



INSIDE CLEAR TALK

“ ISSUE 26 ”

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ClearTalk

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

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

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THANK YOU - BOARD DIRECTORS

At the dinner held in January for retiring and new Directors, John Chan, Chairman, thanked the Board Directors and Alternate Directors who have given freely of their time and expertise to the Company. The retiring Directors were presented with a souvenir as a token of appreciation.

Hongkong Clearing is governed by a 22-member Board of Directors. The Stock Exchange appoints ten of the Directors. Each of the five member banks appoints a Director and five Directors are appointed by the Financial Secretary of the Hong Kong Government. The Chief Executives of Hongkong Clearing and the Stock Exchange are ex officio Directors.

Our broadly based Board Directors came from various fields including the financial, academic, accounting and legal professions. So far, 64 Directors have sat on the Board since the Company was established in 1989. Among the long serving Directors are Alexander Au, Paul Chow and Dennis Lam, each with at least 5 years of service.



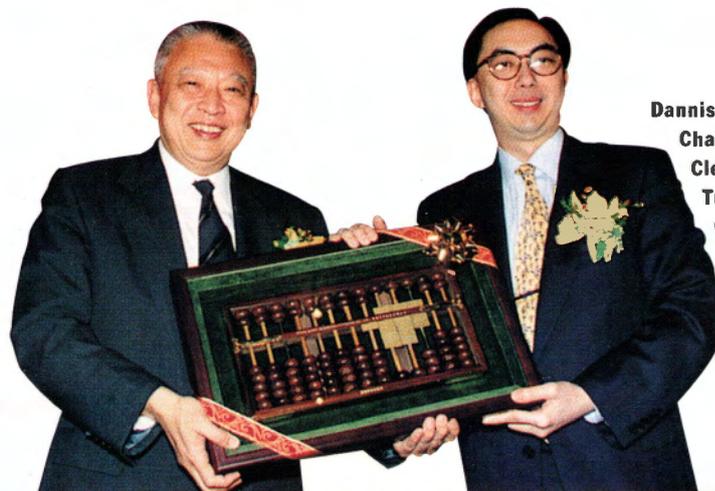
John Chan (centre), chats with (from left) Derek Murphy, Paul Chow, Stephen Hui and Donald Yap at the dinner function.



From right : Prof Chan Yuk Shee, Deputy Chairman of Hongkong Clearing, Frank Wong, Chairman of the Futures Exchange, Tung Chee Hwa, First Chief Executive of the HK Special Administrative Region, Dr Edgar Cheng, Chairman of the Stock Exchange, Raymond Chan Fat Chu, President of the Chinese Gold and Silver Exchange Society and Henry Wu, coordinator of the function, during the toasting.

DINNER IN HONOUR OF FIRST CHIEF EXECUTIVE OF HK SPECIAL ADMINISTRATIVE REGION

Hongkong Clearing, the Stock Exchange, the Futures Exchange and the Chinese Gold and Silver Exchange Society held a joint dinner in February, in honour of Tung Chee Hwa, First Chief Executive of Hong Kong Special Administrative Region.



Dennis Lee (right), Deputy Chairman of Hongkong Clearing presented Mr Tung with an abacus with some of the beads replaced by computer chips to display the figure 1997.

Other guests included Rafael Hui, Secretary for Financial Services, and An Ji Tao, Deputy Head of Economic Affairs for Xinhua News Agency. About 340 Board Directors, members, participants and executives of the four organisers attended the dinner.

In his speech, Mr Tung shared his views and vision for the future of Hong Kong, especially the development of the financial

industry, with the assembled members of the financial community.

Mr Tung emphasised that financial professionals were in the forefront of Hong Kong's economic development.

He said the Hong Kong securities market had developed significantly over the past 30 years and had great potential to emerge as a

capital formation centre for China.

Mr Tung pointed out that over 20 China registered enterprises had listed H shares in Hong Kong since July 1993 and that the pace of H share listings should increase.

