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# ***ClearTalk***

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## HKEx Gets Ready for the New Era

The merger of the Stock Exchange of Hong Kong (SEHK), the Hong Kong Futures Exchange (HKFE) and Hong Kong Securities Clearing Company Limited (Hongkong Clearing) was completed on 6 March 2000 with the establishment of Hong Kong Exchanges and Clearing Limited (HKEx).

"The merger lays the foundation for the sustained and stable growth of our financial industry," said the Honourable Donald Tsang, J.P., the Financial Secretary of the Hong Kong Special Administrative Region. "As a business endeavour, the HKEx has its duty to its shareholders to excel in its commercial operation. Under the Merger Ordinance, it also has a public duty to ensure a fair, open and orderly market in Hong Kong. Its success is crucial to the role of Hong Kong as the leading financial centre in the region and the world... I have confidence that the HKEx will do its best to build on the good work its predecessors have done, seize the opportunities globalisation has presented and put itself in the first division of international markets."

From 6 March 2000, the SEHK, the HKFE and Hongkong Clearing became wholly owned subsidiaries of HKEx under the provisions of the Exchanges and Clearing Houses (Merger) Ordinance.

On the same day, all Directors of Hongkong Clearing resigned while Mr

## A Historic Step in Hong Kong's Further Development as an International Financial Centre

Kwong Ki Chi, G.B.S., Chief Executive of HKEx, was appointed Chairman of Hongkong Clearing, and Mr Alec Tsui and Mr Stewart Shing were appointed Directors of the Company.

The Securities and Futures Commission has approved amendments to the General Rules of CCASS, the CCASS Operational Procedures and the Terms and Conditions for Investor Participants to reflect the new status of Hongkong Clearing as a wholly owned subsidiary of HKEx, and the

separation of ownership of shares in the SEHK and access to its trading facilities.

The current settlement arrangements in the stock market will remain unchanged, and all CCASS Participants (including Investor Participants) will continue to be able to clear and settle their trades and transactions in CCASS as usual.

HKEx aims to list on the stock exchange later this year. As a listed



company, answerable to its shareholders, HKEx will compete vigorously for opportunities in the region and around the world. It will be a market-driven business, operating business-driven markets.

Chairman of HKEx, Charles Lee, J.P., said: "The merger brings many advantages such as economies of scale, greater efficiency, reduced costs, and more financial strength for developing state-of-the-art electronic trading systems. In addition, market coherence will be improved, and risk management enhanced.

"Change and challenge will be a central part of the external environment in the future. The market integration will place HKEx in a good position to meet challenges ahead. I am confident that the new company, with its strong governing board and management team, will occupy a leading position in the financial markets of the world," Mr Lee concluded.



Hongkong Clearing will complete the enhancement of CCASS by the end of April 2000 to enable the system to handle clearing and settlement in foreign currencies, including US dollar. With the scheduled launch of a US dollar clearing system in the banking sector in August 2000, the Company will provide US dollar clearing and settlement service for all Exchange trades and non-Exchange trades settled in CCASS.

The establishment of a US dollar clearing system will help strengthen Hong Kong's financial infrastructure and enhance Hong Kong's status as an international financial centre. The system will facilitate the listing, trading and settlement of US dollar denominated financial products. For example, it will allow Nasdaq stocks and Growth Enterprise Market stocks to be denominated and settled in US dollars.

#### Stock Transactions

All CCASS services will be extended to US dollar denominated stock transactions, including Exchange trades, Settlement Instruction (SI) transactions, Investor Settlement Instruction (ISI) transactions and Isolated Trades. Trades in debt securities and stock borrowing and lending activities will also be covered.

#### Money Settlement

US dollar settlement can be conducted on a Delivery versus Payment (DVP) basis or a Realtime Delivery versus Payment basis (RDP). For Exchange trades and non-Exchange trades settled on DVP, CCASS generates US dollar denominated Direct Debit Instructions, Direct Credit Instructions and Electronic Payment Instructions to settle daily money obligations due to and from CCASS Participants on T+2. Payments are confirmed the

following morning (T+3) by CCASS Participants' Designated Banks.

