



INSIDE CLEAR TALK

“
ISSUE 34
”

JULY 1998

1

- Year 2000 Compliance

2-3

- Stock Borrowing and Lending System

4-5

- New Way to Calculate Brokers' Contributions to Guarantee Fund
- Visit by Pakistan Depository

6

- More Investors Get Corporate Communications Service
- Broker's Default

7

- Exercised Options Trades Go CNS

8-9

- CCASS Statistic
- Quick Quiz

10

- CCASS Notice Board
- Direct Stock Admissions

Latest News on Investor
Account Service

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:

The Editor, Clear Talk
c/o Corporate Communications Department
Hong Kong Securities Clearing Company Limited
12/F Chinachem Exchange Square
1 Hoi Wan Street, Quarry Bay
Hong Kong

For any enquiries regarding content of such contributions, please contact Betty Chan, Assistant Director, Corporate Communications Department.

Telephone: 2597-0870

Fax: 2579-0075

Website address: <http://www.hkclearing.com.hk>

Clear Talk is intended to provide a forum for discussing matters of concern to our readers. While it aims to provide information, the rights and obligations of participants are governed by the General Rules of CCASS and CCASS Operational Procedures. No responsibilities for any loss arising to any person relying upon the information contained in this publication shall be accepted by Hong Kong Securities Clearing Company Limited.



Y2K Compliance Steering Committee

Hongkong Clearing is a member of the Y2K Compliance Steering Committee established in March 1998 by the Financial Services Bureau (FSB) of the Government of the HKSAR. The Steering Committee is coordinating the financial sector's efforts in ensuring that the core financial infrastructural systems achieve Y2K compliance in time. In addition to Hongkong Clearing and FSB, the Committee also comprises the Hong Kong Association of Banks (HKAB), Hong Kong Futures Exchange (HKFE), Hong Kong Interbank Clearing Limited (HKICL), Hong Kong Monetary Authority (HKMA), the Office of the Commissioner of Insurance, Securities & Futures Commission (SFC), and the Stock Exchange of Hong Kong (SEHK).

Three stages of testing

Interface Test

Although CCASS is essentially Y2K compliant by design (it uses four-digit years for all dates internally and in all external data file interfaces), it

with SEHK and the industry to conduct this test as a joint effort.

Street-wide Tests

Street-wide tests will be conducted in the first half of 1999, and participation in such tests by CCASS Participants will be mandatory. All test results should be retained by participants and made available to SFC or other authorised parties upon request.

Test kits for CCASS Participants

Before conducting the tests, Hongkong Clearing will perform a re-commissioning of all CCASS Terminals and ECTs (Enhanced CCASS Terminals) for CCASS Participants in the third quarter of 1998 to ensure their systems are Y2K compliant. Test kits will be given to CCASS Participants at the end of October 1998. Test kits are diskettes containing Y2K sample data such as the Stock Exchange's trade data and CCASS settlement reports. Brokers



Participants. Most vendors have stated their systems will be Y2K compliant on or before January 1999. Following are the names of the vendors and their systems.

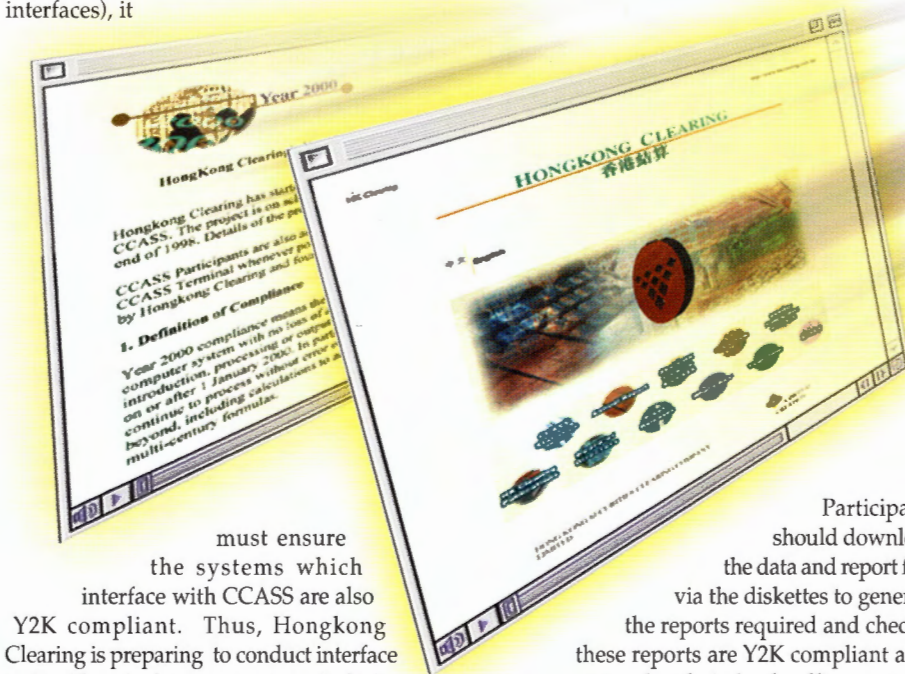
Vendor name	System name
• ABC Data And Telecom Ltd	IBCP System and SMART System
• ACOS Computer	ABMS Stock Trading System
• Forward Computer Systems Ltd	Integrated Brokerage System
• POP Electronic Products Ltd	Stock Broker System
• Systek Information Technology	Winvest Local Equity System
• Result Club Q/B Exford Consultant Ltd	Stock Broker Management System

CCASS Participants who are using external BOS other than those listed above can call Hongkong Clearing's Customer Services Hotline : 2852 8000. Hongkong Clearing will check with these vendors on behalf of CCASS Participants on Y2K compliance of such BOS systems.

Y2K Section in Website

Hongkong Clearing has established a Y2K section on its website. Interested parties can visit Hongkong Clearing's website to get updated information on the topic. Hongkong Clearing's website address is "<http://www.hkclearing.com.hk>".

