prevailing savings rate will be refunded the next settlement day.

Marks is the level of market risk expressed in money terms. It is the difference between the original contract value and the prevailing market value of an open CNS stock position.

EXECUTIVE DEVELOPMENT PROGRAMME IN BEIJING

The sixth Public Bodies Executive Development Programme was held in September 1997 in Beijing. Three senior executives of Hongkong Clearing completed the programme.

Coven Hui, Director of Internal Audit, Philip Cheng, Senior Manager of Data Communications and Winfred Ho, Manager of Depository Services attended the two-week programme conducted by the National School of Administration in Beijing. The programme aims to increase executives' general understanding of the political, social, economic and legal systems in China. So far, 18 senior executives from Hongkong Clearing have attended the course.

"It was a very good learning experience," said Philip Cheng. "Through the classroom training, I now know more about the various systems in China. I have also got a better understanding of the cultural and social environment of China through outside-classroom activities arranged by the organiser. This

programme also created valuable chances for us to meet Mainland government officials as well as executives from other organisations in Hong Kong," Mr Cheng said.

(from left) Winfred Ho, Coven Hui and Philip Cheng receive their graduation certificates.



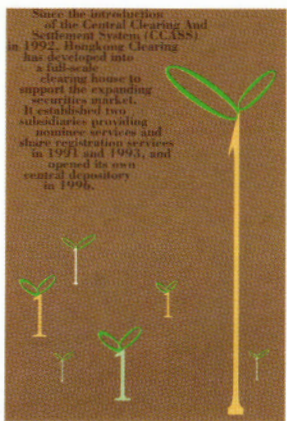
VICE-CHAIRMAN OF CSRC VISITS HONGKONG CLEARING

Mr Chen Yaoxian, Vice-Chairman of the China Securities Regulatory Commission, led a delegation to visit Hongkong Clearing recently. John Chan, Chairman and Stewart Shing, Chief Executive, met the delegation and discussed the latest development of the securities clearing and settlement system in the Mainland and Hong Kong markets.



(from left) Chen Yaoxian, John Chan and Stewart Shing.

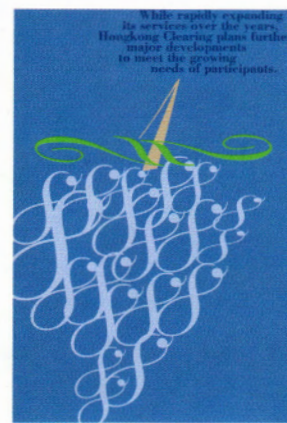
INCREASED EARNINGS REDUCE SETTLEMENT FEES



In the recently published annual report, Hongkong Clearing reported a record net surplus of \$288 million on revenue of \$688 million for the financial year 1 July 1996 to 30 June 1997.

John Chan, Chairman of Hongkong Clearing noted that the 186 per cent increase in surplus reflected consistently high stock market turnover throughout the year. "Because of the increased earnings, the Company has reduced settlement fees for the fifth time since the introduction of CCASS. The cumulative amount of discounts provided to participants was \$636 million by the end of the financial year under review," Mr Chan said.

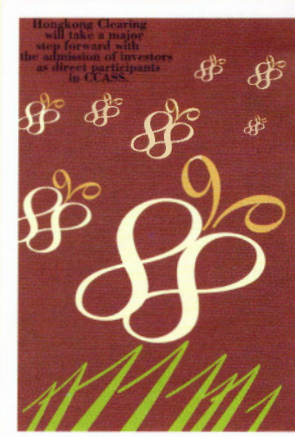
He said the Company would introduce direct investor



participation in CCASS in the first half of 1998. "The decision to implement investor participation in CCASS followed positive responses to the market consultation and investor surveys," he said.

The Company has developed a working model to

improve the flow of corporate communications from listed issuers to non-registered owners of shares deposited in CCASS. The launch of ECT, the Enhanced CCASS Terminal project, in May was well-received by participants. Hongkong Clearing is also re-examining the need for a centralised stock lending and borrowing service.



