



INSIDE CLEAR TALK

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ClearTalk

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

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1997 was a busy year for the staff members of HKSCC Registrars. It handled a record number of 17 IPOs (initial public offerings) during 1997 compared with eight for the whole of 1996 and 42 since the company's incorporation in April 1993. H share issues made up 39 of the IPOs. In addition, the local issuers of 12 covered and registered warrants have appointed HKSCC Registrars as their registrar.

Share Registrar for BEA

It was also appointed as the share registrar of The Bank of East Asia, Limited on 15 December 1997. Ms Molly Ho, the Bank's Head of Share Registration said: "Instead of doing it in-house, the change will certainly increase the operating efficiency of our bank. Now, existing resources can be shifted to core business."

"HKSCC Registrars' comprehensive services, sophisticated equipment and competitive cost were the main reasons for the appointment. We found their staff most cooperative. We were also impressed by the smooth conversion of records and share transfers."

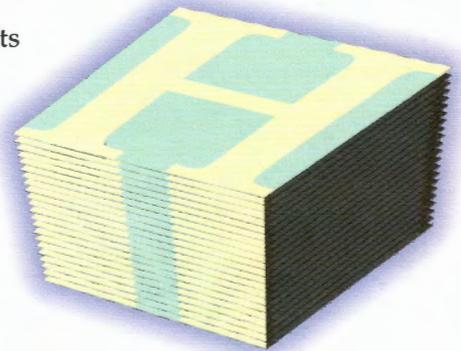
BUSY TIME FOR HKSCC REGISTRARS



Looking forward to cooperating in the new share registration arrangement are from left, Tenny Tam, Senior Deputy Manager, The Bank of East Asia, Limited; Fiona Leung, Manager, HKSCC Registrars; Molly Ho, Head of Share Registration, The Bank of East Asia, Limited.

Largest IPO

Among the IPOs handled by HKSCC Registrars in 1997, the floatation of red chip China Telecom was the largest in Hong Kong, raising HK\$2.9 billion. It was 32 times over-subscribed and generated 129,191 application forms. HKSCC Registrars worked closely with the sponsor of China Telecom — Goldman Sachs (Asia) L.L.C. Its Executive Director of Equity Operations, Mr Wellington Palmero, told *Clear Talk*: "We recommended HKSCC Registrars to the issuer based on its track record and efficiency in handling China Southern Airlines, the largest IPO that our company handled prior to China Telecom. Our cordial relationship was another deciding factor."



I P O

“Being the largest IPO launched in Hong Kong, China Telecom presented a challenge in terms of coordination and communication to all parties involved. One of the difficulties is to predict the number of application forms to be handled by the share registrar. The problems were overcome by proper communication and channeling of resources to appropriate areas. HKSCC Registrars played an integral role in making the process run smoothly.”

“HKSCC’s staff was very professional and cooperative. Their system capacity, timeliness, competitive cost and ability made the launching of China Telecom a success. We are very satisfied with the services provided. We look forward to handling future IPOs with them.”

Patrick Yau, Assistant Director and Head of HKSCC Registrars, added:

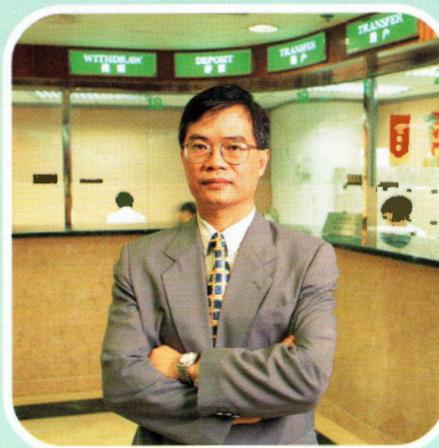
“With the experience gained from handling a number of large IPOs and in one case two concurrent IPO listings, we were well prepared to handle the China Telecom new listing.

Detailed Planning

“Planning is very important for every IPO. We have to coordinate our plans with the sponsor, lawyers, accountants and the issuer. China Telecom was a good example of detailed planning. Well before the launch we formulated plans to deal with heavy over-subscription, availability of application forms, and the distribution of share certificates and refund cheques.