He stressed that the economies of Hong Kong and China were linked and that Hong Kong's economic future was promising.



Hongkong Clearing staff with Chan Shue Biu (third from left), Executive Director & General Manager of The China State Bank, Ltd., Leung Bing-Kuen (fifth from left), Deputy General Manager of Sin Hua Bank Ltd., Toshihiro Sawaki (right), Managing Director & General Manager of Daiwa Overseas Finance Limited.



Stewart Shing (second from left), Chief Executive and Dannis Lee (third from left), Deputy Chairman of Hongkong Clearing toast with CCASS participants.



Irene Cheng (left), Senior Manager of Clearing Services Department and Tsuguyuki Umene, Senior Assistant General Manager of the Bank of Tokyo-Mitsubishi, Ltd.



Henry Chan (left), Executive Director of Information Technology Division and K P Chan, Director & Manager of Hang Seng Investment Management Limited.



From left: Prof Chan Yuk Shee, Deputy Chairman of Hongkong Clearing, An Ji Tao, Deputy Head of Economic Affairs of Xinhua News Agency, Frank Wong, Chairman of the Futures Exchange and Tung Chee Hwa, First Chief Executive of the HK Special Administrative Region.



Peter Wong (left), Board Director and Raymond Au (right), Executive Director of Finance Division chat with David Yau, Managing Director & Chief Executive of Union Bank of Hong Kong Limited.

NEW MAINFRAME COMPUTER TO MERGE PRODUCTION AND DEVELOPMENT

Hongkong Clearing installed a new mainframe computer in February to merge the production and development environments of its computer system. This will reduce operating costs and increase efficiency through greater flexibility.

Peter Lam, Assistant Director of Technical Services Department said: "Hongkong Clearing had two data centres. Previously, the main data centre was responsible for production, including daily CCASS and Depository and Common Nominee System operations. The backup centre was mainly responsible for disaster recovery and development, including software testing, migration and rehearsal. The processing capacity of the production mainframe computer was 58 MIPS (million instructions per second, the processing speed of a computer) and the backup computer's capacity was 40 MIPS."

"There was a need to increase our computer capacity because of increased trading volumes and rising demands on the system. In response to this need, we purchased a new mainframe computer with a capacity of 88 MIPS in February this year and relocated the 58 MIPS computer to the backup centre.

"Development and production will be consolidated and centralised in the main data centre, and disaster recovery will remain in the backup centre.

"Combining development and production in one machine requires only one copy of the software licence and this will significantly reduce our operating costs. It will also increase flexibility in handling high trading volumes and new projects as we can reduce or even shutdown development usage if required.

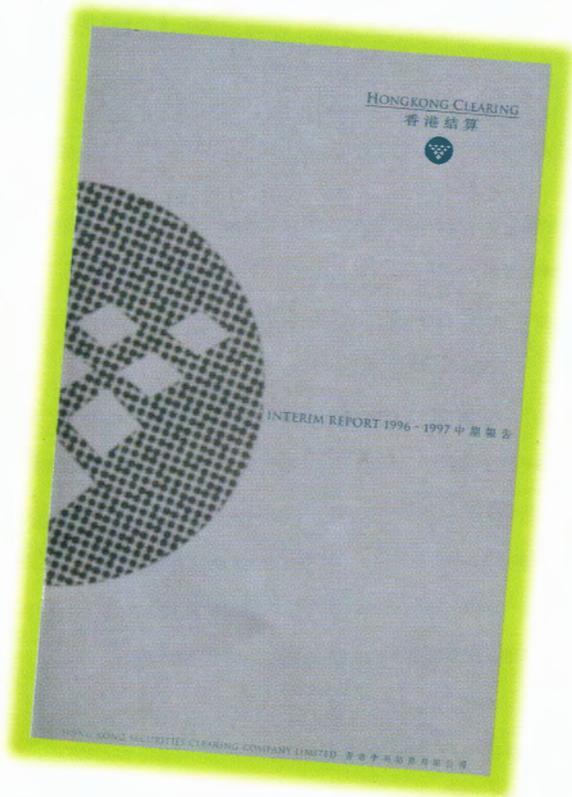
"New hardware features can be tested more easily as both production and development hardware testing can be conducted at a single location. In addition, our system's response time to participants' requests, including enquiries, downloading or uploading data, and retrieving reports, will be quicker.