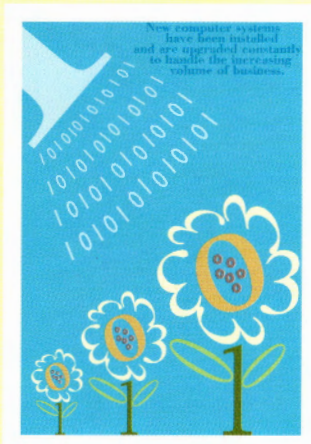
Hong Kong Securities Clearing Company Limited
ANNUAL REPORT 1996-1997

In his administration report, the chief executive, Stewart Shing, said the year under review was marked by high and at times record trading levels on the Stock Exchange. Hong Kong Clearing's systems were all on top of the task.

"During the year, CCASS processed an average of 82,544 Stock Exchange trades daily involving 4.5 billion shares valued at \$9.4 billion. The corresponding figures for last year were 35,491 trades involving 1.6 billion

shares valued at \$4.2 billion," Mr Shing said.

The Company continued to provide efficient post-trade processing throughout the year and participants enjoyed 100 per cent system availability.



HONGKONG CLEARING WILL BE IMMUNE TO THE MILLENNIUM BUG

2000

All CCASS applications, hardware and software will be immune to the millennium bug by the end of 1998.

Henry Chan, Executive Director of Information Technology, told participants of the Y2K (Year 2000) Conference sponsored by Merrill Lynch (Asia Pacific) Limited that CCASS was only developed six years ago and was Y2K compliant by design.

"All year fields use four digits. These include both internal and external date fields in interface files and report data files. However, the Share Registration System, stand-alone PC applications and vendor supplied hardware and software are not Y2K compliant and require conversion," Mr Chan said.

Held in November 1997, the Conference studied the impact of Y2K on the securities and financial services sectors. Other speakers included representatives from Merrill Lynch, the Securities and Futures Commission, Morgan Stanley New York, Citibank, Hongkong Bank and Deloitte Touche Tohmatsu. A total of 90 senior executives participated in the Conference.

"From now on, we will conduct a Y2K compliance test as part of the acceptance testing whenever CCASS is enhanced or new products added. An automated tool has been installed to examine all CCASS programs and all products and programs reviewed so far are Y2K compliant.

"A project team was set up in January 1997. It has completed detailed inventory and impact analysis. Our target is to complete all modifications by August 1998, and finish testing by November the same year," Mr Chan said.

The whole project will cost an estimated \$4 million, covering the purchase of

software tools, modifications of the Share Registration System, and the replacement of some telecommunication equipment.

"The largest task is upgrading vendor products, including our mainframe and midrange system software, telecom equipment and the PC/LAN system software. But most vendors are very cooperative in providing information on the software compliance levels or offering concrete plans to tackle the problem," Mr Chan said.

The underlying PC and operating systems of the CCASS terminal application, such as MS-DOS, are supplied by the CCASS participants. Hongkong Clearing will advise them to ensure their PC and

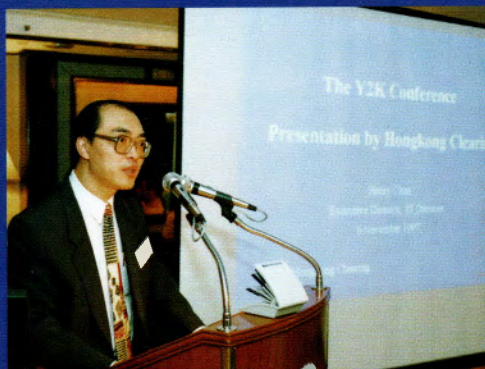
operating systems are Y2K compliant. "We plan to publish a list detailing vendors and versions which have been tested and are Y2K compliant. This will serve as a reference for participants when choosing their systems," Mr Chan said.

Hongkong Clearing also plans to test the linkages of CCASS

with other major business partners whose services are critical to the quality of CCASS performance and whose systems must also be Y2K compliant. Informal discussions with these partners indicated that they agreed with the timing of testing.

