

# ClearTalk

Information Bulletin of Hong Kong Securities Clearing Co. Ltd.

## CCASS up and running

CCASS is scheduled to start clearing and settling on a trade-for-trade basis on June 24.

HKSCC has been recognised by the Securities and Futures Commission as a clearing house. The Hongkong and Shanghai Banking Corporation Limited, operator of the CCASS Depository, has been recognised as a satisfactory institution for providing facilities for the safe custody of securities documents and has started accepting deposits of securities.

All the systems have been checked and re-checked; operations staff have been trained and re-trained; participants have taken part in a pilot test and additional hands-on computer training.

In theory, nothing can go wrong. But the more than 30 years clearing experience of our recently appointed acting chief executive, Michael Kelleher, caution us to expect the unexpected and be prepared to respond quickly and effectively.

In this issue of ClearTalk, we publish an interview with Mr Kelleher in which he pays tribute to the accomplishment of HKSCC in bringing CCASS to this stage in a period of 18 months, and outlines the steps to be taken before we begin operating on a CNS basis.

We examine the development philosophy and application of resources involved in bringing CCASS to this stage; and spell out the advantages to participants of CCASS on a trade-for-trade basis.

In other good news, we detail the reduced charges for CCASS services and report the exemption from transfer deed stamp duty for share transfers effected in CCASS.

We outline the final steps taken by HKSCC for the introduction of CCASS, highlight the major differences between the settlement workflow under CCASS and the physical delivery system; and publish a number of timely reminders to participants, together with useful numbers to call if they experience difficulties.

HKSCC has its new expanded Board of Directors, designed to give a wider range of interests to its deliberations. However, continuity and stability have been retained with the re-election of Ronald Carstairs as chairman of the Board.

It only remains to wish everyone involved with this major step in the development of Hong Kong's securities industry, every success and the best of luck on June 24 and beyond.

ClearTalk is intended to provide a forum for discussing matters of concern to our readers. Letters raising questions relevant to HKSCC or CCASS are most welcome at the address given on page 8. ■

## HKSCC recognised as clearing company

**H**ong Kong Securities Clearing Company was recognised by the Securities and Futures Commission (SFC) as a clearing house under the Stock Exchanges Unification Ordinance, on May 28, 1992.

Ronald Carstairs, chairman of HKSCC, said the recognition followed many months of hard work by the company. Following the recognition, the CCASS Depository commenced operations on June 2.

The Hongkong and Shanghai Banking Corporation Limited had been recognised

on June 1 by the SFC as a satisfactory institution for providing facilities for the safe custody of securities documents.

Recognition by the SFC was necessary under the Securities Ordinance which permits dealers to deposit securities, which are not their property and for which they are accountable, into safe custody in a designated account with their bankers or other institutions providing facilities for the safe custody of documents.

The bank has been appointed on a

non-exclusive basis by HKSCC to provide the facilities for the deposit, withdrawal and safe custody of securities for CCASS participants.

Once CCASS becomes operational, participants will be able to deposit securities into the CCASS Depository either for settlement or safe custody.

HKSCC's stock conversion plan came immediately into effect with the first two securities deposited for conversion being Bank of East Asia and Cathay Pacific. ■

## The time for automated clearing is now

**"H**ong Kong needs an automated clearing system now." This is the view of the newly appointed acting chief executive, Michael Kelleher.

Mr Kelleher is on six months' second-

would help when it came to introducing continuous net settlement (CNS).

The major obstacle to the start of CNS is passage of the legislation to isolate and protect CCASS from outside interference.

"As drafted, the bill satisfies the needs of HKSCC in regard to liability and our rights in a bankruptcy," Mr Kelleher said. "If there are no substantial changes in the bill which is expected to be voted upon before the end of the current legislative session in July, then we could be looking

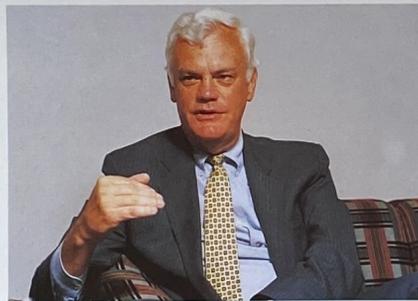
HKSCC's risk management programme expressed following the NSCC review of CCASS last November had largely been resolved.

"The most important was the question of irrevocability of bank confirmations of payments which The Hong Kong Association of Banks has now agreed will be at 9:30 am daily. At \$200 million, the Guarantee Fund should be sufficient to meet our likely needs."

He said he wanted to leave Hong Kong after six months with a fully operational system including CNS in place, which enjoyed the confidence of the participants.

