

ClearTalk

Information Bulletin of Hong Kong Securities Clearing Co. Ltd.

A confident start to 1994

Another year has come and gone, and the Clearing Company enters 1994 full of confidence for the future and in a sound financial condition.

Our lead story in this issue attributes the continuation of the discount on settlement charges and the early repayment of the company's development loans to the better than expected operating results for the first six months of the financial year, July 1993 to June 1994.

During September and December, the Clearing Company held a series of seminars for merchant banks and market practitioners to introduce the benefits of admitting new issues into CCASS on their listing day under the jumbo certificate arrangement.

The Clearing Company emerged from an independent technological review with a glowing report. In spite of the pressure on the system, especially after the Exchange introduced its automatic order matching and execution system in November, clearing and settlement proceeded normally and without delay.

The company continues to research and develop new services for the benefit both of the market and its participants.

New services planned include the admission of provisional allotment letters into CCASS; and overnight distribution of CCASS reports in order to spread peak usage of the system over a wider time frame.

Finally, the editor and staff of *ClearTalk* wish our readers a happy and prosperous 1994; and *Kung Hei Fat Choy* for the Year of the Dog.

ClearTalk 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 Operating Procedures. Letters raising questions relevant to the Clearing Company or CCASS are most welcome at the address given on page 6. ■

Discount on settlement charges to continue

The discount on settlement charges introduced in October last year will continue, although the \$28 million allocated from reserves to cover the cost had been absorbed by the end of January.

Participants will continue to enjoy the 20 per cent discount on settlement fees announced last October as well as the other benefits introduced at the same time.

The Board of Directors has accepted a recommendation of the Finance Committee of the Clearing Company to continue the discount and to fund it from current financial year earnings.

This follows better than expected operating results during the first six months of the company's financial year from July 1 to December 31, especially during the three months, October to December.

The growth in earnings is attributable to the very high Stock Exchange trading turnover during the period, and increased settlement instruction transactions. In addition, more than 600 securities had been admitted for clearing and settlement in CCASS, compared with a little over 110 on December 31, 1992.

As a result of the improved earnings figures, the company's \$300 million development loans from the Stock Exchange, the Bank of China, Bank of East Asia, Hang Seng Bank, the Hongkong and Shanghai Banking Corporation and the Standard Chartered Bank had been reduced to \$56 million by December 31, 1993; and were fully repaid in January, 1994.

This was more than eight years ahead of the agreed repayment period. However, the loans are in the form of a revolving facility, which means that the company can continue to draw down against the facility at any time within the agreed period.

The company expanded during 1993, and staff levels have increased in order to handle full scale operations of CCASS and develop new projects, including the establishment of a new computer centre at Quarry Bay.

Creation of the new computer centre is the second stage of the company's two-stage strategy for disaster recovery. The first stage

reduced the off-site computer centre's recovery capability from 'within 24 hours' to 'within four hours'. With its own second on-site computer centre, the Clearing Company will be able to provide prompt back-up in the event of a disaster.

In a briefing to the news media on January 5, Richard Heckinger, chief executive of the Clearing Company, said the company had operated smoothly during 1993, which had been a year of consistently high turnover on the Stock Exchange.

This was especially true during the fourth quarter of the calendar year, but Mr Heckinger said there had been no drop in operating or settlement efficiency.

So far this year, Stock Exchange trading has continued at a high level and a new record single day's market turnover of over \$17 billion has been established.

Mr Heckinger said the company would continue to face the challenge of providing efficient and cost effective clearing and settlement services in a dynamic and busy market.

He said the company was continuing to work closely with the Stock Exchange on the development of its traded options market. And the Clearing Company would also examine the opportunities that could arise from centralised stock borrowing and lending. Mr Heckinger forecast another busy year for the company. ■



As a result of the Clearing Company's improved earnings, its \$300 million development loans were fully repaid in January 1994.

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CCASS performed satisfactorily in bullish market

The market has experienced hectic trading since last October. The daily average Exchange turnover for the final three months of 1993 exceeded \$7.8 billion with two billion shares a day changing hands.