“There are three stages to every IPO. During the preparation period, we discuss operational details with the sponsor and lawyers. We study the listing company’s prospectus and check different types of application forms. After receipt of completed application forms, the Operation Section’s staff will arrange the data entry, checking and balloting. Then, share certificates and refund cheques will be sent out before the public listing.

“The period after the IPO is the busiest time for our Client Administration Section. Many investors phone to find out whether they have been allotted shares and when they will receive their share certificates.

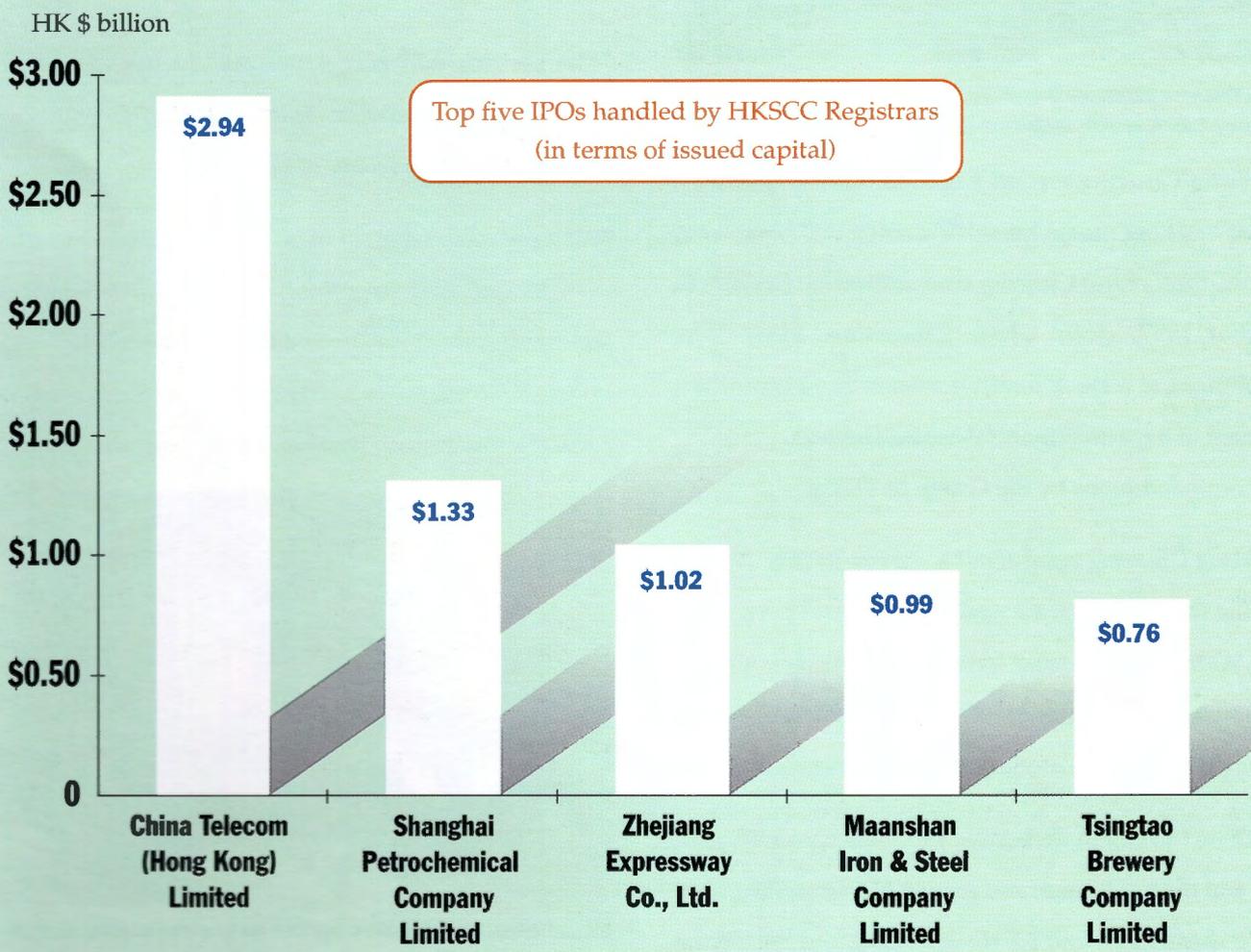
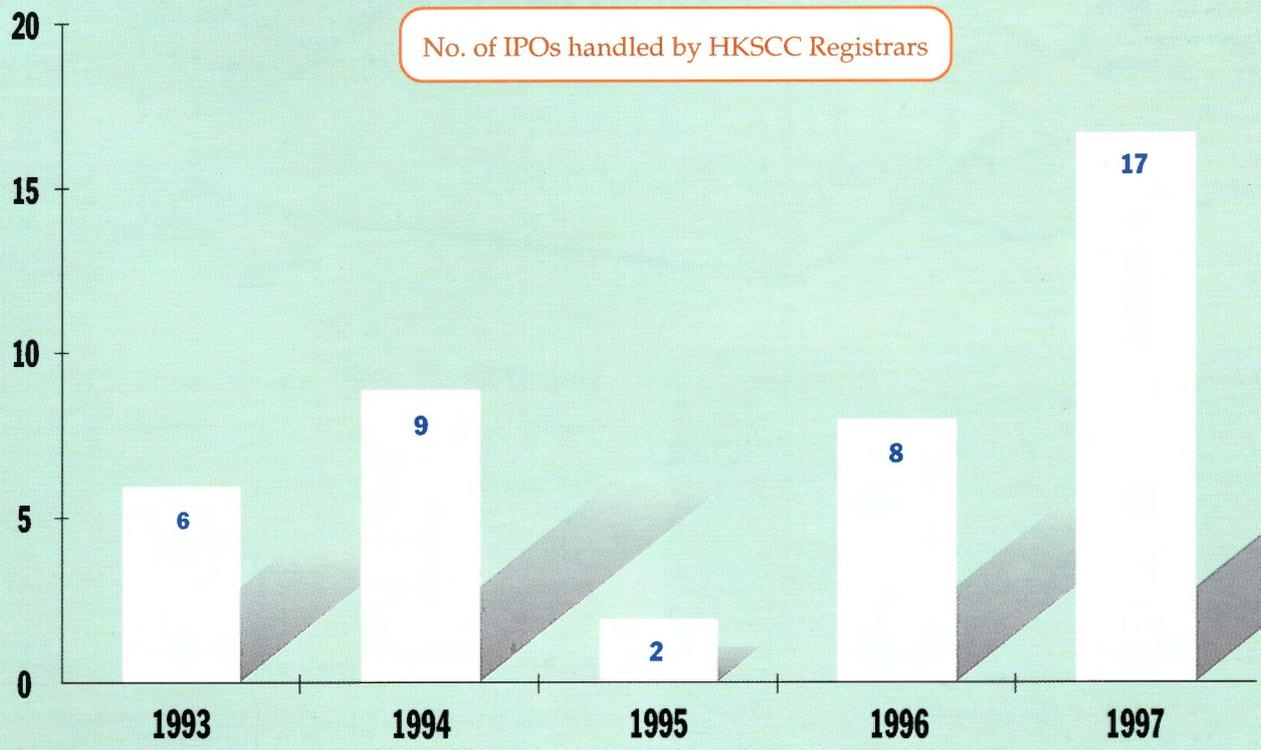