For Y2K information relating to the Steering Committee led by FSB, please visit the following two Y2K websites: "<http://www.info.gov.hk/fsb/year2000>" and "<http://www.year2000.gov.hk>". These two websites will be hyper-linked with other related organisations such as Hongkong Clearing, HKMA, SEHK and SFC.



must ensure the systems which interface with CCASS are also Y2K compliant. Thus, Hongkong Clearing is preparing to conduct interface tests with major business partners including SEHK, HongkongBank and HKICL in August and September 1998.

Beta Test

A beta test will be conducted tentatively in December 1998 as a rehearsal. Participants of this test will include SEHK, Hongkong Clearing and some Y2K compliant brokers. Hongkong Clearing is now working closely

Participants should download the data and report files via the diskettes to generate the reports required and check if these reports are Y2K compliant after processing by their back-office systems (BOS). Even though CCASS is compliant by design, CCASS Participants are urged to take appropriate actions to check all their related systems and deal with the risks associated with the millennium bug.

Hongkong Clearing conducted a Y2K compliance survey with major BOS vendors in April 1998. These BOS vendors supplied systems for over 50 per cent of Broker

Hongkong Clearing to Set up Stock Borrowing and Lending System



Hongkong Clearing will set up a Stock Borrowing and Lending (SBL) System designed to enhance market liquidity and the role of Hong Kong as a financial centre.

The Company's decision to set up the SBL System follows positive response to a consultation paper on a proposed working model for the SBL System issued in December 1997. Some respondents to the consultation paper made suggestions relating to risk management measures and operation logistics which have been analysed and considered by Hongkong Clearing. A refined working model of the SBL System has been developed.

Out of the 14 submissions received from CCASS Participants, market practitioners engaged in the SBL business, and other interested bodies, no objection was raised on the provision of a SBL System by Hongkong Clearing.

Among the benefits accruing from the service are that it will help avoid stock settlement failure, accommodate short-selling trading strategies, and provide brokers and traders with a means of hedging investment portfolios. The service is

expected to provide an additional channel for stockholders who are currently not participating in stock lending to access the SBL market, hence increasing the overall supply of stocks for lending. It will also generate a stable fee income for the immobilized securities portfolios of the stockholders.

Regarding the legal and tax implications, the Stamp Duty (Amendment) (No. 2) Bill 1998 was passed in April 1998 to grant stamp duty exemption to stock loans executed within CCASS if specified conditions are satisfied. The effective date of the related sections of the Amendment Ordinance will be announced in the Government Gazette.

To accommodate the SBL transactions in CCASS, Hongkong Clearing is working with the Securities and Futures Commission on changes to the financial resources requirements. The Company is also in discussion with the Stock Exchange on the necessary Exchange Rules amendments.

The service will tentatively be launched in the first quarter of 1999.

A SUMMARY OF THE MAJOR FEATURES OF THE REFINED WORKING MODEL ON STOCK BORROWING AND LENDING

	Features of the Original Proposed Working Model	Features of the Refined Working Model
Eligible Securities	Borrowing will be restricted to the 241 stocks currently eligible for short selling.	In the initial phase, only Hang Seng Index constituent stocks will be eligible for borrowing for all purposes. However, all other CCASS eligible stocks will also be allowed for borrowing if they are used to cover fail settlement.
Eligible Users	All Intermediary Participants in CCASS can be lenders. However, at the initial stage, only Broker Participants will qualify as eligible borrowers as only Broker Participants currently contribute to the Guarantee Fund which will be used to cover the liquidation risks of stock loans. Other CCASS Participants, including custodians, may borrow through Broker Participants.	Same as the proposed working model. Investors, including CCASS Investor Participants, may borrow or lend through Intermediary Participants of the SBL System.
Operations	Borrowing requests will be processed on-line by CCASS. A minimum of one board lot is required for each request. Hongkong Clearing will act as a principal and by novation, substitute itself as counterparty to both participants, guaranteeing fulfilment of the loan transaction in CCASS.	Same as the proposed working model.
Term Loans	<ul style="list-style-type: none"> • Stock loans will be offered on an open basis and rolled over automatically to the next business day. No term loans will be offered initially. • Stock loans can be terminated by borrowers, lenders or by Hongkong Clearing. Loaned stocks must be recalled by lenders or returned by borrowers in full. No partial termination will be allowed. 	<ul style="list-style-type: none"> • Hongkong Clearing will offer term loans. • Same as the proposed working model IF open-ended stock loans are chosen.
Fee Structure	A single pricing policy will be adopted.	Like some overseas clearing houses, Hongkong Clearing will only offer a single (or at most tiers) price fee structure. The rate will be finalised at a later stage.
Collateral	<ul style="list-style-type: none"> • Borrowers are required to provide adequate collateral in cash and /or stock before borrowed stocks can be used by them. Hongkong Clearing will not provide collateral to lenders, who will have to rely on the guarantee given by the Company. • The value of collateral not stated in the proposed working model. 	<ul style="list-style-type: none"> • Same as the proposed working model. • Value of the collateral deposited by borrowers will be 105% of the market value of a securities borrowing position.
Marking-to-Market	Outstanding loan positions and stock collateral will be marked to market twice daily. Additional collateral will have to be provided by borrowers if necessary.	Same as the proposed working model.
Benefit Entitlements & Corporate Activities	<ul style="list-style-type: none"> • Lenders will retain the right to benefit entitlements of loaned stocks. Hongkong Clearing will collect entitlements from borrowers and pass on to lenders. • For corporate activities or actions that require exercise of discretion, such as takeover offer, voting, subscription and redemption, lenders will have to recall their loans at least five business days before record dates in order to exercise their rights. 	<ul style="list-style-type: none"> • Same as the proposed working model. • Same as the proposed working model.

Following are the additional features incorporated in the refined working model.