EXCHANGE TRADES

During the same period, the percentage of Exchange trades handled by CCASS was consistently over 94.1 per cent of the total trades for each month.

In October, 1,120,421 Exchange trades were processed in CCASS. The number increased to 1,307,493 in November and 1,506,289 in December (table 1).

Netting efficiency of CNS trades

During the final quarter of 1993, 3,704,953 Exchange trades involving \$419.5 billion by value went through CCASS for continuous net settlement. The 7,409,906 novated contracts created

were netted to 1,904,671 CNS positions, leaving 25.7 per cent of novated contracts for settlement. The \$839 billion in money obligations generated by the novated contracts were netted to \$218.8 billion. Funds netting efficiency was consistently above 70 per cent (table 4).

Settlement efficiency of CNS stock positions

The settlement efficiency of CNS stock positions for the three months was consistently over 92.7 per cent on the due settlement day and 99.5 per cent on the settlement day following the due day.

SETTLEMENT INSTRUCTIONS

In October, 285,618 SIs (both receiving and delivering SIs are counted) were settled in CCASS. The number increased to 384,302 in November and 376,466 in December (table 2), which were the two highest monthly totals during the year. ■

Year end highlights

Exchange Trades

During 1993, 10,052,028 Exchange trades were processed under CCASS. Since completion of the phased stock conversion plan on June 2, when more than 600 securities had been admitted into CCASS, the system handled a daily average of 94.4 per cent of all Exchange trades. The daily average of Exchange trades handled by CCASS for the period from June 2 to December 31 was 48,678 trades involving more than 1.7 billion shares valued at \$5.4 billion.

Settlement Instructions

In 1993, more than 2.7 million SIs (both receiving and delivering SIs are counted) involving 350 billion shares valued at \$2,317 billion were settled under CCASS (table 2).

From June to December, an average of 13,103 SIs were settled daily in CCASS, involving 1.7 billion shares with a total market value of \$11 billion.

Depository transactions

As at the end of December, 681 stocks had been admitted into CCASS, with about 91.9 billion shares under custody of the CCASS Depository, representing 27.5 per cent of the total number of shares of the admitted stocks in issue. The total market value of the shares was \$584.1 billion, representing 19.3 per cent of the total market capitalisation of the admitted stocks.

The percentage of share certificates under custody of the CCASS Depository was 6.6 per cent by the end of 1992. It increased gradually to 27.5 per cent by the end of 1993 (table 3).

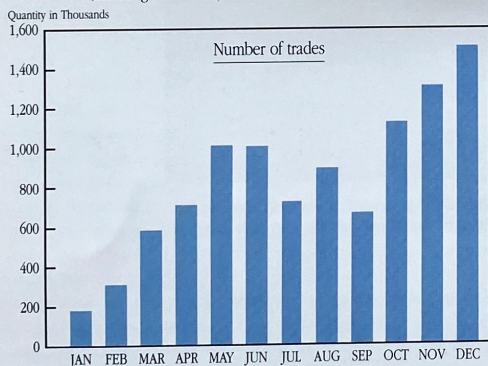
In 1993, the depository handled an average of 4,047 transactions (including deposit and withdrawal) per business day, involving more than 220,000 share certificates.

Participants

At the end of 1993, there were 486 broker participants, 54 custodian participants and 4 stock pledgee participants. ■

(Table 1)

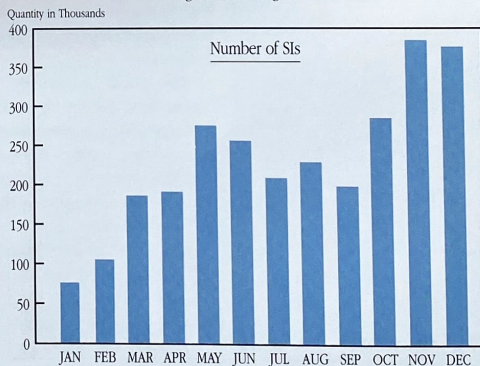
Stock Exchange trades processed in CCASS (including CNS trades, isolated trades and cross trades)