"One of my roles is to bring some stability to the process utilizing my more than 30 years in clearing. The recent pilot test

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Michael J. Kelleher

ment to HKSCC from the National Securities Clearing Corporation (NSCC) in New York. "It's very obvious from the high turnovers and the clearing backlogs that have developed requiring special collective clearing sessions that we need automated clearing. There are no operational issues outstanding and we are ready to go."

He said participants would gain confidence in the system once they experienced the efficiencies arising out of electronic book-keeping and payments. This

at mid-September at the earliest as the start up date for CNS, although it is probably more realistic to be thinking about the end of September or early October."

He said there would probably have to be refresher courses and additional hands-on computer training courses for participants before the introduction of CNS. "There will also be an independent review of the risk management package prior to introduction of CNS and a similar review of operations."

Mr Kelleher said the reservations about

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# Benefits of CCASS to market practitioners

*Although most market practitioners recognise the need for CCASS and welcome its establishment, some may not understand clearly the range of benefits to them. Stewart Shing, deputy chief executive, discusses this subject.*

Mr Shing said part of the reason was that CCASS would be operated initially on a trade-for-trade (TFT) settlement basis rather than continuous net settlement (CNS). "Some participants are unsure of how electronic TFT settlement will be an improvement over their current practice of physical TFT settlement."

He said the advantages of TFT in a CCASS environment over physical TFT settlement would become apparent as soon as CCASS was implemented.

"In the first place, settlement will be by electronic book-entry. This will largely eliminate paper-processing time and greatly reduce the manual work and risks involved in the physical delivery of scrip and cheques. Moreover, book-entry settlement allows participants to settle their trades in CCASS even though the

shares deposited are physically submitted to registrars for registration.

"Participants will also gain from the establishment of the CCASS Depository and the immobilisation of share certificates. They will be able to save valuable office space currently used for secure storage of share certificates and at the same time reduce the risk of loss or theft. In addition, they will also benefit from the early detection of lost or stolen certificates and reduce their exposure to fraud, including unauthorised transfer of securities."

Mr Shing said the common nominee system would help in the early detection of defective securities when shares deposited by participants are submitted for registration in the name of the common nominee. "Under the General Rules of CCASS, HKSCC will replace secu-

rities withdrawn by participants if they are found to be defective and seek recourse from the participants who originally deposited the defective securities."

He accepted that it could take some time for participants to adapt to the new system and recognise its advantages. "However, as it will be based on T+2 settlement with a gradual conversion of eligible securities into CCASS, it should be easier for participants to become accustomed to it," Mr Shing said.

He said the benefits should become more quickly apparent during this time of high turnovers. "The inefficiency of the existing physical delivery system based on T+1 became obvious during the recent bull market. High settlement backlogs built up."

The backlogs prompted the Stock Ex-

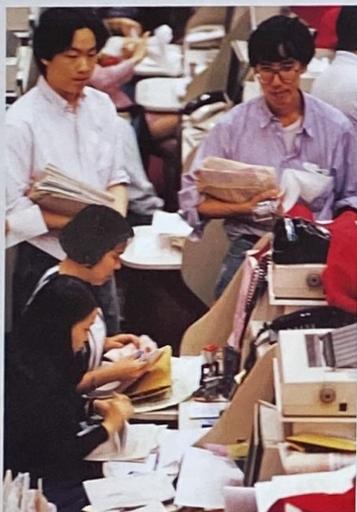
change to take a series of contingency measures to cope with the situation, including collective settlements at the Trading Hall.

"The recent settlement problems should remind the industry of the situation during the bull run prior to the 1987 crash which provided the impetus to develop CCASS."

"The launch of CCASS on a TFT basis is a significant step in streamlining settlement operations and developing a sound infrastructure for the securities industry. It will provide a path for a gradual conversion to CNS and further development such as automatic trade matching and execution."

Mr Shing said the success of Hong Kong in maintaining and developing its position as an international financial centre would depend on the soundness of the industry's infrastructure, including its clearing and settlement system. ■

## High turnovers create settlement backlogs



Scenes like this will become things of the past once CCASS is operating.

The Stock Exchange held two collective settlements in its trading hall during the evenings of May 21 and June 2 to clear up the backlog of unsettled trades arising from the recent period of high turnovers.

Between 25,000 and 30,000 outstanding transactions were settled in each session. Richard Heckinger, the Exchange's chief operating officer, said the collective settlements had been necessary because a survey of members had indicated that a high level of transactions were unsettled.