Cash Compensation — Lenders may ask for cash compensation if shares are NOT returned by N+5 (the fifth day after lenders ask for stock return) and the cash amount will be calculated based on the closing price of the loaned stock on the day of making cash compensation.

Suspended Stocks — If a stock is suspended from trading, no new borrowing requests of the stock will be entertained. However, stock returns by borrowers and recalls by lenders will be allowed. In case cash compensation is used in lieu of stock returns during stock suspension, the amount will be negotiable on a case-by-case basis with reference to the last closing price before suspension of the stock. For stocks suspended over one month, the related stock loans will be closed out automatically subject to the agreement of cash compensation amount, if applicable.

Stock Borrowing Cap — The maximum value of unsettled borrowing positions of a given stock will be capped at 10 per cent of the minimum percentage of securities which must be in the hands of the public, as prescribed by the Stock Exchange Rules.

Lender Cap by Stock — The maximum value of unsettled lending positions of any lender in a given stock will be capped at 25 per cent of the Stock Borrowing Cap.

Participant Borrowing Cap — The maximum value of unsettled borrowing positions of a given broker will be capped at eight times of a broker's liquid capital.

New Way to Calculate Brokers' Contributions to Guarantee Fund

Hongkong Clearing will change the method of calculating Broker Participants' contributions to the Guarantee Fund early next year. Under the new method, a broker's contribution to the Fund will be determined by reference to its average daily net Continuous Net Settlement (CNS) positions in the previous month.

Kim Mok, Director of the Compliance Department, said: "The Guarantee Fund uses the concept of pooling. If a broker defaults and its contribution is insufficient to cover its payment obligations to Hongkong Clearing, other brokers may have to share the burden. The new method provides a fair contribution basis as it follows the rule that the greater the risk a broker brings to Hongkong Clearing, the greater its share of contribution to the Fund."

The Fund serves two purposes. It indemnifies Hongkong Clearing against losses incurred as a result of guaranteeing the CNS trades of brokers who become insolvent. It also covers the losses suffered by Hongkong Clearing for defective securities when the depositing broker is insolvent.

The new calculation method would better reflect Hongkong Clearing's risk involved in guaranteeing the settlement of the CNS trades. In addition, it allows the Fund size to adjust in line with Hongkong Clearing's risk exposure.

Ms Mok said: "The Fund was set up in 1992 when we launched CCASS. At that time, the average daily market turnover was about \$3 billion. The market grew significantly during the past few years. Market turnover reached a record of \$46 billion on 29 August 1997. Average daily market turnover rose to \$15.5 billion last year, more than five times the amount in 1992. Therefore, it became necessary for Hongkong Clearing to reconsider the structure and contribution basis of the Fund."

She said that the Fund size has doubled in the past twelve months as a result of an increase in insurance cover and additional transfer from Hongkong Clearing's reserves. Hongkong Clearing will continue to secure more insurance cover so as to diversify risks from the securities industry. It will also consider making more transfer from reserves if the circumstances warrant.

Amplifying on the new method of calculation, she told *Clear Talk*: "A broker's turnover counts both its long and short positions in the same stock whereas the long and short positions in the same stock are net off in calculating the daily net CNS position. In considering the hedging effect that resulted from long and short positions, we believe that the daily net CNS position provides a better measure in evaluating

the level of risks incurred by a broker."

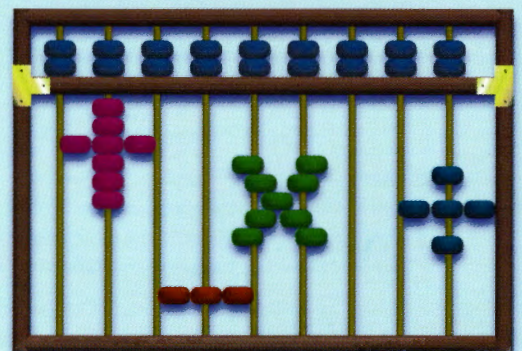
In addition to the net CNS exposure, the liquidation risk and default rate will be considered in determining the Fund size. The liquidation risk represents the risk of market movements in liquidating the default broker's positions and the default rate represents the percentage of CNS positions unsettled as a result of broker default.

The frequency of reviewing the contributions will be changed from quarterly to monthly basis under the new calculation method. This change will enable the Fund size and each broker's contribution to be more timely responsive to Hongkong Clearing's risk exposure.

The way of collecting brokers' contributions will be the same as before. Brokers will receive statements showing the contributions they are required to make after the monthly review. Hongkong



Kim Mok, Director of Compliance Department



Clearing will either collect the shortfall from or refund the excess amount to brokers. This will be done by issuing direct debit or credit instructions against the brokers' designated bank accounts on the due date. In the meantime, Hongkong Clearing is

also considering other enhancements such as giving more information on the calculation of contributions in the statements and allowing brokers to download the statements through the CCASS terminals.

As at 30 June 1998, the size of the Guarantee Fund is about \$800 million. It has three components: contributions by brokers (\$100 million), transfer from Hongkong Clearing's reserves (\$200 million) and insurance (\$500 million).

A Comparison of the Current and New Calculation Methods for Brokers' Contributions to the Guarantee Fund

	Current Method	New Method
Contribution Basis	A Broker Participant's market share for the previous twelve months	A Broker Participant's average daily net CNS positions for the previous month.
Total Brokers' Contributions to Guarantee Fund	Fixed at approximately \$100 million	Adjust in line with Hongkong Clearing's risk exposure but subject to a minimum of \$100 million Factors to be considered in determining the amount: 1. All Broker Participants' average daily net CNS positions for previous month 2. Liquidation risk 3. Default rate 4. Other components of the Guarantee Fund including insurance cover and transfer from Hongkong Clearing's reserves
Minimum Cash Contributions	\$50,000 per every "A" share the broker holds in the Stock Exchange	Same as before
Frequency of Review	Quarterly	Monthly

Visit by Pakistan Depository

Four senior executives from the Central Depository Company of Pakistan Limited (CDC) visited Hongkong Clearing in June 1998. CDC is a newly established depository which became operational in September 1997. CDC's delegates were particularly interested in Hongkong Clearing's new services such as Investor Participation and Realtime Delivery versus Payment. Executives from Hongkong Clearing gave the delegates briefings on CCASS operations, legal framework, information technology, and the company's latest developments.