	Number of trades	% of total number of Exchange trades
January	195,728	41.47
February	304,175	49.68
March	590,641	59.72
April	701,369	81.01
May	1,056,864	91.63
June	1,010,074	95.18
July	720,641	91.99
August	888,093	94.18
September	650,240	94.70
October	1,120,421	96.06
November	1,307,493	94.16
December	1,506,289	94.42
Total	10,052,028	

(Table 2)

SIs settled in CCASS (both receiving and delivering SIs are counted)



	Number of SIs	Shares (billion)	Value (\$ billion)
January	75,732	7.0	84.5
February	100,116	9.5	102.0
March	185,816	19.5	148.6
April	190,888	23.0	148.3
May	275,096	36.4	201.3
June	255,794	38.2	165.5
July	208,838	26.7	142.4
August	229,300	26.9	171.3
September	198,878	25.0	161.7
October	285,618	39.2	279.6
November	384,302	54.5	370.3
December	376,466	44.2	342.0
Total	2,766,844	350.1	\$2,317.5

Overnight CCASS report distribution

Overnight CCASS report distribution services were introduced on a trial basis on January 3, 1994, which enabled participants to obtain CCASS reports immediately after day-end settlement processing. The facility was made available to an initial group of participants who are heavy users of CCASS report printing or downloading services.

The new facility is designed to help increase the operations efficiency of CCASS participants and to spread the peak usage of the system.

Under existing practise, most CCASS reports are available the next morning after day-end processing of the system. Between 9:30am and 10:30am, when most participants log on their terminals for CCASS report printing and downloading, it may take some time for a participant, especially one with a large amount of activity to finish report printing or downloading.

Reports will be available through overnight report distribution for earlier reconciliation or settlement preparations in addition to report retrieval during the day.

The report distribution methods remain the same but the distribution is done overnight. Participants can still choose to print the reports directly or to store them in the

hard disk of their CCASS terminals for subsequent processing or printing. If participants have already applied



CCASS reports will be available immediately after day-end processing for earlier reconciliation or settlement preparations.

for the data download service, data images of the reports will also be downloaded to the hard disk of their terminals.

CCASS reports available through this facility include SI status, SI activity, settlement, statement of stock accounts,

statement of money ledger, next settlement day due/overdue positions, entitlement statement, buy-in requests, and marks collection.

The provisional clearing statement, final clearing statement and settled positions report are available during the day according to the usual time schedule.

A seminar explaining the concept and operations features of the new facility was held for the initial group of participants at the end of November, 1993.

More than ten CCASS participants took part in the trial run of the project which started in early January. The Clearing Company will invite additional participation in the trial run and will monitor results before deciding on whether to expand the project to all participants.

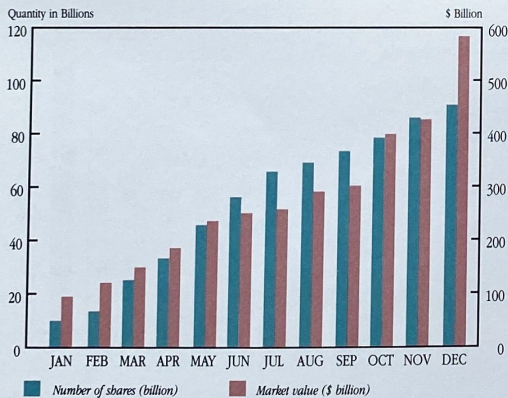
To cope with the new facility, special software will be installed by the Clearing Company into the selected participants' CCASS terminals.