CCASS, with its electronic book-entry securities and money settlement services will eliminate most of the labour intensive procedures inherent in the physical settlement of transactions.

Pictures show traders settling outstanding transactions at the two collective settlement sessions. ■



# HKSCC and participants geared up for CCASS launch

*The immobilisation of share certificates in a central depository is a key element in the operations of CCASS. The CCASS Depository, operated by The Hongkong and Shanghai Banking Corporation Limited started operations on June 2.*

**H**KSCC has two main objectives — to develop and to operate a central clearing and settlement system. With the announcement that CCASS would come into operation on a TFT basis on June 24, the development part had been achieved. HKSCC then proceeded to review the logistics for operating CCASS so that the second part of the objective would meet equal success.

At the end of April, a simulation test was held internally for a week. Company personnel rehearsed the participants' and paying banks' operations, in order to ensure that CCASS and its interfaces would function properly in the full pilot test that soon followed.

A series of refresher courses in mid-April and May helped participants to consolidate their knowledge of CCASS so that they would be able to adapt to the system. The classes concentrated on the TFT system, but also covered previous training topics including both conceptual overview and hands-on operations.

To back-up participants' conceptual understanding by hands-on operating experience and iron out possible difficulties before live operations commenced, a full pilot test was conducted from

May 13 to 19. The pilot test was different from previous ones in that the simulated production runs were based solely on TFT.

Using real stock exchange trades, the test rehearsed participants, designated banks, HKSCC's banker, the CCASS Depository and the Stock Exchange of Hong Kong in the operations of CCASS. All followed an operational execution script prepared by HKSCC which provided them with guidelines to set up their own daily workflow.

According to feedback from external and internal users, the test ran smoothly without any major incidents.

HKSCC issued a joint letter on stock conversion with the Stock Exchange on May 15 to explain to listed companies the implications of CCASS to them and their shareholders.

It is envisaged that most securities in CCASS will be registered in the name of HKSCC Nominees Ltd, the common nominee. This may violate the statutory shareholding control to which some listed companies are subject. These are mostly listed banks subject to a 10 per cent restriction on majority shareholding under the Banking Ordinance. HKSCC has reached an agreement with the



Mr Carstairs and Mr Selway-Swift examine certificates in the CCASS Depository

Banking Commissioner which will exempt the common nominee from the 10 per cent ceiling.

Meanwhile, HKSCC is working with certain other listed companies to devise methods to facilitate the acceptance of their securities into CCASS.

Depository provides deposit and withdrawal services from 10am to 3:45pm on each business day. Common nominee services are also provided.

Participants have begun to deposit the first batch of eligible securities, those of The Bank of East Asia and Cathay Pacific Airways, into the Depository. The Depository will start accepting the second batch of eligible securities into CCASS at the beginning of July.

The first securities deposited have been submitted for registration in the name of the common nominee, so that withdrawal demands can be met as soon as CCASS is launched.

Participation applications were approved between late May and early June and HKSCC has started collecting admission fees, and charges for CCASS terminal software from participants. Broker participants have also begun paying their contributions to the Guarantee Fund.

Following endorsement by the SFC, copies of the General Rules of CCASS, CCASS Operational Procedures and the CCASS Terminal User Guide are being distributed to participants.

Some fine-tuning may be needed in the final weeks before June 24, but the indications are that HKSCC and participants are geared up for the launch. ■

***The first securities deposited have been submitted for registration in the name of the common nominee, so that withdrawal demands can be met as soon as CCASS is launched.***

An admission schedule of eligible securities to be accepted in the first phase was announced on May 29. The conversion plan for the remaining phases may be subject to amendment to accommodate the business and constitutional requirements of listed companies.

On June 2, the CCASS Depository operated by Hongkong Bank started operations. Located at the basement of the Bank's head office in Central, the



(From left) Stewart Shing, deputy chief executive HKSCC; Ronald Carstairs, chairman HKSCC; Michael Kelleher, acting chief executive HKSCC; and Paul Selway-Swift, executive director, The Hongkong and Shanghai Banking Corporation Limited, at the opening of the CCASS Depository.

# What will happen

**C** CASS on a T+1 basis will be launched on June 24. As participants of CCASS, are you ready?

To aid participants who are developing their internal operational procedures to accommodate CCASS, we highlight the major differences between the settlement workflow under CCASS and the current physical delivery system.

## Pre-settlement arrangement of brokers' trades

### Preparation of settlement documents or funding

Currently, a broker needs to prepare a delivery note and share certificates with stamped transfer deeds or cheque for his counterparty broker.