"Our backup capability will be strengthened and extra space for the future expansion of our operations will be available as the relocated computer has a higher capacity and is smaller in size," Mr Lam said.

The consolidation of development and production is expected to be completed by the end of March.



HONGKONG CLEARING LOOKS FOR



"The upsurge in Stock Exchange trading and capital formation experienced last year has continued into 1997 and we look forward to the rest of the financial year with confidence," said John Chan, Chairman, in the latest interim report of Hongkong Clearing. "At the same time, we will continue to develop our services for the benefit of the Hong Kong securities industry," he added.

During the first six months of the financial year 1 July 1996 to 30 June 1997, Hongkong Clearing reported an unaudited surplus, after provision for tax, of \$88 million (1995 - \$29 million) on revenue of \$261 million (1995 - \$177 million).

The Company introduced additional discounts on its fees on 1 July 1996. Stock settlement fees are now only 50 per cent of what they were when CCASS

commenced operations nearly five years ago.

Besides the reduction in cost, Hongkong Clearing continues its service development to fulfil the Company's mission to reduce risk and improve efficiency in securities processing for the Hong Kong securities market.

Investor Participation

The Company is conducting a public consultation exercise on investor participation in CCASS. It is seeking the views of market practitioners and investors on a working model which the Company has developed.

Details of the findings of the consultation will be submitted to the Board of Directors. Subject to the approval of the Board, it will take 12 to 15 months to implement investor participation in CCASS.

Corporate Communications Pilot Scheme

The Company has begun a pilot scheme to test the workflow of a working model designed to improve the flow of corporate information between listed issuers and non-registered owners of securities held in CCASS. The model was developed by a working group comprising the Company, the Stock Exchange of Hong Kong Limited, the Securities and Futures Commission and the Federation of Share Registrars

WARD TO 1997 WITH CONFIDENCE

Limited, in response to the substantial increase in the volume of securities registered in the name of HKSCC Nominees Limited.

Under the pilot scheme which began in January 1997, the target group to receive corporate documents is CCASS segregated account statement recipients who have given written authorisation through CCASS participants to Hongkong Clearing give their names and addresses to company registrars.

With regard to the long term implementation, the working group is making modifications to the working model based on the feedback from the market.

Risk Management Measures

The Company started collecting intra-day marks in February 1997 as a further risk reduction measure. It is also considering accepting stock as collateral in addition to cash or bank guarantees. Other risk management measures on which the Company will be consulting CCASS participants include imposing trading or guarantee caps, special trades and the application of notional balances.

Since January 1997, the Company has allowed Exchange trades in expiring CCASS eligible securities, mostly warrants, to be settled under CNS. Settlement under CNS is guaranteed by

Hongkong Clearing. The Company will also arrange to allow CCASS participants to use CNS to settle exercised options positions. These measures reduce settlement failures and increase efficiency.

The banking industry implemented RTGS, or Real Time Gross Settlement, in December 1996. This further reduced the Company's risk exposure to paying bank defaults.

Enhanced CCASS Terminals

The Company conducted a pilot test in February 1997 for the CCASS terminal enhancement project. The project aims to enable participants to upgrade their current CCASS terminal into a more intelligent PC terminal which, with its new terminal architecture and software, will support new requirements including host to host connections, electronic software distribution and enhanced security control.