Patrick Yau, Assistant Director and Head of HKSCC Registrars.

Flexibility

“Through flexible deployment of staff, we have reduced the time required for processing IPO application forms, and raised efficiency in handling enquiries and maintaining shareholder records.”

“Expanding client base increased the number of daily share transfers. The figure of share transfers in 1997 was more than three times that of 1996. To cope with the expansion, we shall continue to upgrade our computer system and capacity. We plan to install the Transfer Central Verification system which will shorten the retrieval time for the images of signatures and reduce re-registration time.”





HONGKONG CLEARING CONSULTS MARKET ON A PROPOSED MODEL FOR STOCK LENDING AND BORROWING



John Chan, Chairman (right), and Stewart Shing, Chief Executive announce details of the proposed stock lending and borrowing service at a press conference.

Hongkong Clearing issued a consultation paper on a proposed working model for stock lending and borrowing in CCASS, the Central Clearing And Settlement System, in December 1997. John Chan, Chairman, said: "The establishment of a stock lending system is an important component of a mature financial centre and was one of the nine recommendations by the Group of Thirty."

"Hongkong Clearing conducted a survey in July 1995 to determine the demand for a stock lending and borrowing service. Although the survey indicated insufficient demand at the time to support the development of the service, the Company continued to monitor the market situation."

"Since then, trading in derivative products has developed rapidly and the legalisation and growth of short selling have created a greater demand for stock lending and borrowing which is not fully met by the market"

He said the provision of a stock lending and borrowing service by Hongkong Clearing would benefit the securities industry in a number of ways.

Mr Chan said: "The service will help avoid settlement failure. Although there is no imminent concern about settlement failure, a stock lending and borrowing service is still an effective tool, other than buy-in, for timely trade settlement. It will also help to prepare us for a shorter settlement cycle, which is a global trend.

"The service will accommodate short selling trading strategies. It will provide brokers and traders with a means of hedging their investment portfolios.

"With the establishment of an automated and mechanised stock lending and borrowing system with standard terms and conditions, it is expected that additional stocks can be secured from stockholders who are currently not participating in stock lending, resulting in a wider market.



Stewart Shing, Chief Executive, explains the proposed working model on stock lending and borrowing to members of the Hong Kong Stockbrokers Association at a luncheon.

“As Hongkong Clearing will handle most of the operations and guarantee stock loans, beneficial owners of shares in CCASS can participate in stock lending through the system which will generate income from their immobilised securities portfolio.”

CCASS participants, market practitioners engaged in stock lending and borrowing and other interested bodies are invited to express their views on the proposal. The consultation is scheduled to end on 31 January 1998.

A summary of the major features

- All CCASS participants can be lenders. However, only brokers can borrow stocks through the system initially, because the Guarantee Fund will be used to cover the liquidation risks of stock loans and only broker participants currently contribute to the Fund.
- Borrowing will be restricted to the stocks currently eligible for short selling. Hongkong Clearing will closely monitor the liquidity of other stocks for future inclusion as stocks eligible for lending.
- Borrowing requests will be processed on-line by CCASS. A minimum of one board lot is required for each request. Hongkong Clearing will act as a principal and by novation, substitute itself as counterparty to both participants, guaranteeing fulfilment of the loan transaction in CCASS.
- Stock loans will be offered on an open basis and rolled over automatically to the next business day. No term loans will be offered initially.
- Borrowers are required to provide adequate collateral in cash and/or stock before borrowed stocks can be used by them. The level of margin will be determined by Hongkong Clearing. Hongkong Clearing will not provide collateral to lenders, who will have to rely on the guarantee given by the Company.
- Outstanding loan positions and stock collateral will be marked to market twice daily. Additional collateral will have to be provided by borrowers if necessary. Stock collateral will be subject to a haircut ratio or discount factor to reflect its volatility and liquidity and a maximum cap to limit the percentage of collateral obligation that can be represented by stocks.
- Stock loans can be terminated by borrowers, by lenders or by Hongkong Clearing. Loaned stocks must be recalled by lenders or returned by borrowers in full. No partial termination will be allowed.
- Lenders will retain the right to benefit entitlements of loaned stocks. Hongkong Clearing will collect entitlements from borrowers and pass on to lenders. For corporate activities or actions that require exercise of discretion, such as takeover offer, voting, subscription and redemption, lenders will have to recall their loans at least five business days before record dates in order to exercise their rights.
- For all lendable stocks, the same lending fee rate will apply to all lenders and the same borrowing fee rate will apply to all borrowers. Lending fee income earned by a lender for a stock loan will be determined by the duration of the lending position, the market value of the loaned stock on each day before the loan is returned, and a lending fee rate as determined by Hongkong Clearing from time to time. The borrowing fee, subject to a minimum amount, payable by a borrower for a stock loan will be determined in a similar manner as the lending income. Both the lending and borrowing fees will be calculated daily based on the closing price of the loaned stock and the fee amounts will be recorded in lenders and borrowers' money ledgers in CCASS. Accumulated totals will be paid to lenders (or collected from borrowers) at the end of each month through autopay in the same way as other CCASS fees.

HONGKONG CLEARING INTRODUCES THE SIXTH DISCOUNT ON FEES

Hongkong Clearing has announced further discounts on its fees to take effect on 1 January 1998.