Under CCASS, a selling broker participant will only need to deposit share certificates with stamped transfer

money obligations) contained in these statements are grouped under the same stock, they serve as clear and organised reports for broker participants to prepare for settlement.

## Settlement of brokers' trades

### Stock settlement

Currently, a selling broker will deliver scrip with stamped transfer deeds and delivery note to the counterparty broker on T+2 (the original T+1 settlement period was replaced by T+2 with effect from June 8).

Under CCASS, a selling broker participant can use the electronic book-entry transfer function of CCASS to settle his trades. This will greatly reduce the time, manual labour and risks involved in the current physical delivery method.

On or before T+2, a selling broker participant should deposit the necessary quantity of share certificates (received from his client) into his stock account maintained in CCASS via the CCASS Depository for settlement. The depository is open from 10 am to 3:45 pm on each settlement day.

As long as a selling broker participant has sufficient shares in his Stock Clearing Account, he can rely on CCASS to effect stock settlement through the three multiple batch-settlement-runs executed on each settlement day.

After each batch-settlement-run, the required quantity of stocks to be settled will be debited from a selling broker participant's Stock Clearing Account and credited immediately

counterparty broker in exchange for share certificates.

Under CCASS, if the selling broker wishes to settle the trade with his counterparty broker participant on a **delivery versus payment (DVP)** basis, CCASS will act as a facilitator in the money settlement process.

Upon settlement of stock, CCASS will generate the relevant **electronic payment instructions (EPIS)** to the two counterparty broker participants' designated banks for **overnight clearing** through The Hong Kong Association of Banks' clearing house. The selling broker participant will need to monitor receipt of payment himself.

The use of the electronic money settlement facilities of CCASS will help broker participants save time in the issuance or banking of cheques.

The selling broker participant may also choose to settle his trades on a **free-of-payment (FOP)** basis. In this case, he will have to make money settlement arrangements with his counterparty outside CCASS.

At present, no partial settlement of stocks can be accepted. Under CCASS, partial settlement will only be accepted if the selling broker participants opt to settle their trades on an FOP basis.

## Post-settlement arrangement of brokers' trades

### Settlement reports for reconciliation or follow-up action

Under CCASS, a selling/buying broker participant will continue to monitor the settlement results of all of his trades so that appropriate follow-up action can be taken.

Broker participants can make use of the **on-line enquiry functions any time within CCASS service hours** to check whether their stock and money positions have been settled.

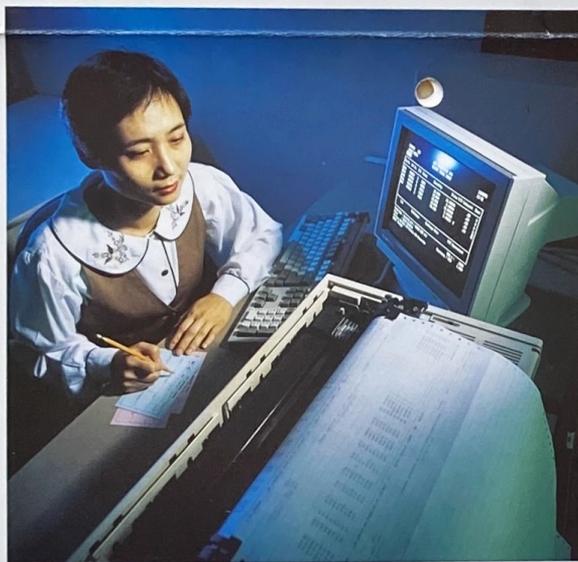
Various reports and statements detailing all settlement activities will be available to broker participants through their CCASS terminals.

Shortly after 6 pm on each settlement day, Settled Position Reports will be ready for broker participants to check their current day's settlement results, including settlement quantities and money obligations.

Shortly after 9 am the following day, a full Settlement Report listing all settled/unsettled stock and money positions for the previous settlement day will be available. This will help broker participants to follow-up on outstanding transactions.

### Report failure in delivery to HKSCC

Under CCASS, a broker participant shall report to HKSCC instead of the Stock Exchange a counter-party broker's failure to deliver or take delivery of stocks.



Brokers' manual back-office operations will be automated when CCASS is implemented

deeds into the CCASS Depository for electronic book-entry settlement.

A buying broker participant will need to prepare funding in his designated bank account for electronic money settlement under CCASS.

Around 6 pm on T day and 2 pm on T+1, settlement details of broker-broker trades will be available through broker participants' CCASS terminals in the form of Provisional Clearing Statement (PCS) and Final Clearing Statement (FCS).

As the settlement details (stock quantities and

into the buying broker participant's Stock Clearing Account in CCASS.