Picture shows Henry Chan, Executive Director of Information Technology, discussing the Year 2000 Compliance project with the delegates.

More Investors Get Corporate Communications Service

Since the launch of the Corporate Communications project in February 1998, the flow of corporate documents, such as annual reports and notices, between listed issuers and non-registered holders of shares deposited in CCASS has been improved. Under the project, investors who are non-registered shareholders can also receive corporate communications directly from registrars, like registered shareholders.

Following the amendments to the Listing Rules of the Exchange in February 1998 to make it mandatory for listed issuers to deliver corporate information to non-registered shareholders, new functions were also introduced in CCASS to help participants submit the lists of recipients for a corporate event to Hongkong Clearing. For example, the CCASS on-line input and the corporate communications recipient batch file transfer further automate and facilitate participants' submission of the recipient lists.

By the end of June 1998, twelve registrars had requested Hongkong Clearing to provide address labels of non-registered shareholders. A total of 126,644 labels were generated for 796 events. In comparison, by the end of March 1998, there were ten registrars which requested labels, and only 27,338 labels were generated for 191 events.

Under the corporate communications project, a listed issuer instructs its registrar to request Hongkong Clearing to provide the names and addresses of non-registered shareholders in CCASS. Hongkong Clearing then requests CCASS Participants to submit recipient (non-registered shareholder) lists through CCASS terminals. The Company consolidates the data and creates a validated list of recipients. Address labels will be generated and sent to the registrar for mailing of corporate documents.

Broker's Default

Hongkong Clearing declared Chark Fung Securities Co. Ltd. (Chark Fung) a defaulter on 25 May 1998. This step was taken following Stock Exchange of Hong Kong's suspension of Chark Fung's membership and the Securities & Futures Commission's announcement of its intention to petition to the High Court for the

winding up of Chark Fung.

Hongkong Clearing proceeded with its default procedures to effect closing-out of the unsettled 'Continuous Net Settlement' (CNS) stock positions of Chark Fung. Shares allocated to Chark Fung's account but not paid for were sold at the prevailing market price. Hongkong

Clearing also effected buy-in to settle outstanding stock positions of Chark Fung in CCASS. The closing-out action enabled Hongkong Clearing to meet its obligations under the CNS system to other Broker Participants. All the outstanding positions of Chark Fung were successfully closed-out.

Exercised Options Trades Go CNS

With effect from 22 June 1998, exercised options trades transferred from The SEHK Options Clearing House Limited (SEOCH) are accepted for settlement under the Continuous Net Settlement (CNS) system. This move aims at improving settlement efficiency and providing better service to CCASS Participants.

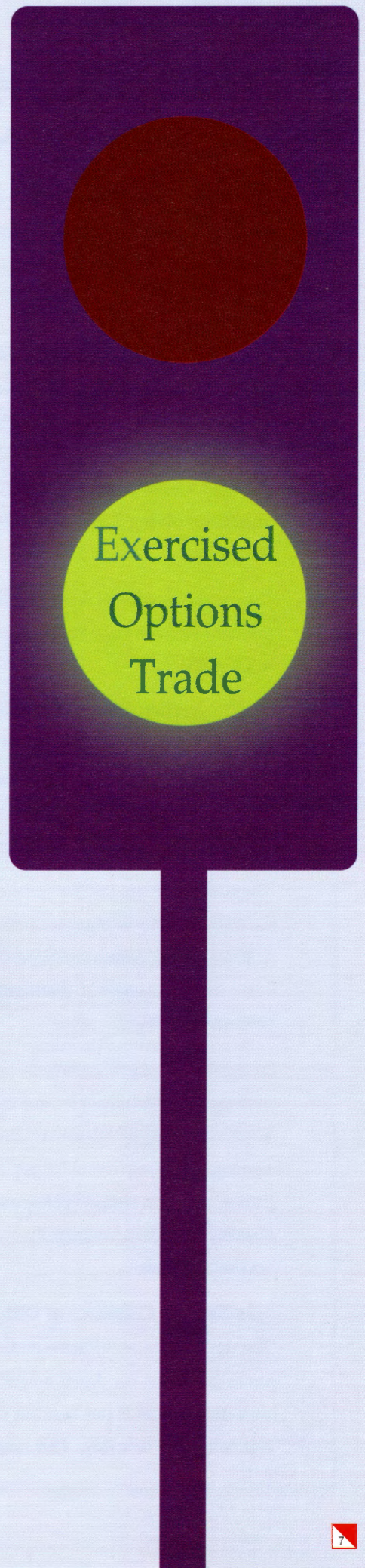
Previously, exercised options trades were transmitted to Hongkong Clearing for clearing and settlement in CCASS as isolated trades.

Under the new arrangement, exercised options trades are transmitted to CCASS by SEOCH at approximately 12:00 noon on the business day following the exercise day (E+1). Upon novation, Hongkong Clearing becomes the counterparty to exercised options trades and guarantees their settlement. Hongkong Clearing's acceptance of exercised options trades for settlement under the CNS

system is confirmed in the Final Clearing Statements that are available to Broker Participants at approximately 2:00 p.m. on E+1

The stock transactions (including Exchange trades and exercised options trades) of a Broker Participant in the same security on the same day are offset against each other, resulting in a single net stock position for the day. Outstanding unsettled net stock positions at the end of a settlement day are carried forward to the following settlement day and continuously netted against opposite stock positions due for settlement in the same security.