"We shall probably arrange some kind of rehearsal testing beginning in early 1999 for CCASS participants and designated banks. We will certainly support industry-wide testing, if this is arranged.

"The risk of CCASS having problems with the year 2000 is extremely low. We believe that increased awareness of the issue and communication are important in dealing with the millennium bug," Mr Chan concluded.



Henry Chan, Executive Director of Information Technology Division

1999

Corporate Communications Project to be Launched in February 1998

The working model proposed by the Working Group on Corporate Communications, of which Hongkong Clearing is a member, has been finalised and endorsed by all member organisations of the Group. The project, scheduled to be launched in February 1998, will improve the flow of corporate communications between listed issuers and non-registered holders of shares deposited in CCASS.

Work flow

When there is a corporate communication event, the listed issuer instructs its registrar to request Hongkong Clearing for the names and addresses of non-registered holders of its shares deposited in CCASS. At least one day before the Record Date (R-1), the registrar informs Hongkong Clearing of the event by on-line input if it has installed a CCASS terminal. If not, the registrar can fax the information, including stock code, description of the corporate communication and the record date, to Hongkong Clearing. Hongkong Clearing will request CCASS participants to

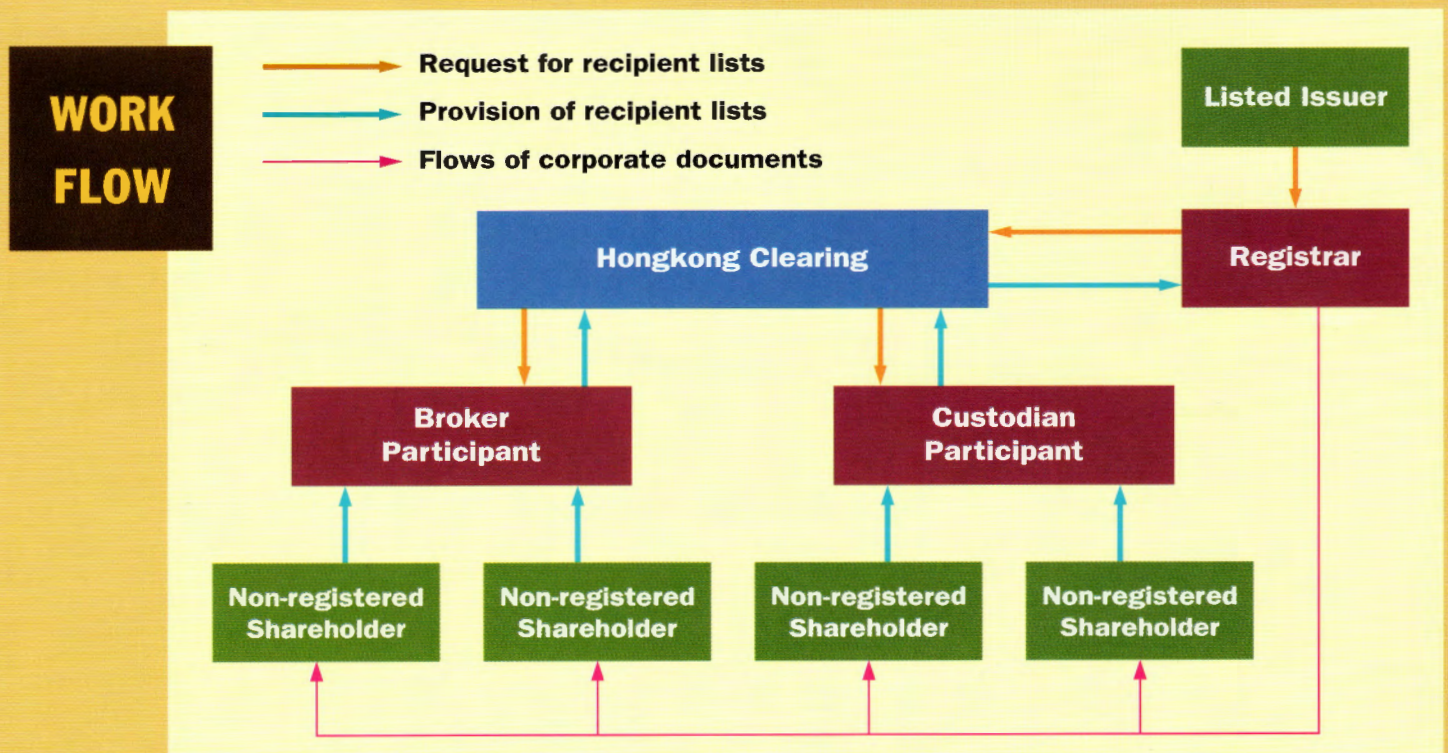
submit recipient lists through CCASS terminals.