However, a selling broker participant may also choose to settle a single trade any time between 10 am and 3:45 pm within CCASS by the input of a **Delivery Instruction (DI)**. Each DI will take immediate effect upon input if the stock balance in the selling broker participant's stock account is sufficient.

### Money settlement

Currently, a buying broker will give a cheque to his

# en on the day ?

## Settlement of other transactions

### Broker-client settlement and other transactions

Under CCASS, a broker participant will continue to settle scrip/money with his clients outside CCASS, and will continue to keep detailed records of all transactions with his clients.

However, if a broker's client has appointed a CCASS participant (eg a custodian participant) to act on his behalf, he may effect stock or money settlement with this client's appointed agent within CCASS.

This type of broker-custodian transaction together with other transactions such as stock pledging, stock lending and portfolio movement between two CCASS

participants can also be settled in CCASS.

### Stock settlement

Under CCASS, to initiate settlement, each of the two counterparties will only need to input a Settlement Instruction (SI) into CCASS any time between 10 am and 3:45 pm on a CCASS business day.

A matching process of SIs will take place in CCASS at stipulated times to make sure that all SI transactions are agreed by both sides to a transaction. It will take place in CCASS shortly before each batch-settlement-run.

CCASS will effect settlement of matched SIs on or after their stipulated settlement day. Matched SIs which remain unsettled will be purged from the system ten days after the stipulated settlement day. Unmatched SIs will be purged from the system ten days after the input date.

In order to check the status of SIs, the participants

may use the on-line enquiry function of CCASS or retrieve the SI Activity Report (listing matched, revoked or purged SIs) or SI Status Report (listing matched SIs which are pending settlement or unmatched SIs) for reconciliation and follow-up action. These reports will be available from 9 am on each business day for the previous day's SI activity.

A delivering participant may also initiate settlement by the input of a Delivery Instruction on or after the due settlement day.

CCASS will not accept partial settlement of SIs.

### Money settlement

An SI transaction can be settled on a DVP or FOP basis. If an SI transaction is to be settled on a DVP basis, CCASS will generate the relevant EPIs to the two counterparties' designated banks for money settlement. ■

## CCASS daily processing and service schedule

Time	CCASS events
9:00 am	Enquiry and report retrieval functions available. All previous day's reports are available for retrieval.
10:00 am	Clearing services (SI input, change, delete, revoke, if appropriate), settlement services (DI, ATT input) and depository services (deposits and withdrawals of eligible securities by participants) commence.
11:30 am	First SI matching.
12:00 noon	First batch-settlement-run.
2:00 pm	Second SI matching.
2:00 pm (after)	Final Clearing Statement or FCS in respect of broker-broker trades concluded on previous day available to broker participants.
2:30 pm	Second batch-settlement-run.
3:15 pm	Third SI matching.
3:45 pm	Clearing, settlement and depository services close (except for enquiry and report retrieval). Final SI matching. Final batch-settlement-run. Generation of EPIs by HKSCC.
6:00 pm (after)	Provisional Clearing Statement or PCS in respect of broker-broker trades concluded on current day available to broker participants. Settled Position Report of current day available.
7:00 pm	Enquiry and report retrieval functions close.

- Notes: (i) Account Transfer Instruction (ATT) will be used by participants to effect book-entry movements of eligible securities between their different stock accounts.  
(ii) Deposit and withdrawal services for eligible securities subject to book-close dates will close at 12:00 noon on the last business day before the relevant book-close dates.  
(iii) Report retrieval functions are available on Saturdays.  
(iv) The schedule set out above is indicative only.

## Stamp duty exemption to facilitate CCASS



Amendments to the Stamp Duty Ordinance, which came into effect on May 14, 1992, provide certain stamp duty concessions which will facilitate the operations of CCASS.

The main provisions include the end of the need for a broker's endorsement to the instrument of transfer if at the time of sale or purchase the shares are in the custody of HKSCC, or a recognised depository; or are registered in the name of the recognised clearing house, HKSCC, or its nominee.

Transfers of shares executed by HKSCC, the recognised clearing house or its nominee are also exempted from the \$5 transfer deed stamp duty by the amendments. ■

# CCASS charges reduced

The stock and money settlement charges to participants in CCASS will be lower than originally proposed.

At a meeting in early May, the Board resolved that the stock settlement fee would be reduced from 0.014 per cent to 0.01 per cent of the gross trade values. The maximum charge per transaction will be lowered from \$400 to \$300 but the minimum of \$3 will remain unchanged.