For risk management purposes, those risk management measures, which currently apply to CNS positions, are also imposed on Broker Participants in respect of their exercised options trades to cover Hongkong Clearing's risk exposure. They include holding mechanism; marking-to-market and collection of net unfavourable marks; and contributions to the Guarantee Fund.



CCASS STATISTICS

The market remained steady in April but dropped slightly in May 1998. Hang Seng Index closed at 8,934.6 on 29 May 1998.

Exchange Trades

In April, an average of 61,271 trades were processed daily in CCASS, involving nearly 3.9 billion shares with a value of \$6.1 billion. In May, the daily average trades handled by CCASS dropped to 51,636, involving 2.5 billion shares with a value of \$5.5 billion.

During the months of April and May, more than 99.9 per cent of Exchange trades were processed daily in CCASS.

Netting Efficiency of CNS Trades

In April, an average of 60,424 Exchange trades valued at \$5.6 billion went through CCASS daily for CNS. An average of 18.8 per cent of the novated contracts created were due for settlement daily.

The daily average number of trades went through CCASS for CNS in May decreased to 50,934 valued at \$5.0 billion. After novation and netting, 20.0 per cent of the novated contracts were due for settlement daily.

In April, novated contracts generated a daily average of \$11.1 billion in money obligations which were netted to \$3.6 billion. Daily average funds netting efficiency was 67.9 per cent. In May, \$10.0 billion a day in money obligations were netted to \$3.0 billion. Daily average funds netting efficiency was 69.9 per cent.

Settlement Efficiency of CNS Stock Positions

The daily average settlement efficiency rate of CNS stock positions for April was 95.3 per cent on the due day and 99.9 per cent on the settlement day following the due day. The corresponding figures

for May were 94.7 per cent and 99.8 per cent.

Settlement Instructions (SIs)

In April, an average of 18,441 SIs were settled daily in CCASS, involving 4.5 billion shares with a market value of \$21.4 billion.

In May, the figures decreased to 17,202 SIs, involving 3.6 billion shares with a value of \$20.3 billion.

Investor Settlement Instructions (ISIs)*

In May, an average of 61 ISIs were settled daily in CCASS, involving 35.6 million shares with a market value of \$112.5 million.

Depository Transactions

In April, the CCASS Depository handled an average of 1,259 deposit and withdrawal transactions per business day. The number of share certificates processed daily amounted to 29,000. The corresponding figures for May rose sharply to 5,835 transactions involving 50,000 share certificates per business day.

As at the end of May, 1,020 stocks had been admitted into CCASS for clearing and settlement. About 362.4 billion shares were under the custody of the CCASS Depository, representing 49.6 per cent of the total number of shares of the admitted stocks in issue. The total market value of the shares was \$730.5 billion, representing 28.2 per cent of the total market capitalisation of the admitted stocks.

Participants

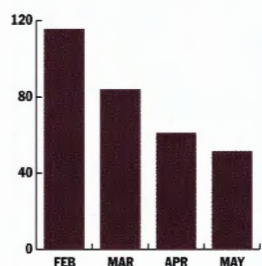
At the end of May, there were 701 CCASS Participants, comprising 129 Investor Participants, 500 Broker Participants, 63 Custodian Participants, eight Stock Pledge Participants and one Clearing Agency.

*Investor Participation in CCASS was launched on 8 May 1998. Investor Participants should affirm ISIs input by Broker or Custodian Participants for share transfers. ISI statistics will be published in *Clear Talk*, starting from this issue.

OPERATIONS HIGHLIGHTS (FEB-MAY 98)

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

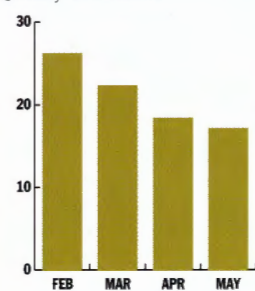
Quantity in thousands



	Number of trades	% of total number of Exchange trades
Feb	115,641	99.98
Mar	83,966	99.95
Apr	61,271	99.96
May	51,636	99.93

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

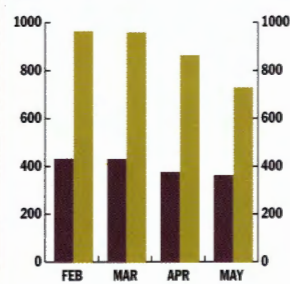
Quantity in thousands



	Number of SIs	SIs by shares (billion)	SIs by value (\$ billion)
Feb	26,292	5.9	27.8
Mar	22,399	4.8	24.9
Apr	18,441	4.5	21.4
May	17,202	3.6	20.3

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

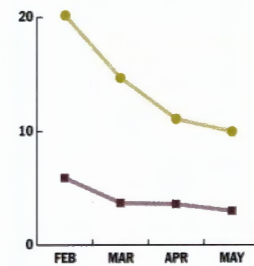
Quantity in billions \$ billion



	Number of shares (billion)	Market value (\$ billion)
Feb	433.1	964.1
Mar	432.1	958.9
Apr	376.7	863.4
May	362.4	730.5

Average daily funds netting efficiency under CNS

\$ billion



	Money obligations arising from novated contracts (\$ billion)	Money obligations after netting (\$ billion)	Funds netting efficiency (%)
Feb	20.2	5.9	72.56
Mar	14.7	3.7	74.16
Apr	11.1	3.6	67.86
May	10.0	3.0	69.93

Quick Quiz

1. What is the time limit for designated banks of Investor Participants to confirm with Hongkong Clearing any rejected Direct Debit Instructions?

2. Can CCASS Participants enquire about the resolution information on voting announcements?

3. Under Realtime Delivery versus Payment (RDP), if Hongkong Clearing gets payment confirmation at 3:00 p.m., will it release the on-hold shares to the paying party?

Answers on page 10.

CCASS NOTICE BOARD

FEE CONCESSIONS ON ISIs

Broker and Custodian Participants can now transfer stock from their accounts to their clients' Investor Accounts in CCASS by issuing ISIs (Investor Settlement Instructions).