Other Projects

The Company will re-examine the need to provide centralised stock lending and borrowing service in view of the increased level of regulated short selling on the Stock Exchange and the growth of the derivative market. In December 1996, the Company also had its infrastructure ready to admit more debt securities into CCASS.

CCASS STATISTICS

Stock Exchange trading turnover dropped slightly in December 1996. But the market resumed active in January 1997.

Exchange Trades

In December, an average of 73,031 trades were processed daily in CCASS, involving 4.0 billion shares valuing \$8.0 billion. The daily average of Exchange trades increased to 94,387 in January, involving 5.3 billion shares valued at \$11.2 billion.

During these two months, CCASS processed 99.96 per cent of Exchange trades daily.

Netting Efficiency of CNS Trades

A daily average of 71,567 trades with a total value of \$7.2 billion went through CCASS for Continuous Net Settlement (CNS) in December. An average of 143,134 novated contracts was created daily and netted to 30,371 CNS positions, leaving 21.58 per cent of novated contracts for settlement.

In January, the daily average number of trades went through CCASS for CNS rose to 92,756 at a value of \$10.1 billion. An average of 185,512 novated contracts was created daily and netted to 36,676 CNS positions, leaving 20.00 per cent for settlement.

In December, novated contracts generated a daily average of \$16.0 billion in money obligations which were netted to \$4.2 billion. The daily money obligations generated from novated contracts in January was \$20.1 billion and were netted to \$4.9 billion. The daily average funds netting efficiency for December and January were 73.35 and 75.14 per cent respectively.

Settlement Efficiency of CNS Stock Positions

The daily average settlement efficiency rate of CNS stock positions for December was 95.63 per cent on the due day and 99.83 per cent on the settlement day following the due date. The figures for January were 95.28 per cent and 99.81 per cent.

Settlement Instructions (SIs)

In December, an average of 22,044 SIs were settled daily in CCASS, involving 6.0 billion shares with a market value of \$22.6 billion.

The average number of SIs settled daily in CCASS in January was increased to 26,058 which involve 6.8 billion shares valued at \$27.4 billion.

Depository Transactions

In December, the CCASS Depository handled an average of 1,678 deposit/withdrawal transactions per business day, and processed 56,000 share certificates a day. The corresponding figures were 1,878 transactions involving 65,000 share certificates per business day in January.

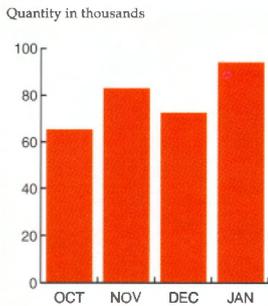
As at the end of January, 955 stocks had been admitted into CCASS for clearing and settlement. About 251.8 billion shares were under the custody of the CCASS Depository, representing 47.11 per cent of the total issued share capital of the admitted stocks. The total market value of the shares was \$1,112.3 billion, representing 30.72 per cent of the total market capitalisation of the admitted shares.

Participants

At the end of January, there were 558 CCASS participants including 488 broker participants, 63 custodian participants, six stock pledgee participants, and one clearing agency participant.

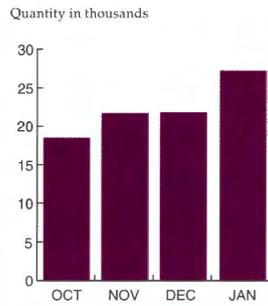
OPERATIONS HIGHLIGHTS (OCT 1996 - JAN 1997)

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



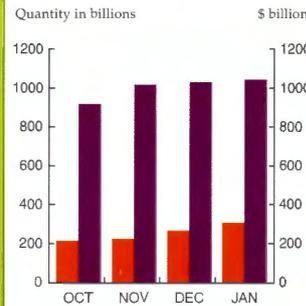
	Number of trades	% of total number of Exchange trades
Oct	65,224	99.95
Nov	83,683	99.96
Dec	73,031	99.95
Jan	94,387	99.97