CCASS participants can input the recipient lists, or upload files containing the lists, to Hongkong Clearing on R and/or R+1 through CCASS terminals. Hongkong Clearing will then consolidate the data and remove duplications on a best effort basis at day end of R+1 to create a validated list of recipients. Only one validated list of recipients will be generated for each corporate communication event.

On R+2, a registrar with CCASS terminal can print or download the address label file in its office. If the registrar does not have a CCASS terminal, hard copy of the address labels will be hand delivered to the registrar for mailing of corporate documents.

Amended Listing Rules of the Stock Exchange, to be effective in February 1998, will make it mandatory for listed issuers to deliver corporate information to non-registered shareholders. With the implementation of the project, non-registered holders of shares deposited in CCASS will receive corporate communications from issuers through the registrars.

CCASS broker and custodian participants are free to choose whether to participate in the service. Non-registered shareholders can also choose whether to use the service.



Seminar for registrars

To brief registrars on the detailed work flow of the project, Hongkong Clearing organised a seminar in early November, conducted by José Leung, Senior Manager of Planning and Development, and William Ho, Senior Manager of System Development. A total of 27 representatives from 15 registrars attended the briefing.

Hongkong Clearing recommends registrars to install CCASS terminals for the service. They will enjoy more efficient work flow and improved communication with Hongkong Clearing.

Training will be provided to registrars with CCASS terminals on the corporate communication functions in January 1998 before the launch of the project.

Following are some of the questions raised by registrars' representatives and Hongkong Clearing's responses:

1. How many participants are expected to send non-registered shareholders' information to Hongkong Clearing for forwarding to registrars?

As at 31 October 1997, a total of 90 CCASS participants had submitted to Hongkong Clearing, for the pilot test, names of segregated account statement recipients who wished to receive corporate communications directly from the issuers.

With the implementation of the project, CCASS participants will be able to provide corporate communication services to their clients. It is believed that market forces will encourage an increasing number of CCASS participants to offer the service.

2. How long does it take for registrars without CCASS terminals to receive the address labels?

Hongkong Clearing will deliver hard copies of the address label to registrars' offices by hand on the second day after the Record Date.

3. Will the current corporate communication event report be available after the launch of the project?

No, the current corporate communication event report, which shows the number of segregated account statement recipients holding a particular stock, is only available in the pilot scheme and will not be provided in the long term solution.

4. What criteria will be used by Hongkong Clearing to consolidate the recipient lists provided by CCASS participants and remove duplications?

Mainly, names and addresses of the recipients will be used to identify duplications.



Picture shows William Ho (left), Senior Manager of System Development, and José Leung, Senior Manager of Planning and Development, in a discussion session with the representatives from registrars.

CCASS STATISTICS

The number of trades in August increased significantly. The Hang Seng Index climbed to its highest level of 16,673 on 7 August but closed substantially lower than in July. During September, the index increased by 6.47 per cent from August to close at 15,049.

Exchange Trades

In August, an average of 264,948 Exchange trades were processed daily in CCASS, involving more than 15.6 billion shares with a value of \$31.8 billion. In September, the daily average dropped to 166,569, involving 9.5 billion shares valued at \$20.2 billion.

In August and September, 99.93 per cent and 99.97 per cent of Exchange trades were processed daily in CCASS.