Following an agreement with HKSCC's banker which will forward money settlement instructions generated by HKSCC to the clearing house of The Hong Kong Association of Banks, the money settlement fee will be \$0.65 per electronic payment instruction when CCASS is implemented on a TFT basis.

The money settlement fee to be charged by HKSCC's banker under the TFT system is lower than under the CNS system. The charge of \$0.80 under the CNS system is based on the principle that the volume of money settlement instructions expected to be generated is less than under TFT.

Raymond Au, director of Finance Division, said the reduction in the stock settlement fee was due to the consent of HKSCC's six members to allow for an extension of the repayment period for the \$300 million establishment loan from seven to ten years.

"Our members also agreed to a reduction in the interest rate on the loan. The rate was lowered from prime rate to HIBOR plus two per cent, a decrease of about 1.5 per cent," Mr Au said.

Another reason for the decrease in the stock settlement fee is that the calculation base has been enlarged.

Originally, HKSCC was working on an assumed daily stock market turnover of \$1.5 billion. However, recent high turnovers and the anticipated increase once CCASS is fully operational, have enabled it to increase the base to \$1.8 billion.

Mr Au said, "Stock withdrawal fees and charges for common nominee services, however, remain unchanged.

"The CCASS tariff structure will be reviewed six months after the system is in full scale operation.

"The review will take into account factors like market conditions, volume of CCASS usage, interest rates and inflation." ■

## CCASS tariff under TFT system

I. Securities clearing and settlement services			
Fee nature	Transaction nature	Fee amount	
Stock clearing fee	Exchange trade	Nil	
	SI transaction	# SI input	\$2.50 per input
		SI amendment or revocation	\$10 per input
Stock settlement fee	# Exchange trade	0.01% of gross value of an Exchange trade or SI transaction, subject to a minimum fee of \$3 and maximum of \$300 per trade or transaction (no fee is chargeable on crossed trades, i.e. the buy and sell of a trade is handled by the same broker participant)	
	# SI transaction		
		Without trade value data input	0.01% of value of securities on settlement day (using closing prices of previous trading day), subject to a minimum fee of \$3 and maximum of \$300 per SI transaction
Stock transfer fee	Movement of securities between stock accounts of the same participant (effected by ATI)	Nil	

II. Electronic money settlement services		
Fee nature	Transaction nature	Fee amount
Money settlement fee	# Exchange trade	\$0.65 for each EPI issued by HKSCC for transactions settled on DVP basis
	# SI transaction	
		Other miscellaneous amounts to be paid to or collected from participants eg contributions to Guarantee Fund, stock benefit entitlements

- Notes: ATI Account Transfer Instruction # Payable by both sides to a transaction  
 DDI Direct Debit Instruction DCI Direct Credit Instruction  
 EPI Electronic Payment Instruction DVP Delivery Versus Payment  
 SI Settlement Instruction

## Reminder to participants

**Pay on time to avoid incurring overdue interest:** The Statement of Money Ledger will show participants' money obligations to HKSCC and other participants. Since any overdue money balances owed to HKSCC will be subject to interest, participants should ensure that all of their money obligations due are settled on time.

**Hotlines:** Participants' enquiries can be directed to the following hotlines.

Fault Reporting Centre (852-8911) — centralises participants' fault reports concerning the technical aspects of CCASS operations, such as difficulties in logging on to the host computer, accessing CCASS functions or other opera-

tional problems related to CCASS terminals.

Participant Admission Department (815-5122) — takes enquiries concerning participation in CCASS.

Customer Services Department (852-8000) — handles queries on the more general aspects of CCASS. ■

# The technical development of CCASS

More than 13,000 man-days of work, compressed into a little over a year, were expended in the technical development of CCASS. And lessons learnt at that time are being applied in the development of the Stock Exchange's automatic trade matching and execution system.

This was revealed by Paul Chow, chief executive of the Stock Exchange and former chief executive of HKSCC at the Sixth Annual Share Guide Conference in Hong Kong earlier this year.

He said the major lesson was that the business requirements of the system should be given equal, if not more, weight than the technical requirements. "In other words, just because something is technically possible, that does not make it practically feasible," Mr Chow said.

According to Mr Chow, the resources of the CCASS project team in early 1988 had been largely allocated to technical questions such as the size of the compu-

ter, the size of the database, data presentation and communication between host and remote terminals.

"Comparatively fewer resources had been allocated to the functions that CCASS



Paul Chow

was to support in risk management, settlement of securities and the use of a common nominee company for registration and transfer of securities. The project team also had to consider the impact of the system on the existing operations of users — some of whom might never have used a personal computer terminal before — and the willingness of users to change the way they did business," Mr Chow said.