Reports will be distributed to CCASS participants' unattended premises at night, and participants should be aware of any risks involved and are strongly recommended to establish adequate internal controls to ensure authorised access to the CCASS reports and data files. ■

(January – December 1993)

(Table 3)

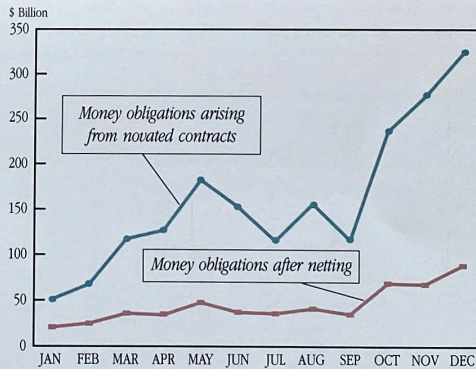
Securities under CCASS custody
(balances at the end of each month)



	Number of shares (billion)	% of total issued share capital of admitted securities	Market value (\$ billion)	% of total market capitalisation of admitted securities
January	10.1	7.00	95.0	8.05
February	14.7	7.61	120.6	8.46
March	24.4	9.15	150.0	9.62
April	33.1	12.09	186.0	11.16
May	46.3	16.03	236.3	12.72
June	57.5	19.50	251.0	13.66
July	64.6	21.02	257.9	14.30
August	69.8	22.29	290.9	14.94
September	73.5	23.13	301.9	15.45
October	79.0	24.68	398.7	16.91
November	86.1	26.57	426.7	18.21
December	91.9	27.48	584.1	19.26

(Table 4)

Funds netting efficiency under CNS



	Money obligations arising from novated contracts (\$ billion)	Money obligations after netting (\$ billion)	Funds netting efficiency (%)
January	52.0	21.1	59.48
February	68.5	25.3	63.12
March	118.2	36.4	69.17
April	127.7	34.7	72.82
May	183.2	48.5	73.50
June	153.6	38.0	75.26
July	116.3	36.7	68.44
August	157.2	42.2	73.15
September	117.4	36.1	69.26
October	237.6	70.2	70.47
November	276.9	69.2	75.02
December	324.5	79.4	75.53

Seminars on stock admission on listing date under the jumbo certificate arrangement

The Clearing Company held a series of seminars to introduce the benefits and operations of admitting new issues into CCASS on their listing date under the jumbo certificate arrangement to merchant banks and other market practitioners in September and December.

The seminars in September were attended by 30 representatives from over 25 merchant banks.

Alan Lee, director of Operations Services, said response from the merchant banks had been encouraging, which indicated their support for admitting shares into CCASS on listing date under the jumbo certificate arrangement.

The Clearing Company hoped that the merchant banks would advise potential issuers about the procedures involved, he said.

Given the short time frame for both the listing and admission arrangements, the Clearing Company has established close communication links with the Stock Exchange so that timely information about potential issuers can be passed to the Clearing Company immediately upon receipt of potential issuers' formal application for listing on the Stock Exchange.

The Clearing Company will then follow up with the potential issuers (or their sponsors) for the admission arrangement," Mr Lee said. "However, not all new issues can be admitted on their listing date. There are restrictions on shareholdings and transferability for certain stocks and the admission schedule in such cases will depend on the time taken to remove the restrictions," he said.

A total of 533 people attended the other eight sessions held in December for general market practitioners, including 472 representatives of CCASS broker or custodian participants and 56 representatives from other professions involved in the listing of new issues.

The seminars gave a comprehensive picture of the merits of the jumbo certificate arrangement to issuers, applicants and CCASS participants (table 1).

Mr Lee said it was not compulsory for new issuers to adopt the jumbo certificate arrangement even though the shares were to be admitted into CCASS on their listing date. "However, adopting the jumbo certificate arrangement will reduce issuers' printing costs in issuing board-lot certificates and remove participants' need to deposit the newly issued shares into the CCASS Depository," he said.

Under the jumbo certificate arrangement, shares allotted following successful applications through CCASS participants will be issued in the name of the common nominee and directly credited to the stock accounts of those CCASS participants designated by the applicants.

"This allows immediate availability of shares in CCASS on the first listing date and accelerates scrip immobilisation," Mr Lee said.