Netting efficiency of CNS trades

A daily average of 261,341 Exchange trade went through CCASS for Continuous Net Settlement in August. The total trade value was slightly over \$30 billion. An average of 522,682 novated contracts were created daily and netted to 72,287 CNS positions, leaving 14.01 per cent of novated contracts for settlement.

In September, an average of 164,533 Exchange trades valued at \$19.2 billion went through CCASS daily for Continuous Net Settlement. The 329,066 novated contracts created were netted to 51,453 CNS positions, leaving an average of 16.27 per cent for settlement.

In August, novated contracts generated a daily average of \$61 billion in money obligations which were netted to \$9.5 billion. The daily average funds netting efficiency was 84.63 per cent. In September, \$38 billion in money obligations were netted to \$7.4 billion. Daily average funds netting efficiency was 80.6 per cent.

Settlement efficiency of CNS stock positions

The daily average settlement efficiency rate of CNS stock positions for August was 94.42 per cent on the due day and 99.75 per cent on the settlement day following the due day. The figures for September were 95.51 per cent and 99.82 per cent.

Settlement Instructions

In August, an average of 46,609 Settlement Instructions (SIs) were settled daily in CCASS, involving 13.2 billion shares with a market value at \$46.8 billion.

In September, the average number of SIs settled daily in CCASS fell to 36,975, involving 12.1 billion shares valued at \$40.6 billion.

Depository transactions

In August, the CCASS Depository handled an average of 3,101 deposit and withdrawal transactions per business day. The number of share certificates processed daily amounted to 64,000. The corresponding figures for September were 2,075 transactions involving 46,000 share certificates per business day.

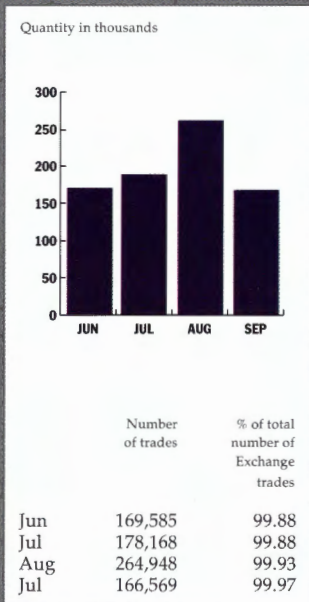
As at the end of September, 1,226 Stocks had been admitted into CCASS for clearing and settlement. About 439 billion shares were under the custody of the CCASS Depository, representing 57.68 per cent of the total number of shares of the admitted stocks in issue. The total market value of the shares was \$1,524 billion, representing 33.61 per cent of the total market capitalisation of the admitted stocks.

Participants

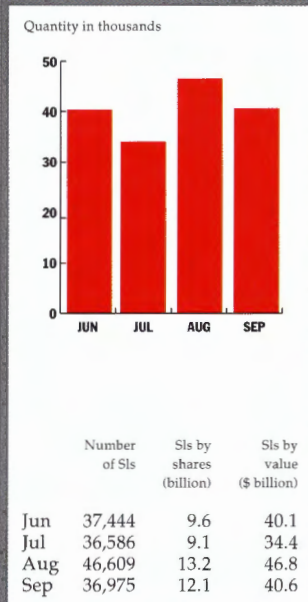
At the end of September, there was 566 CCASS participants, including 494 broker participants, 64 custodian participants, 7 stock pledgee participants and one clearing agency.