Company Chairman, John Chan, said this was the sixth discount on fees since the implementation of CCASS, the Central Clearing And Settlement System, in 1992. He said the reductions are aimed at enhancing the competitiveness of the Hong Kong securities market.

"One of our corporate objectives is the reduction in costs to our participants of clearing and settlement of Stock Exchange transactions. Following the latest 37.5 per cent reduction, our stock settlement fees will be just 25 per cent of what they were in 1992," Mr Chan said.

The CCASS stock settlement fee was reduced from 0.004 per cent per side per trade for Stock Exchange trades and Settlement Instructions (SIs) to 0.0025 per cent. The maximum fee of \$200 per trade or SI was reduced to \$125; but the minimum of \$2 remained unchanged.

The settlement fee for Stock Exchange crossed trades was reduced by 50 per cent from 0.002 per cent to 0.001 per cent. The maximum fee was also reduced by 50 per cent to \$50 per trade; but the minimum of \$1 remained unchanged.

"These further discounts reflect our commitment to maintaining high value services to our participants at the lowest possible cost to them," Mr Chan said.



John Chan: Following the latest fee reduction, our stock settlement fees will be just 25 per cent of what they were in 1992.

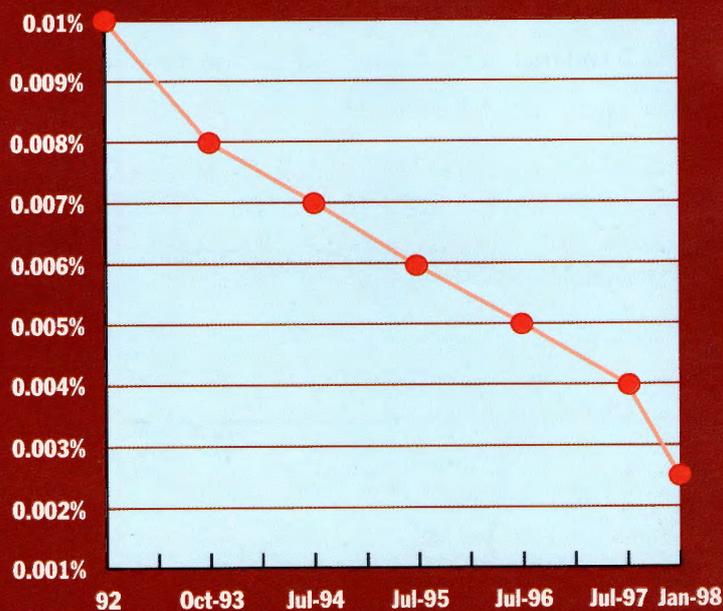
Raymond Au: This is the first time that the Company has reduced its fees twice within a financial year.

Raymond Au, Executive Director of Finance Division, added: "This is the first time that Hongkong Clearing has reduced its fees twice within a financial year. We focus on controlling and reducing operating expenses, raising efficiency and reviewing our fees from time to time. We try to utilize our accumulated surplus and return it to participants and the market in the form of fee discounts."

"During the current financial year, the market turnover was consistently high from July to November 1997. The average daily turnover was \$20 billion. Therefore, it is expected that the average turnover for the financial year July 1997 to June 1998 will not be too low, and we can therefore further reduce our fees out of our budgeted surplus for the year."

Hongkong Clearing provided \$636 million in discounts during the five years to 30 June 1997. This latest discount, together with the discount which took effect on 1 July 1997, has resulted in an estimated further discount of \$478 million during the financial year to 30 June 1998.

Stock Settlement Fee



1992	Oct 1993	Jul 1994	Jul 1995	Jul 1996	Jul 1997	Jan 1998
0.01%	0.008%	0.007%	0.006%	0.005%	0.004%	0.0025%
min. \$3	min. \$2					
max. \$300	max. \$300	max. \$300	max. \$300	max. \$250	max. \$200	max. \$125

ACG FORMED AFTER MEETING IN HONG KONG

Hongkong Clearing organised the first Asia-Pacific Central Securities Depository (CSD) meeting in Hong Kong at the end of November 1997. Delegates represented CSDs from 12 countries and territories.

During the meeting, the Asia-Pacific Central Securities Depository Group (ACG) was formed. The Group's goal is to strengthen communications among CSDs and to foster regional development and cooperation. Four task groups — researching best practices, risk management, communications and cross-border linkages — were also established.