The admission of the six China-incorporated enterprises under the jumbo certificate arrangement illustrated this. Each of the six stocks had more than 22 per cent of their shares in issue in the CCASS Depository on their listing date, while in general, all other stocks not adopting the jumbo certificate arrangement had

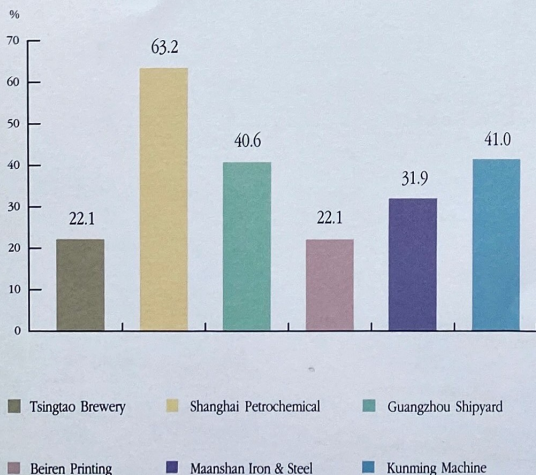
less than ten per cent of their shares in issue in the depository after they had been admitted for a month (table 2). Operating experience shows that it takes

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(Table 1)	
Benefits of jumbo certificate arrangement	
To market:	- accelerates scrip immobilisation
To issuer:	- reduces printing costs of share certificates - reduces fees charged by share registrar for the issuance of each board-lot certificate
To successful applicants:	- eliminates the risk of loss of certificates in transit - removes delivery delay of allotted shares - saves transfer deed stamp duty at time of first sale
To CCASS participants:	- removes need for physical delivery in settlement of trades - saves re-registration fee on first book-close date since the shares are already registered in the name of the common nominee

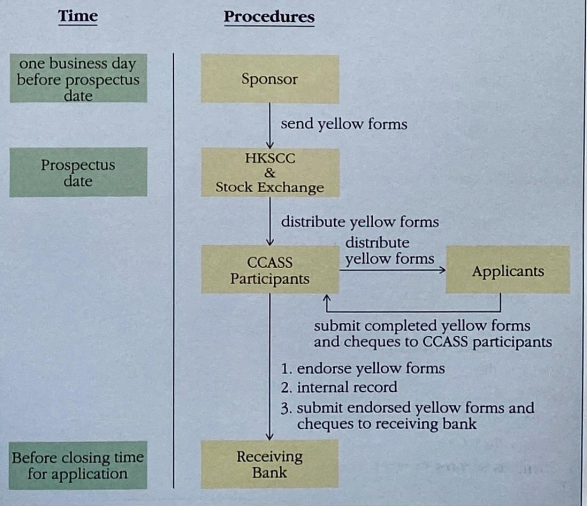
(Table 2)

Percentage of shares of China-incorporated enterprises under CCASS custody as at their listing date



(Table 3)

Share application procedures under jumbo certificate arrangement



CCASS technological review

A technological review of the central clearing and settlement system showed that CCASS was technologically sound and well managed.

The review also concluded that the technical environment operated by the Clearing Company was subject to adequate levels of internal control in all the review areas.

The review by the independent management consultancy, KPMG Peat Marwick Management Consultants Limited, started in September 1993 and took six weeks to complete.

The objective of the review was to ensure that CCASS facilities and services operated satisfactorily and were well maintained, director of the company's Technology Services Division, Henry Chan, said.

The review covered a comprehensive range of technical issues, including an evaluation of the overall system effectiveness and efficiency, system capacity, technological adaptability and flexibility, data and system security, as well as back-up and environmental controls.

The consultants highlighted the strengths of each review area and at the same time identified possible areas for improvement.

Each review area was assessed in

depth by the consultants, who conducted a documentary review and interviewed staff of the Clearing Company before coming up with a summary of findings on the research areas.

The consultants noted that CCASS participants were satisfied with the performance of the system, and that the

degradation to the overall service.

Both the system software and hardware environment provided a sound technological framework for additional system growth. The computer facilities and back-up media were adequately protected. The communication networks and transmissions to and from the Stock

proposed by the consultants were mainly directed towards fine-tuning the internal operational procedures of the system and were considered to be 'low risk' in the current environment.