OPERATIONS HIGHLIGHTS (JUN-SEP 97)

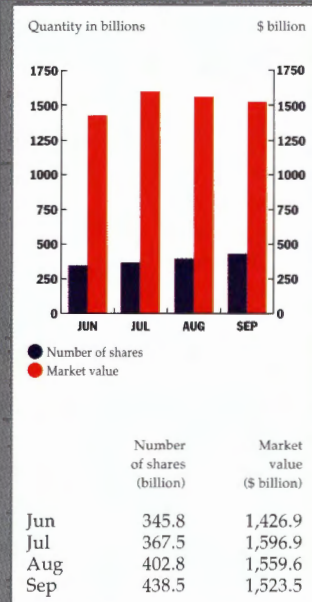
Average daily Stock Exchange trades processed in CCASS
(including CNS trades, isolated trades and cross trades)



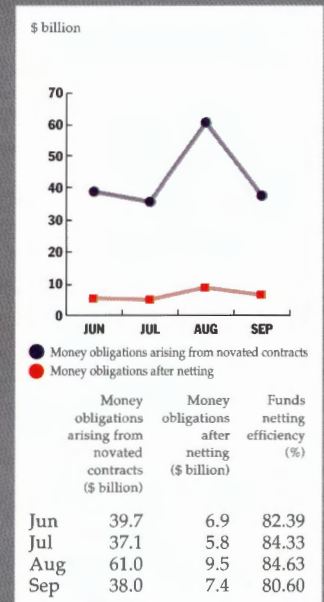
Average daily settlement instructions (SIs) settled in CCASS
(both receiving and delivering SIs are counted)



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



Average daily funds netting efficiency under CNS



Quick Quiz

1. What services are provided at Hongkong Clearing's service bureau?

2. How and when are participants informed whether their amended Exchange trades, approved by the Exchange, have been accepted by Hongkong Clearing under CNS?

3. When can participants use the on-line enquiry services through CCASS Terminals?

Answers on page 12.

CCASS NOTICE BOARD

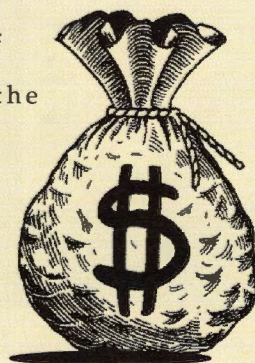
UNCLAIMED BENEFITS

Participants withdrawing shares from the Depository are recommended to remind their clients to re-register the shares in their own names with the Registrars upon receipt of share certificates withdrawn from the Depository. This practice can save the effort and time of both Participants and beneficial owners and also avoid the incurrance of a handling charge of HK\$200 per claim plus other relevant nominee service fees when claiming unclaimed benefits.

Unclaimed benefits arise when participants withdraw shares registered in the name of HKSCC Nominees Limited from the CCASS Depository and fail to re-deposit into the Depository, or re-register the shares in the name of the beneficial owners, before the issuers' book close dates. As the Registrars are not aware of

the changed name of the shares owner, benefit entitlements will still be distributed to HKSCC Nominees.

Participants wishing to claim unclaimed benefits on behalf of their clients have to apply in writing to HKSCC Nominees. A Participant has to provide HKSCC Nominees with certified copies of the Stock Withdrawal Receipt, purchase contract notes, share certificates, transfer deeds, registrars' transfer receipts with certificate numbers; an original letter from the beneficial owner claiming the entitlement; and a letter of indemnity issued by the Participant. For more details, participants should refer to section 8.19 of the CCASS Operational Procedures.



DIRECT STOCK ADMISSIONS

During the two months of September and October 1997, a total of 133 eligible new issues were admitted to CCASS of which 27 issues adopted Jumbo Certificate arrangement.

	Ordinary Shares	Preference Shares	Registered Warrants	Debts	Rights	Total
Eligible new issues listed on the Stock Exchange and admitted to CCASS	25	-	91	-	17	133
Issues adopted Jumbo Certificate arrangement	23	-	4	-	N/A	27



Quick Quiz

- Hongkong Clearing's service bureau provides computer facilities for broker participants who have not installed CCASS terminals. It also provides back-up facilities to all CCASS participants if there is an equipment failure in their offices.
- Hongkong Clearing will inform participants whether their Exchange trades subject to trade amendments have been accepted under CNS in the Final Clearing Statements issued by Hongkong Clearing daily to broker participants at about 2:00 p.m., on the Business day after the trade day.
- The on-line enquiry services provided by CCASS are available for use by participants between 9:00 a.m. and 7:00 p.m., Monday to Friday.