Hongkong Clearing was elected Secretariat of the Group for a one-year term until the end of 1998. Hongkong Clearing's Chief Executive, Stewart Shing, said: "We are honoured to be the first Secretariat of the Group. We will strive to make this invaluable network beneficial to all members."

List of founding members

- ASX Settlement and Transfer Corporation Pty. Ltd. (Australia)
- Austraclear Limited (Australia)
- Hong Kong Securities Clearing Company Limited
- Indonesian Central Securities Depository
- Japan Securities Clearing Corporation
- Japan Securities Depository Centre
- Korea Securities Depository
- Malaysian Central Depository Sdn Bhd
- National Securities Depository Limited (India)
- Philippine Central Depository, Inc.
- Reserve Bank of New Zealand
- Shanghai Securities Central Clearing and Registration Corporation
- Shenzhen Securities Clearing Co. Ltd.
- Taiwan Securities Central Depository Co. Ltd.
- Thailand Securities Depository Co. Ltd.
- The Central Depository (Pte) Ltd (Singapore)



ACG delegates inaugurate the Group's first Meeting.

CCASS STATISTICS

The market dropped sharply in October with the Hang Seng Index declining 4,425 points from September. The Hang Seng Index declined a further 97 points in November to close at 10,527.

Exchange Trades

In October, an average of 143,979 Exchange trades were processed daily in CCASS, involving more than 5.7 billion shares with a value of \$18.8 billion. In November, the daily average dropped to 107,696, involving 4.2 billion shares valued at \$11.5 billion.

In October and November, 99.97 per cent and 99.96 per cent of Exchange trades were processed daily in CCASS.

Netting efficiency of CNS trades

A daily average of 142,275 Exchange trades went through CCASS for Continuous Net Settlement in October. The total trade value was \$17.7 billion. An average of 284,550 novated contracts were created daily and netted to 41,216 CNS positions, leaving 15.38 per cent of novated contracts for settlement.

In November, an average of 106,487 Exchange trades valued at \$10.9 billion went through CCASS daily for Continuous Net Settlement. The 212,974 novated contracts created were netted to 32,613 CNS positions, leaving an average of 16.19 per cent for settlement.

In October, novated contracts generated a daily average of \$35.4 billion in money obligations which were netted to \$8.8 billion. The daily average funds netting efficiency was 75.20 per cent. In November, \$21.8 billion in money obligations were netted to \$5.1 billion. Daily average funds netting efficiency was 75.41 per cent.

Settlement efficiency of CNS stock positions

The daily average settlement efficiency rate of CNS stock positions for October was 93.67 per cent on the due day and 99.76 per cent on the settlement day following the due day. The figures for November were 95.21 per cent and 99.85 per cent.

Settlement Instructions

In October, an average of 32,311 Settlement Instructions (SIs) were settled daily in CCASS, involving 7.7 billion shares with a market value of \$43.2 billion.

In November, the average number of SIs settled daily in CCASS fell to 26,346, involving 5.3 billion shares valued at \$28.5 billion.

Depository transactions

In October, the CCASS Depository handled an average of 2,485 deposit and withdrawal transactions per business day. The number of share certificates processed daily amounted to 51,000. The corresponding figures for November were 2,440 transactions involving 47,000 share certificates per business day.

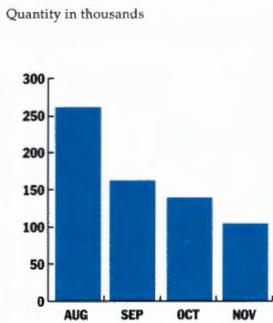
As at the end of November, 1,186 stocks had been admitted into CCASS for clearing and settlement. About 452.2 billion shares were under the custody of the CCASS Depository, representing 55.98 per cent of the total number of shares of the admitted stocks in issue. The total market value of the shares was \$977.1 billion, representing 29.86 per cent of the total market capitalisation of the admitted stocks.

Participants

At the end of November, there were 568 CCASS participants, including 495 broker participants, 64 custodian participants, 8 stock pledgee participants and one clearing agency participant.