To facilitate the portfolio transfer of stocks from Broker or Custodian Participants' stock accounts to the Investor Accounts, Hongkong Clearing has waived the stock settlement fee, and the registration and transfer fee for newly opened Investor Accounts if the ISI meets all of the following conditions:

- ✓ the delivering party of the ISI is a Broker or Custodian Participant and the receiving party is an Investor Participant; and
- ✓ the ISI is settled within the first ten settlement days from the account opening date of the Investor Account. The opening date is shown on the Investor Account Information Card issued by Hongkong Clearing; and
- ✓ the 'Payment Instruction' of the ISI is 'FOP' (Free of Payment); and
- ✓ the 'Purpose of ISI' is 'M' (Portfolio Movement).

In view of the volume involved, Hongkong Clearing will not entertain subsequent requests to amend any incorrectly entered ISI and to refund the fee concessions.

Under normal circumstances, Hongkong Clearing will charge Broker and Custodian Participants only \$1 for each ISI inputted and settled while stock settlement fee for ISIs is charged one-side to the Investor Participants only.

DIRECT STOCK ADMISSIONS

During the two months of May and June 1998, a total of 54 eligible new issues were admitted to CCASS of which 6 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	8	0	42	0	4	54
Issues adopted Jumbo Certificate arrangement	6	0	0	0	N/A	6



Quick Quiz

1. The time limit for designated banks of Investor Participants to confirm with Hongkong Clearing of any rejected Direct Debit Instructions (DDI) is 2:30 p.m. on the bank business day following receipt of the DDI.
2. Yes. CCASS Participants can enquire about the resolution information on voting announcements via CCASS Terminal. Please refer to Section 5.26 of the Terminal User Guide.
3. Yes. The cut-off time for payment confirmation of RDP is about 3:30 p.m. on each settlement day.

MINIMUM MONTHLY USAGE FEE FOR INVESTOR ACCOUNT SERVICE IS WAIVED

Hongkong Clearing has waived the \$200 minimum monthly usage fee for Investor Account Service, which was launched on 8 May 1998. The first minimum monthly usage fee, which was to have been charged to existing Investor Participants on 30 June 1998, was waived as well. From now on, an Investor Participant only needs to pay the total CCASS service fee incurred during the month. However, from July 1998, an annual \$200 dormant account fee will be charged annually in arrears for accounts that have not used any CCASS service over the preceding 12 months.

The waiving of the minimum monthly usage fee was announced together with a package of enhancements for the Investor Account Service at a press conference held on 8 July 1998. It is expected that these changes will attract more investors to use the service and lay the groundwork for Straight-Through-Processing* of securities transactions.

John Chan, Chairman of Hongkong Clearing said: "Since it was introduced on 8 May 1998, the Investor Account Service in CCASS has operated smoothly. Both investors and Intermediary Participants (Brokers/Custodians) have provided valuable feedback, and we have paid close attention to their comments in planning the future development of the Investor Account Service. As a result, we are introducing a series of enhancements that will strengthen our ability to serve investors and Intermediary Participants and provide greater efficiency for the financial community as a whole."

Besides waiving the minimum monthly usage fee, Hongkong Clearing will introduce the following enhancements to its Investor Account Service:

New User Profiles and Client Database for Broker and Custodian Participants

Starting from September 1998, Hongkong Clearing will introduce new user profiles

for Broker and Custodian Participants. This will allow CCASS's Intermediary Participants to maintain separate user profiles for staff inputting Investor Settlement Instructions (ISIs), thus strengthening Intermediary Participants' control and audit capabilities.

In addition, Hongkong Clearing will provide a client database function for each Intermediary Participant. This function will restrict all ISI input by Broker or Custodian Participants to their respective client database.

Feasibility Studies

Hongkong Clearing's Board of Directors has approved a proposal to conduct three new feasibility studies, including research into the introduction of electronic IPO subscriptions. This service would let Investor Participants subscribe to initial public offerings using the CCASS Phone System, and obtain electronic money settlement, book-entry allotment, allotment result notification and refunds. Replacing the current paper-based system with an electronic system will make it easier for investors to subscribe to IPOs and increase the overall efficiency of the flotation process.

A proposal to study the legal implications of admitting companies incorporated outside Hong Kong has also been endorsed. At present, the Investor Account Service is open only to individuals holding Hong Kong ID cards and to companies that are incorporated under Hong Kong law. By opening the service to companies operating in Hong Kong but incorporated elsewhere, the number of potential Corporate Investor Account holders will be greatly enlarged.

The final study will examine the possibility of

providing access to CCASS accounts via the Internet. This proposal would make the Investor Account Service more efficient, especially for Investor Participants who need to complete a large number of transactions. It would also complement existing access options, including touch-tone and screen telephones, and Hongkong Clearing's customer service counters.

Long-term Initiatives

Two long-term initiatives have received approval from the Board. Hongkong Clearing will continue its efforts to have the CCASS sub-register, which contains a list of participants with securities held in the CCASS Depository, legally recognised as an electronic sub-register and used as the basis for a scripless trading system.

Hongkong Clearing will also work with the Stock Exchange to integrate CCASS with the Stock Exchange's proposed AMS/3 order routing system, which will enable investors to input trade orders through the Internet or an interactive voice response system. The successful integration of CCASS and AMS/3 will further enhance trade execution for both Investor Participants and Intermediary Participants, leading to the development of Straight-Through-Processing of securities transactions.

* Currently, the completion of a securities transaction in Hong Kong involves multiple steps carried out by separate bodies with independent systems and procedures. Straight-Through-Processing refers to the integration of the Stock Exchange's trading system with brokers' offices, and clearing and settlement, share registration and cash settlement functions, which enhances risk management and meets market users' demand.