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



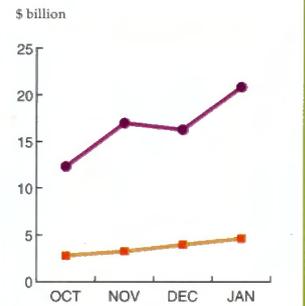
	Number of SIs	SIs by shares (billion)	SIs by value (\$ billion)
Oct	18,235	4.5	18.1
Nov	22,180	4.4	22.4
Dec	22,044	6.0	22.6
Jan	26,058	6.8	27.4

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



	Number of shares (billion)	Market value (\$ billion)
Oct	205.9	932.3
Nov	213.5	1,042.1
Dec	231.5	1,100.3
Jan	251.8	1,112.3

Average daily funds netting efficiency under CNS



	Money obligations arising from novated contracts (\$ billion)	Money obligations after netting (\$ billion)	Funds netting efficiency (%)
Oct	12.7	3.3	73.95
Nov	17.1	3.9	77.30
Dec	16.0	4.2	73.35
Jan	20.1	4.9	75.14

Quick Quiz

1. How big is the vault of the CCASS Depository and how many share certificates can it hold?

2. What are the official business hours of CCASS's Fault Reporting Centre?

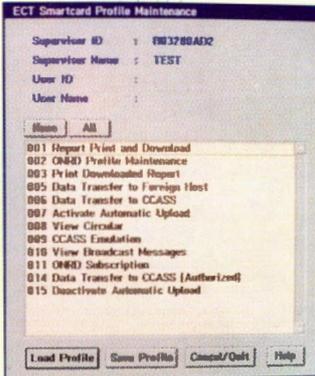
3. As at the end of February 1997, how many participants were connected to CCASS through CCASS terminals?

Answers on page 10.

ENHANCED CCASS TERMINAL PROJECT

Hongkong Clearing is conducting a pilot test of the Enhanced CCASS Terminal (ECT) Project which it plans to implement in the first half of 1997. The following screens show four enhanced functions.

1



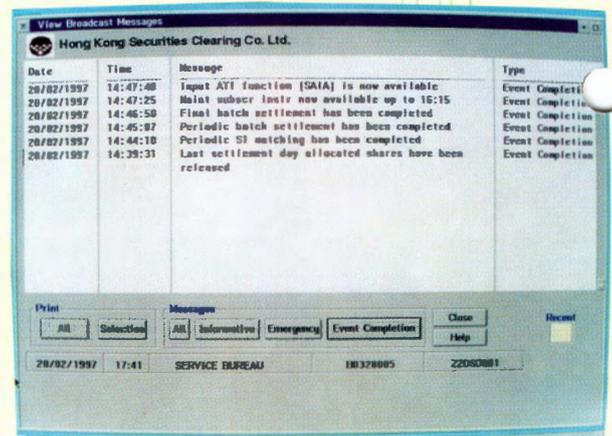
1 Profile Maintenance - Access Control

Access control can be administered by the CCASS participant, or by Hongkong Clearing, depending on the use of the smartcard required by the user type. Access control restricts access to authorised users. The Profile Maintenance window allows the supervisor to add or remove any ECT function to the User Profile.

2

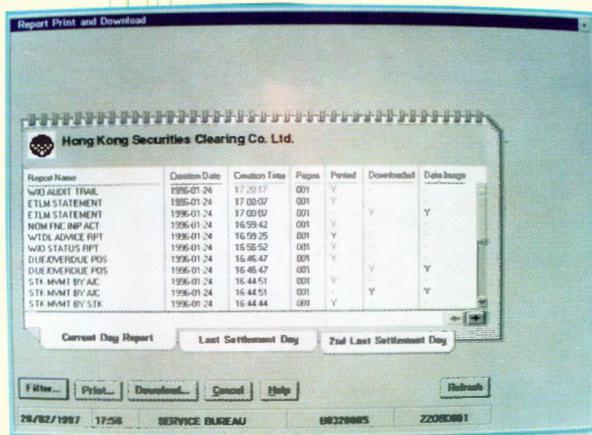
2 View Broadcast Messages

With ECT, participants can view and print all broadcast messages or choose what kind of broadcast messages they want to view. Messages are divided into three categories, Informative, Event Completion and Emergency.