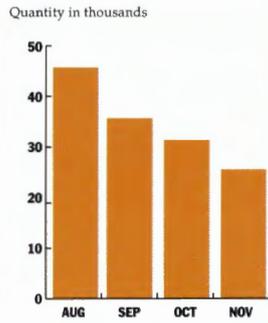
OPERATIONS HIGHLIGHTS (AUG-NOV 97)

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



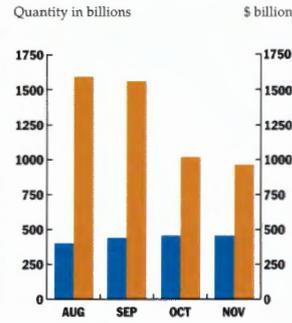
	Number of trades	% of total number of Exchange trades
Aug	264,948	99.93
Sep	166,569	99.97
Oct	143,979	99.97
Nov	107,696	99.96

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



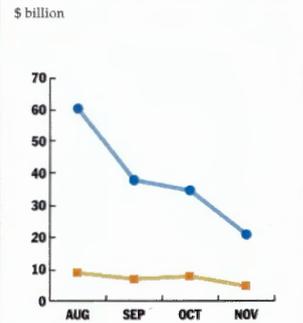
	Number of SIs	SIs by shares (billion)	SIs by value (\$ billion)
Aug	46,609	13.2	46.8
Sep	36,975	12.1	40.6
Oct	32,311	7.7	43.2
Nov	26,346	5.3	28.5

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



	Number of shares (billion)	Market value (\$ billion)
Aug	402.8	1,559.6
Sep	438.5	1,523.5
Oct	450.1	1,053.8
Nov	452.2	977.1

Average daily funds netting efficiency under CNS



	Money obligations arising from novated contracts (\$ billion)	Money obligations after netting (\$ billion)	Funds netting efficiency (%)
Aug	60.9	9.5	84.63
Sep	38.4	7.4	80.60
Oct	35.4	8.8	75.20
Nov	21.8	5.1	75.41

Quick Quiz

1. As at 31 December 1997, how many stock segregated accounts with statement service were opened in CCASS and what was the highest number of segregated accounts with statement service operated by a single participant?

2. Under what circumstances can a broker participant apply for waiver of a buy-in?

3. How do participants settle CCASS fees?

Answers on page 12 .

Enhanced CCASS Terminal Updates

The Enhanced CCASS Terminal (ECT) project was launched in May 1997. As of 31 December 1997, 60 CCASS participants have applied for more than 70 ECTs. Hongkong Clearing is now using ECT features to develop new projects such as linking CCASS with banks to provide real time Delivery versus Payment services.

Over the long term, Hongkong Clearing plans to replace all CCASS Terminals with ECTs. This will significantly improve communication between CCASS and its participants.

The recommended PC hardware and supplied software for ECTs have been thoroughly tested

by Hongkong Clearing and found to be Year 2000 compliant. Participants are advised to upgrade the existing CCASS Terminals to ECTs.

Hongkong Clearing is well prepared for more participants to install ECTs. It can install software and commission telecommunication link for a participant about five weeks after an application has been made.

ECT application forms are available from Participant Admission Department (Tel.: 2597 0621). For enquiries, please call the Customer Services Hotline at 2852 8000.

RETIRING DIRECTORS HONoured



John Chan, Chairman, thanked retiring Board Directors Dennis Lam, Dannis Lee, David Lui and William Kwong for contributing their time and expertise to the Company.

Mr Chan was speaking at the dinner for retiring and newly appointed Board Directors in December 1997. He welcomed the new Directors - Chu Ho Miu Hing, Fong Hup, Stephen Hui and John Seto. The four retiring Directors were presented with souvenirs as a token of appreciation.

The Stock Exchange appoints ten Directors and each of the five member banks appoints one Director to the Board. The Chief Executives of Hongkong Clearing and the Stock Exchange are ex officio Directors. The Financial Secretary of Hong Kong appoints five Directors, making a total of 22 Directors on the Board.

John Chan, Chairman, presents souvenirs to the four retiring directors.