CCASS has six different kinds of direct users — brokers, custodians, stock lenders, stock pledgees, the Stock Exchange and the CCASS Depository — and many indirect users, including retail and institutional investors. "Each of these users has different needs and interests to be met by the system," Mr Chow said.

These were the business requirements of CCASS that the development team concentrated on in 1990, he said. The team was made up of HKSCC's in-house information technology staff supported by

staff from an outside consultant, Andersen Consulting.

In order to complete the project on time, there was significant overlap between different segments, such as design and programming and programming and systems testing. But at the same time, great effort was put into ensuring the quality of the system.

"At the peak of the project, more than 100 people were involved in the development team. But HKSCC employs far fewer than 100 people in its Technology Services Division as it would not make good business sense to maintain a large division for system support after conversion.

"The joint project team worked very well in resolving business and technical issues, undertaking development work, and coordinating implementation tasks, and as a result, was able to complete the project on schedule," Mr Chow said. ■

## Memorandum of Understanding with SFC

HKSCC and the SFC signed a Memorandum of Understanding (MOU) on May 29, following approval by the SFC of HKSCC's rules and operational procedures, as part of the recognition process.

Under the MOU, both parties acknowledged the need for the prompt implementation of the CCASS continuous net settlement system subject to the enactment of the appropriate legislation.

It reinforced the view that HKSCC was a self regulator of CCASS participants, and

reflected the undertaking that HKSCC and the SFC would cooperate in the continued development of CCASS.

It especially reflected the understanding between the parties of the need for co-operation and consultation on matters affecting the smooth and effective operation of CCASS, and the protection of investors.

HKSCC undertook to consult with the SFC before it waived or altered the minimum requirements to be met by prospective participants in CCASS. It also under-

took to consult with the SFC if it intended to enter any arrangement with other clearing entities with a view to making HKSCC's services available to participants in those entities.

Once operational, HKSCC would neither cease nor suspend the continuous net settlement system, and if it intended to do so, it would first discuss the matter with the SFC. It also undertook not to alter the minimum cash contribution by participants to the Guarantee Fund.

HKSCC undertook not to make material changes to its insurance coverage of CCASS operations, its agreements with participants, the appointed depository and designated banks except when circumstances required, in which case it would consult with the SFC.

The SFC undertook under the MOU to consider promptly any urgent application by HKSCC for approval of new rules or modifications to existing rules and use its best efforts to approve or disapprove these applications as soon as reasonably practicable. It also undertook, when enabling legislation was enacted, to cooperate

fully with HKSCC to identify the rules and operational procedures that would not require the formal approval of the SFC in order to have effect.

Suren Gangai, HKSCC's principal legal adviser, said the MOU demonstrated the cooperative working relationship between HKSCC and the SFC.

"It clearly defines the undertakings between HKSCC and the SFC in relation to the operation of CCASS and sets in perspective the supervisory role of the SFC over a recognised clearing house.

"Very importantly, both HKSCC and the SFC recognise the need for HKSCC to have the flexibility to take immediate action to ensure the operations of CCASS in the light of operational experience.

"Both parties agreed on the need to maintain high standards of risk management for the protection of CCASS and investors," Mr Gangai said.

The memorandum will be kept under constant review with a view to improving it and resolving any matters arising from it, and may be amended by written agreement between the two parties. ■

### T+2 now official

In preparation for the launch of CCASS, the trade settlement period for transactions on the Stock Exchange was extended to T+2, with effect from June 8.

The new settlement period applies to physical settlement and will apply to electronic settlement in CCASS. ■

# Carstairs re-elected chairman

At the first meeting of the new expanded Board of Directors on April 29, Ronald Carstairs was re-elected chairman. Thomas Chen Tseng Tao was elected deputy chairman.

New appointments to the Board followed the agreement with the Securities and Futures Commission reached at the end of February to expand the Board from 14 to 22 members; and passage by the members of the company of a special resolution to amend its Articles of Association to allow for the creation of an expanded Board.

The new Board is made up of 11 representatives from the Stock Exchange, including its chief executive as an ex officio member; five representatives of the existing bank members of HKSCC; and five appointed by the Financial Secretary. When appointed, the chief executive of HKSCC will become an ex officio director.