When a broadcast message is received at the ECT terminal, a pop-up message box accompanied by an alert tone is displayed to notify the ECT user. All broadcast messages from CCASS are retained for one day.

3



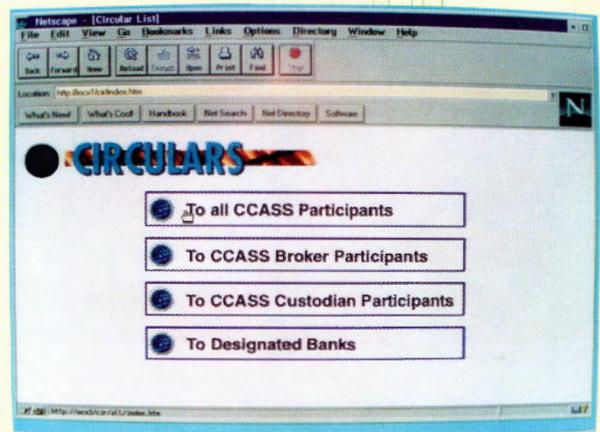
3 Print and Download Screen

Participants can retrieve current and historical on-line and overnight reports for printing or downloading. The ECT Print and Download window lists current and historical reports for printing and downloading.

4

4 View Circulares

Information circulars issued by Hongkong Clearing can be viewed through the ECT terminal. Circulars are classified into four different categories : all CCASS Participants, CCASS Broker Participants, CCASS Custodian Participants, and Designated Banks.



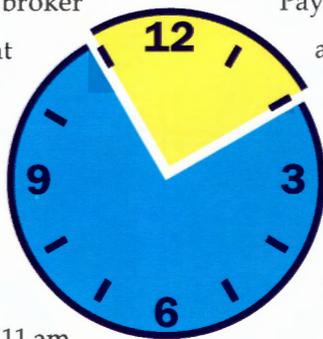
ABBREVIATIONS FOR CLEARING / COMMUNICATIONS SYSTEMS

Some clearing companies around the world use abbreviations for their clearing / communications systems, for instance, Hongkong Clearing uses CCASS for its system with participants.

System Name (abbreviations)	Full Name of System	Name of Company	Region / Country
CCASS	C entral C learing A nd S ettlement S ystem	Hong Kong Securities Clearing Company Limited	Hong Kong
CCRS (no abbreviation)	C entral C learing & R egistration S ystem Shenzhen A Shares Central Clearing System Shenzhen B Shares Central Clearing System	Shanghai Securities Central Clearing & Registration Corporation Shenzhen Securities Central Clearing Company Limited	China - Shanghai - Shenzhen
Cedcom 2000	C edel C ommunications 2000 (communications network)	Cedel Bank	based in Luxembourg
CHES	C learing H ouse E lectronic S ubregister S ystem	ASX Settlement & Transfer Corporation	Australia
CREST	(no long form)	CRESTCo	United Kingdom
EUCLID 90	E uroclear I nformation D istribution (communications network)	Euroclear Operations Centre	based in Belgium

COLLECTION OF INTRA-DAY MARKS BEGINS

Collection of intra-day marks in respect of broker participants' open Continuous Net Settlement (CNS) positions began on 14 February. Kim Mok, Director of the Compliance Division, told *Clear Talk* that this was a further risk management measure.



"Participants' CNS positions are now marked at 11 am daily. A tolerance limit of HK \$5 million has been given as a relief against the intra-day marks payment, which means that participants only need to pay marks in excess of this amount.