He added that the Clearing Company would study the report and take appropriate follow-up action as needed.

He pointed out that conducting a CCASS technological review was part of the Clearing Company's objective of maintaining quality services and keeping up to date with technological developments.

He said that while the company regularly conducted internal audits of different areas of the system to make sure that the technological operations of CCASS were compatible with market needs, internal audits concentrated more on specific functions of CCASS.

"The commission of external consultants who possess broader experience enables us to assess our technological competence from a different perspective and at the same time draw on more expert advice.

"The experience of KPMG Peat Marwick Management Consultants Limited in conducting reviews for overseas clearing houses and stock exchanges is valuable to the Clearing Company," Mr Chan said. ■



Results of the technological review confirmed the technological competence of CCASS.

Clearing Company was monitoring all major and critical system components regularly to ensure that system performance met or exceeded target service levels.

The consultants' report found that CCASS had sufficient capacity to handle current and reasonable levels of anticipated peak CCASS usage without

Exchange of Hong Kong, the CCASS depository and CCASS participants were deemed to be secure.

Staff of the Clearing Company had been properly trained and drilled for readiness at the back-up computer facility in the event of losing central computing facilities, the consultants reported.

Mr Chan said the recommendations

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months to build up the inventory level to 20 per cent.

Mr Lee said the modified share application procedures under the jumbo certificate arrangement would not involve much additional work for CCASS participants. "They only need to endorse a yellow application form completed by the applicant to signify their consent to the applicant's designation and submit it together with a cheque to the receiving banks," he said.

"Through the experience gained during the listing of the six China-incorporated enterprises, some of the CCASS participants should now be familiar with the procedures involved (table 3). To assist potential issuers to implement the jumbo certificate arrangement, HKSCC Registrars Limited, which provided share registration services for the six China-incorporated enterprises, will extend its services to other listings," Mr Lee said. ■

Plans for admission of rights

The Clearing Company is considering admitting rights issues as eligible securities for settlement in CCASS. Admission of rights issues will enable CCASS participants to settle their traded rights through electronic clearing and settlement instead of by physical settlement outside CCASS.

At present, if a CCASS participant receives rights represented by provisional allotment letters (PALs) through the common nominee of the Clearing Company and sells them, he needs to withdraw the PALs from the CCASS Depository to settle his trades physically.

But if participants are allowed to settle their PALs transactions within CCASS, there will be no need for withdrawal for

settlement and participants will save on CCASS Depository fees.

Settlement of PALs is planned to be on a trade-for-trade basis because the trading period of PALs is fairly short — generally around two weeks. The Clearing Company will not be the settlement counterparty of PAL trades and will not provide a settlement guarantee.

PALs will be subject to all risk management measures applicable to other eligible securities, except that deposited PALs will not be re-registered in the name of the common nominee.

The Clearing Company will provide common nominee services on subscription for rights issues for participants who retain their PALs in CCASS until subscription time. ■

Booklet for listed companies

A booklet <<CCASS, listed companies and their shareholders>> has been published and will be distributed to issuers seeking a listing on the Stock Exchange and applying for admission into CCASS.

The booklet gives a brief explanation of CCASS and explains the implications of CCASS on listed companies and investors. Details on shareholder communications and exercise of shareholder's rights are also included in the booklet. ■

Board of Directors

At a Board meeting held on November 22, 1993, Thomas Chen Tseng Tao was re-elected chairman of the Board of Directors.

Dennis Lam Haw Shun was re-elected first deputy chairman; and Au Son Yiu and Anthony William Nicolle were re-elected deputy chairmen of the company.