## Members of the new Board comprise:

- + Ronald CARSTAIRS (chairman)  
*Vice Chairman & Managing Director,*  
*Dab Sing Bank Ltd*
- + CHEN Tseng Tao, Thomas (deputy chairman)  
*Director,*  
*Hang Lung Development Co Ltd*
- \* AU Siu Kee, Alexander  
*Managing Director & Deputy Chief Executive Officer,*  
*Hang Seng Bank Ltd*
- + CHOI CHEN Po Sum  
*Chairman & Managing Director,*  
*Coin Fall Ltd*
- + CHOW Pei Fung, Audrey  
*Sole Proprietress,*  
*Audrey P.F. Chow & Co*



Ronald Carstairs

- \* William Robert EBSWORTH  
*Managing Director,*  
*Fidelity Investments Management (H.K.) Ltd*
- + FUNG Chi Kin  
*Director,*  
*Chung Mao Securities Ltd*
- + Paul Joseph GALLAGHER  
*Principal,*  
*Morgan Stanley Asia Ltd*
- + KWAN Cheong Yiu  
*Sole Proprietor,*  
*Golden Harvest Stock Investment Co*
- + KWONG Che Keung, Gordon  
*Partner,*  
*Price Waterhouse*
- + LAM Haw Shun, Dennis  
*Executive Director & General Manager,*  
*The Commercial Bank of Hong Kong Ltd*

- + LAM Sau Ha  
*Director,*  
*Hang Fat Securities Ltd*
- \* LI Kwok Po, David  
*Director and Chief Executive,*  
*The Bank of East Asia, Ltd*
- + Allan George MURRAY  
*Director,*  
*Jardine Fleming Broking Ltd*
- \* Anthony William NICOLLE  
*Area General Manager, Hong Kong & China,*  
*Standard Chartered Bank*
- + Austin John O'CONNOR  
*Managing Director,*  
*Bermuda Trust (Far East) Ltd*
- + David ROBERTS  
*Group Finance Director,*  
*Hoare Govett Asia Ltd*
- \* John Estmond STRICKLAND  
*Executive Director Services,*  
*HSBC Holdings plc*
- \* ZHOU Zhen Xing  
*General Manager,*  
*Bank of China, Hong Kong Branch*
- # A director (to be appointed)
- + CHOW Man Yiu, Paul (ex officio)  
*Chief Executive,*  
*The Stock Exchange of Hong Kong Ltd*
- To be appointed (ex officio)  
*Chief Executive,*  
*Hong Kong Securities Clearing Co Ltd*

- \* Representative of bank members
- # Appointed by the Financial Secretary
- + Stock Exchange representative ■

Cont'd from P.1

was a complete success and I would hope that CCASS gets off to a smooth start. Nevertheless, my experience tells me we must

be prepared to respond quickly to any glitch that may arise and to use that process as a learning experience."

Mr Kelleher said he was not looking to make changes in the design of the system. "Only time will tell, but I believe we have an effective organisation. It's similar to what we do in the United States and I believe the system meets the needs of Hong Kong.

"There will be a full technical review in 12 months which may lead to some changes but what we need at the moment is stability. It is very important that participants are confident about what HKSCC is doing."

Mr Kelleher first came to Hong Kong in 1988 to discuss automated clearing and settlement. He returned in 1989 for further talks, and again in November last year as a member of the NSCC team that gave an assessment of the CCASS operational, legal and risk management schemes.

"To be in Hong Kong when the system is about to be launched is a real event for me. It's amazing the knowledge that has been absorbed by the people in HKSCC over the past four years. The actual development of the system only began about 18 months ago and it is a true accomplish-

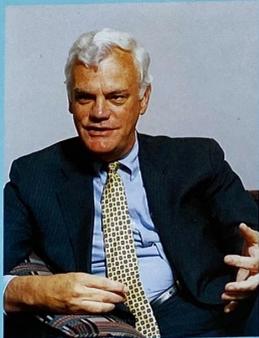
ment for HKSCC to be able to begin accepting deposits of securities on June 2 and launch TFT on June 24, especially when you look at some other proposed clearing systems around the world." ■

## Michael J. Kelleher

Mr Kelleher is on six months' secondment to HKSCC as acting chief executive from National Securities Clearing Corporation (NSCC) in New York where he is vice-president, Operations/Planning.

He has more than 30 years' experience in clearing operations. He joined NSCC as director of Operations at its inception in 1977, and was appointed vice-president in 1983 before taking up his present appointment in 1985.

Mr Kelleher began his career in the securities industry in 1959 with Stock Clearing Corporation, the then clearing subsidiary of the New York Stock Exchange and one of NSCC's predecessor organisations. He was director of



the Direct Clearing Department between 1959 and 1971 before becoming assistant secretary and director of Clearing Operations in 1972, a position he held until the formation of NSCC. ■

## ClearTalk

Clear Talk is the information bulletin of Hong Kong Securities Clearing Company Ltd.

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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