"Participants must check their intra-day marks payment obligations by referring to the Intra-day Marks Collection Report, which is available through CCASS terminals at about 11:10 am.

"Payment of intra-day marks must be made in full to any of Hongkong Clearing's receiving banks by 2 pm. Hongkong Bank, Standard Chartered Bank and Wing Hang Bank are currently receiving banks, appointed by Hongkong Clearing. Participants who fail to pay intra-day marks by 2 pm will be deemed to be in default.

"Intra-day marks will be credited to participants' Pending Marks Money Ledger Account. Hongkong Clearing will refund intra-day marks at the end of the trading day," Ms Mok said.

Broker participants can refer to circular number 036/97 dated 3 February 1997 for details of the intra-day marks collection mechanism.

CCASS NOTICE BOARD

NOMINEE SERVICES

Subscription Instructions must be Authorised

The subscription instruction, given through the ADD SUBSCRIPTION INSTRUCTION for subscription to rights offerings and other responses to corporate announcements, must be authorised through the AUTHORISE SUBSCRIPTION INSTRUCTION function; otherwise the instruction will remain 'Pending'.

Operational steps

1. Choose MAINTAIN SUBSCRIPTION INSTRUCTION from the Participant Menu Screen on the CCASS terminal. Then choose AUTHORISE SUBSCRIPTION INSTRUCTION.
2. The AUTHORISE SUBSCRIPTION INSTRUCTION PROMPT screen appears.
3. Input Subscription Instruction Number and press <ENTER>.
4. If the Subscription Instruction Number is not known, input selection criteria and press <F2> to display the list of subscription instructions for authorisation. Then choose the subscription instruction from the AUTHORISE SUBSCRIPTION INSTRUCTION LIST and press <ENTER>.
5. The AUTHORISE SUBSCRIPTION INSTRUCTION DETAIL screen appears.
6. Press <F10> twice to process and confirm the authorisation.
7. An acceptance message -- XXXX PENDING RECORD AUTHORISED SUCCESSFULLY -- appears in the message area.

Notes :

- Once the subscription instruction is authorised, its status will be updated from "Pending" to "Authorised" and the participant is not allowed to cancel or change the instruction.
- Authorisation can be made only during the subscription period and prior to the cut-off time.

DIRECT STOCK ADMISSIONS

During the two months of January and February 1997, a total of 115 eligible new issues were admitted to CCASS of which 12 issues adopted Jumbo Certificate arrangement.

	Eligible new issues listed on Stock Exchange and admitted to CCASS	Issues adopted Jumbo Certificate arrangement
Ordinary Shares	10	9
Preference Shares	1	-
Registered Warrants	95	3
Debts	1	-
Rights	8	N/A
Total	115	12

VISIT BY FRENCH AND POLISH SECURITIES REGULATORS

Michel Prada, President of the Commission des Operations de Bourse and Jecek Socha, Chairman of the Polish Securities Commission visited Hongkong Clearing in January. John Chan, Chairman, and Stewart Shing, Chief Executive, met the two delegations and outlined the operation and developments of CCASS to the delegates.

John Chan (centre) and Stewart Shing (right) discuss with Mr Prada risk management measures adopted by Hongkong Clearing.



Alan Lee (left), Executive Director of Operations Services Division, explains to the delegates various counter services at the Depository.



Quick Quiz

1. The size of the vault of the CCASS Depository is 742.9 cubic metres. It can store over 15 million share certificates.
2. CCASS's Fault Reporting Centre is opened Monday to Friday from 8:00 am to 7:00 pm, and from 8:00 am to 12:00 noon on Saturday. The Centre's hotline number is 2597 0606.
3. As at the end of February 1997, 552 out of 559 participants were connected to CCASS through CCASS terminals. The other seven participants accessed CCASS by subscribing to the facilities of our Service Bureau.