John Chan (right), Chairman, and Stewart Shing, Chief Executive, announce a series of enhancements for the Investor Account Service at a press conference.



NEW INVESTOR ACCOUNT SERVICE DRAWS PRAISE FROM INVESTORS

Hongkong Clearing's new Investor Account Service has received a favourable response from Investor Participants. To gain first-hand knowledge of what they felt about the service, *Clear Talk* interviewed several investors. While praising the new service, they have made some suggestions for further improvement.

Full-time Investor

Ms Ng describes herself as a "professional" or "full-time" investor. She said: "I give very high marks to Hongkong Clearing for its Investor Account Service. I believe the service will become perfect when all brokers give it their full support.

"I have applied new shares through my Investor Account by using 'yellow forms'. It is very efficient. Before that, I had to use 'white forms' and had the experience of losing the new shares in the mail. Now I don't have to worry.

"After I opened my account, my two brokers asked me to transfer shares through Investor Settlement Instructions (ISIs) to them before they would execute 'sell' orders for me. After a while, I was able to persuade them to allow me to transfer shares on T+1 which is a better arrangement for me."



Ms Ng went on: "Every investor should open an account in CCASS. I really think the Government should make that compulsory."

Husband and Wife Team

Mr and Mrs Yung are partners in a jewellery business, and they have a joint Investor Account. They only began investing in securities in March 1997 but were among the first applicants for the service.

Mr Yung said: "I think the service is efficient and easy to operate. As a result of my recommendation, some of my friends have opened Investor Accounts. I believe some others will also use the service now that Hongkong Clearing has waived the minimum \$200 monthly usage fee. I always keep several application forms in my shop and distribute them to my clients and friends."

He said he was pleased with the service provided by his broker relating to the Investor Account. "Initially, my broker's fee for inputting ISIs was somewhat high. But he has now reduced it and I am pleased with the new arrangement."



Mr Yung is looking forward to Straight-Through-Processing of securities transactions as that system will further reduce fees and improve transaction efficiency for investors.

Executive Seeks Better Protection

Mr Kwong is a bank executive and has been investing in securities for three years. He said that although his shareholding is not large, he has opened an Investor Account for better safekeeping.



He said he will benefit from the waiver of the minimum monthly fee because his monthly CCASS service fee has been less than \$200 during the current slack market situations. He also feels that the \$200 minimum fee waiver will spur more investors to join the service.

"I plan to make more frequent stock transactions when the market gets better as I feel very safe with my assets now," he said. As for the money settlement for his transactions, he chooses Delivery versus Payment (DVP).

Suggestions and Response

Ms Ng, Mr and Mrs Yung, and Mr Kwong made some suggestions for improving the Investor Account Service. Their comments and Hongkong Clearing's response are as follows:

1. Hongkong Clearing should consider providing more channels for Investor Participants to pick up "yellow forms" for new share issues.

Response: Investor Participants can pick up the "yellow forms" from their brokers' offices or Hongkong Clearing's Depository Service Counters Hall in Central and Investor Service Centre in Quarry Bay. Hongkong Clearing is planning to introduce electronic IPO subscriptions. This service would let Investor Participants subscribe to initial public offerings using the CCASS Phone System, and obtain electronic money settlement, book-entry allotment, allotment result notification and refund, and no forms would be required.

2. It would be useful if Hongkong Clearing can have a separate enquiry function for corporate action announcements so that investors can listen to more details before going to the instruction function and inputting the instruction.

Response: Investors can find detailed information on corporate actions from notices and documents sent to them directly by listed companies as well as newspaper advertisements. Hongkong Clearing also gives a summary of these actions to Investor Participants in Activity Statements. However, Hongkong Clearing will study this proposal.

3. Some investors will prefer to receive the Activity and Monthly Statements in Chinese.

Response: Hongkong Clearing is working on providing Chinese translations in the Statements. Meanwhile, Chinese translations of the terms are printed on the back of the Statements for Investor Participants' reference. Investors can also call our operators if they have any questions regarding the Statements.

4. The voice level of the recorded messages of the CCASS Phone System is a bit soft and should be raised. The operators' voices are very clear.

Response: Hongkong Clearing will raise the voice level of the recorded messages.

5. The operator connection time is pretty quick, but can it be even quicker?

Response: Hongkong Clearing will try to further reduce the connection time.

Brokers Say Investor Account Service Boosts Confidence

Besides talking to Investor Participants about the Investor Account, *Clear Talk* has also interviewed several Broker Participants to seek their opinions on the service.

All three Broker Participants interviewed agree that the Investor Account Service provides an additional option for investors to safekeep their stocks and helps boost their confidence in securities trading.



United Mok Ying Kie Ltd:

"We introduce this new service to our clients to see if they have the need to open an Investor Account in CCASS."

"As the procedures of inputting Investor Settlement Instructions (ISIs) are no different from the input of Settlement Instructions for broker-custodian transactions, we find it easy to manage the new function and no additional resources are required for the time being."

"The operations so far were so smooth that we don't even need to make enquiries with Hongkong Clearing's Customer Services staff."



Cheung's Securities Brokers Ltd:

"We provide clients with this service to satisfy their needs."

"Our clients have made use of ISIs to effect stock transfers for both buying or selling orders. Most of them are very familiar with the operations steps."

"In general, the Investor Account Service gives investors a sense of security over their shareholdings and they feel more comfortable when trading their stocks."



Berich Brokerage Ltd:

"We welcome the introduction of new user profiles and client database functions in September this year. These new functions will further strengthen brokers' internal control and risk management system."

"We definitely believe that the service provides protection for the investors, but we hope that Hongkong Clearing will continue to assist brokers in the reduction of risks."

DIVIDEND COLLECTION SERVICE FEE PAYABLE BY INVESTOR PARTICIPANTS

Investor Participants in CCASS enjoy comprehensive nominee services into their designated bank accounts and/or their Investor

services such as the direct distribution of benefit entitlements Accounts by Hongkong Clearing.