The Board of Directors of the company as at January 1, 1994 are:

Chen Tseng Tao, Thomas (Chairman)
Representative of The Stock Exchange of Hong Kong Limited

Lam Haw Shun, Dennis (First Deputy Chairman)
Appointed by the Financial Secretary

Au Son Yiu (Deputy Chairman)
Representative of The Stock Exchange of Hong Kong Limited

Nicoll, Anthony William (Deputy Chairman)
Representative of Standard Chartered Bank

Au Siu Kee, Alexander
Representative of Hang Seng Bank Limited

Chan Yuk Shee
Appointed by the Financial Secretary

Chen Po Sum
Representative of The Stock Exchange of Hong Kong Limited

***Chow Man Yiu, Paul**
Chief Executive of The Stock Exchange of Hong Kong Limited

Ebsworth, William Robert
Appointed by the Financial Secretary

Fung Chi Kin
Representative of The Stock Exchange of Hong Kong Limited

Hamilton, John Andrew Denis
Representative of The Hongkong and Shanghai Banking Corporation Limited

Hui Chiu Chung, Stephen
Representative of The Stock Exchange of Hong Kong Limited

Kwong Che Keung, Gordon
Representative of The Stock Exchange of Hong Kong Limited

Lam Hon Keung, Keith
Representative of The Stock Exchange of Hong Kong Limited

Leckie, Stuart Hamilton
Appointed by the Financial Secretary

Lee Jor Hung, Dennis
Representative of The Stock Exchange of Hong Kong Limited

Li Kwok Po, David
Representative of The Bank of East Asia, Limited

Murray, Allan George
Representative of The Stock Exchange of Hong Kong Limited

Witts, Richard Arthur
Representative of The Stock Exchange of Hong Kong Limited

Yap, A. Donald
Appointed by the Financial Secretary

Zhou Zhenxing
Representative of Bank of China

***Heckinger, Richard Andrew (Chief Executive)**
Hong Kong Securities Clearing Company Limited

* ex-officio

CCASS capacity sufficient to meet demand

CCASS proved effective in handling the sustained high trading volumes which the stock market experienced in the fourth quarter of 1993.

During the period, the number of Exchange trades and the number of settlement instructions (SIs) handled by the system both reached new highs. However, the system exhibited its capacity to handle the increases comfortably.

This can be attributed to the expansion in the capacity of the company's computer system in January 1993, that was done to meet the anticipated increase in turnover from the introduction of the automatic trading system by the Stock Exchange.

The number of SIs settled by CCASS was a record 384,302 in November. A new high of 1,506,289 Exchange trades handled by CCASS was reached in December 1993.

In spite of the substantial increases in the number of Exchange trades and SIs during the period, CCASS continued to

function smoothly.

CCASS participants continued to maintain sufficient stock balances in CCASS to fulfil their settlement obligations. Settlement efficiency for CNS positions was maintained at consistently high levels. In December settlement efficiency was 94.6 per cent on the settlement due day and 98.6 per cent on the following business day.

The on-line response time experienced no delays in spite of the increased turnover. Over 99 per cent of all computer transactions received a response within two or three seconds.

The batch processing runs were also completed within the scheduled time. Even at the daily peak usage periods, the system still functioned within the normal processing time.

At present there are two peak usage periods in the system each day — between 9:30 am and 10:30 am, when CCASS reports are retrieved by CCASS participants through their CCASS

terminals; and from 2:00 pm to 3:00 pm, when SI matching and a batch settlement run are in progress.

Studies conducted by the Clearing Company showed that CCASS has adequate capacity even during these peak hours, and has not experienced any degradation in performance.

The Clearing Company is also looking into ways to spread morning peak usage of the system, when report downloading to participants is in progress. Overnight transmission of reports to participants' terminals was started on a trial basis in January 1994, which balances capacity with system usage time in the morning.

The depository also performed satisfactorily during the heavy trading in the final quarter of 1993. Activity at the depository was relatively quiet for the period. During the period there continued to be a steady increase in the percentage of scrip in CCASS custody after the completion of the phased stock admission

programme in June 1993.

The average number of stock deposits and withdrawals at the depository since the completion of the phased stock admission programme continued at about 4,000 a day. ■

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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For any enquiries regarding content of such contributions please contact Cecilia Tse, Senior Manager, Corporate Communications Department, telephone: 867-7870. ■