NEW INSIGHTS INTO CLEARING AND SETTLEMENT SERVICES

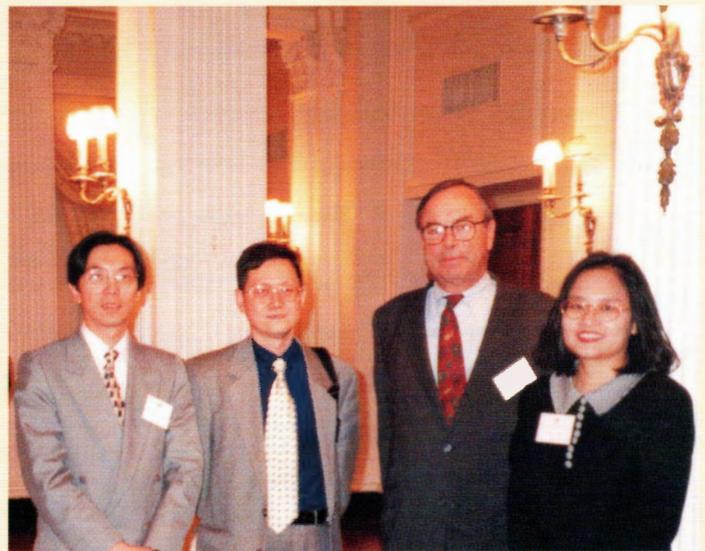
This past November, three of Hongkong Clearing's operations managers expanded their knowledge of clearing and settlement systems when they attended a two-week conference in the United States.

Organised by the Depository Trust Company (DTC), National Securities Clearing Corporation and International Depository and Clearing LLC, the U.S. Depository Clearance and Settlement Conference was held in New York.

Hongkong Clearing's S.Y. Choi, Manager of Depository Services; Victor Choi, Manager of Customer Services; and Grace Tong, Manager of Nominees Services participated in the conference together with 36 executives from 16 countries worldwide.

A wide spectrum of U.S. depository, clearing and settlement services was covered at the conference which included presentations by senior executives from the host organisations and other major U.S. financial institutions.

Participants also toured the New York Stock Exchange, the DTC, the New York Clearing House, and the Federal Reserve Bank of New York.



(From left) Victor Choi, S.Y. Choi, Thomas A. Williams - President & Director of DTC and Grace Tong

Hongkong Clearing's representatives found the conference inspiring. Grace Tong said: "It was an eye-

opening experience. We were able to learn first-hand about operations in the sophisticated U.S. financial markets and make comparisons between their systems and ours.

This provided many new insights into our own operations and services."

"We were also able to share our experience with representatives from other countries during the conference."



CCASS NOTICE BOARD

IMPROVED CCASS FUNCTIONS INTRODUCED

Hongkong Clearing introduced two improved CCASS functions.

Participants' staff who have authorised access to CCASS can now approve up to five pending Settlement Instructions (SI) at a time, through the Authorise Pending SI function.

This function is applicable to pending SIs only. Participants can authorise a pending SI individually or multiple pending SIs simultaneously.

The second improved service is the Enquire Announcement Information function. Participants are able to retrieve all benefit entitlement announcements of a stock by inputting the stock code and announcement type "BE" as selection criteria.

Participants may collect amendments to the CCASS Terminal User Guide covering these improvements from Hongkong Clearing's Service Counters Hall, 2nd Floor, Vicwood Plaza, Central.

DIRECT STOCK ADMISSIONS

During the two months of November and December 1997, a total of 45 eligible new issues were admitted to CCASS of which 8 issues adopted Jumbo Certificate arrangement.

	Ordinary Shares	Preference Shares	Registered Warrants	Debts	Rights	Total
Eligible new issues listed on the Stock Exchange and admitted to CCASS	8	-	32	-	5	45
Issues adopted Jumbo Certificate arrangement	7	-	1	-	N/A	8



Quick Quiz

1. As at 31 December 1997, a total of 537 stock segregated accounts with statement service were opened. The highest number of segregated accounts with statement service operated by a single participant was 34.

2. Hongkong Clearing may grant a waiver if a broker participant can demonstrate to Hongkong Clearing's satisfaction that its outstanding short position in question can be expected to be settled in due course, for example, by the process of cross-day netting under the CNS system. A broker participant may apply for a waiver by completing an Application for Waiver of Buy-in form.

3. Participants settle CCASS fees on a weekly basis through the autopay bank clearing system.