A Dividend Collection Service Fee is chargeable to Investor Participants. Hongkong Clearing charges Investor Participants the same fees as it charges other CCASS Participants such as brokers and custodians. The fee rate is 0.12% of the cash amount of dividends and interest, subject to a minimum fee of \$10 (or the gross amount of cash dividends and interest if it is less than \$10), and a maximum fee of \$500 per event of collection per stock or debt securities.

Example

In the months of May, June and July 1998, Mr Lau, an Investor Participant, held the following stocks in CCASS and received dividends for his holdings:

In May:

- \$1.1 per share for 50,000 shares (50 board lots) of Hutchison Whampoa Ltd. on 22 May 1998
- \$1.23 per share for 10,000 shares (10 board lots) of Cheung Kong (Holdings)Ltd. on 29 May 1998

In June:

- \$1.3 per share for 2,500 shares (5 board lots) of Swire Pacific Ltd. 'A' on 2 June 1998
- \$0.88 per share for 25,000 shares (50 board lots) of China Lights & Power Co. Ltd. on 15 June 1998
- \$0.04209 per share for 200,000 shares (100 board lots) of Beijing North Star Co. Ltd. on 19 June 1998

In July:

- \$0.005 per share for 1,000 shares (0.5 board lot) of South China Industries Ltd. on 2 July 1998
- \$0.15 per share for 5,000,000 shares (5,000 board lots) of Great Eagle Holdings Ltd. on 21 July 1998

May:

Listed Issuers who declared dividends	Dividend Collection Service Fee Payable by Mr Lau to Hongkong Clearing
Hutchison Whampoa Ltd.	$\$1.1 \times 50,000 \text{ shares} \times 0.12\% = \66
Cheung Kong (Holdings) Ltd.	$\$1.23 \times 10,000 \text{ shares} \times 0.12\% = \14.76
<i>Total Fees Payable in May</i>	<i>\$80.76</i>

June:

Listed Issuers who declared dividends	Dividend Collection Service Fee Payable by Mr Lau to Hongkong Clearing
Swire Pacific Ltd. 'A'	$\$1.3 \times 2,500 \text{ shares} \times 0.12\% = \3.9 (as \$3.9 is less than \$10 minimum fee, the fee is \$10)
China Lights & Power Co. Ltd.	$\$0.88 \times 25,000 \text{ shares} \times 0.12\% = \26.4
Beijing North Star Co. Ltd.	$\$0.04209 \times 200,000 \text{ shares} \times 0.12\% = \10.11
<i>Total Fees Payable in June</i>	<i>\$46.51</i>

July:

Listed Issuers who declared dividends	Dividend Collection Service Fee Payable by Mr Lau to Hongkong Clearing
South China Industries Ltd.	$\$0.005 \times 1,000 \text{ shares} \times 0.12\% = \0.006 (as the gross amount of cash dividends is $\$0.005 \times 1,000 \text{ shares} = \5 , which is less than \$10, the fee is \$5)
Great Eagle Holdings Ltd.	$\$0.15 \times 5,000,000 \text{ shares} \times 0.12\% = \900 (as \$900 is more than the \$500 maximum fee, the fee is \$500)
<i>Total Fees Payable in July</i>	<i>\$505</i>



Investor Participation in CCASS Facts and Figures from 8 May 1998 to 7 July 1998

The Investor Account Service, which was launched on 8 May 1998, lets investors open direct accounts in CCASS and provides investors with legal and physical control over their shares. Through the service, investors can affirm Investor Settlement Instructions (ISIs) to effect share movements to and from Broker/Custodian Participants' accounts; input subscription, dividend election and voting instructions; and make enquiries about their account balances.

Investor Participants can use a touch-tone or screen phone to access the CCASS Phone System which is an interactive voice response system specially designed for the operations of Investor Accounts.

- Hongkong Clearing has received 699 applications from investors wishing to join the service, comprising 569 individual, 82 joint, and 48 corporate applicants.
- 216 Broker Participants and 16 Custodian Participants

have inputted ISI transactions for their clients.

- More than 4,680 ISI transactions were settled on a Free of Payment or Delivery versus Payment basis, while 44 transactions were settled on Realtime Delivery versus Payment (RDP) basis.
- All nominee services have been used by Investor Participants, including inputting subscription, dividend election and voting instructions.
- As at 30 June 1998, Investor Participants maintained 1,845 million shares valued at \$2,198 million in CCASS.

Following Hongkong Clearing's announcement on the waiving of the \$200 minimum monthly usage fee, applications from investors have increased to 944 as at 24 July 1998, comprising 782 individual, 102 joint, and 60 corporate applicants.

HELP TO PROMOTE INVESTOR ACCOUNTS

Silver and Gold Awards for Investor Participants

Hongkong Clearing is very pleased to learn that some Investor Participants have recommended their friends to open Investor Accounts. No publicity effort is better than the word-of-mouth of our Investor Participants. In recognition of their assistance in promoting the Investor Account Service, we have introduced the following silver and gold award as prizes.

Silver Award — One Gift for Each Investor Participant

Simply fill in the form below, give it to your friend who wish to open an Account on your recommendation, and ask him or her to attach it to the application form. Hongkong



Silver Award: An elegantly designed radio

Clearing will send a radio to you when the application is completed.

Gold Award — Top Three Investor Participants

The top three Investor Participants with the largest number of successful recommendations will win gold awards and special prizes (to be announced) will be presented to them. Please note that photocopies of the form below are also acceptable.

- Deadline: 31 October 1998
(Hongkong Clearing will count the application forms received on or before this date)
- Enquiry: Corporate Communications Department
Hongkong Clearing Tel: 2597 0877

[Please attach this form to the application form]

To: Corporate Communications Department, Hongkong Clearing

Name of Investor Participant: _____

Contact Telephone No.: _____

I recommend _____
(name of applicant)

to open an Investor Account.