US dollar money obligations can also be settled on a RDP basis. As with Hong Kong dollar money settlement, the US dollar RDP service will be available to the settlement of SI and ISI transactions. Under RDP, stocks are delivered to paying Participants' stock accounts

upon receipt of payment confirmation from the Hong Kong Interbank Clearing Limited (HKICL), hence eliminating the credit risk involved in the settlement process.

Hongkong Clearing is now working with HSBC, the Settlement Institution for the US Dollar Clearing System, and HKICL on the system interface and linkage.

**CCASS**  
to provide  
**US dollar**  
**money settlement**  
**service**



#### Realtime Delivery versus Payment

Since its introduction in May 1998, the Hong Kong dollar RDP service has been growing in popularity as investors become more aware of its potential for risk reduction on trade settlement. A comparison of the daily average values of SIs and ISIs settled under RDP in May 1998 and February 2000 shows a significant increase in the settled amount, reflecting on the common use of the service.

#### Daily average value of SIs and ISIs settled by RDP

|          | Value of settled ISIs | Value of settled SIs |
|----------|-----------------------|----------------------|
| May 1998 | \$150,000             | \$33,253,000         |
| Feb 2000 | \$310,609,000         | \$273,459,000        |

CCASS' Electronic Initial Public Offering (eIPO) service was used by SUNDAY Communications Limited (SUNDAY) for its IPO in March 2000 and 3,913 eIPO instructions were received for the new issue. This is the first time the service has been used by an issuer appointing a share registrar other than HKSCC Registrars (a subsidiary of Hongkong Clearing) and the third time the service has been adopted for a new issue.

With 69,000,000 SUNDAY shares initially on offer, the number of shares applied for through eIPO alone totalled 603,798,000, representing a nine-fold over-subscription rate. Hongkong Clearing has received 3,913 eIPO instructions for SUNDAY and this number is a record high since the launch of the eIPO service in May 1999.

For the first time, eIPO subscription data were electronically transferred from CCASS to Central Registration Hong Kong Limited, the appointed share registrar of SUNDAY. CCASS' successful interface with Central Registration shows that other share registrars can also take advantage of the service to facilitate the



## First Share Registrar to partner with Hongkong Clearing on the use of eIPO

processing of share applications. Hongkong Clearing has already tested and verified CCASS' interface

with the computer systems of two other share registrars for future utilization of the eIPO service.

With eIPO, CCASS Intermediary Participants (such as brokers or custodians) are able to subscribe to new IPOs using the CCASS Terminals and Investor Participants can subscribe via the CCASS Phone System. As compared to submitting application forms, eIPO allows Participants more time to input application instructions, without completing any forms and cheques. CCASS Participants may input their share application instructions until 7:00 pm on weekdays, 3:00 pm at weekends and 12:00 noon on application closing dates. Starting from the third quarter of 2000, the eIPO service will also be available on the Internet, providing CCASS Participants with added convenience in the application of new shares.

As for those investors who have not opened Investor Accounts in CCASS, they can also enjoy the benefits of eIPO service by applying for new shares through CCASS Intermediary Participants.

### Over-subscription rate by eIPO

|   | T S Telecom<br>Technologies Limited | Shenyang Public<br>Utility Holdings Company Limited | SUNDAY<br>Communications Limited |
|---|-------------------------------------|---|----------------------------------|
| Total Number of Shares Initially Available for Subscription under the IPO | 15,840,000                          | 30,100,000  | 69,000,000                       |
| Number of Shares Applied through eIPO Service                             | 316,156,000                         | 65,434,000  | 603,798,000                      |
| Value Involved in Shares Applied through eIPO Service                     | \$479,028,506                       | \$118,971,968                                       | \$2,063,000,000                  |
| <b>Over-subscription rate by eIPO</b>                                     | <b>20</b>                           | <b>2</b>  | <b>9</b>                         |

## Computer capacity upgraded to meet ever-increasing trading volume

In late February, the daily trading volume reached a record high of 390,191 trades a day, representing nearly 80 per cent of the CCASS maximum capacity of about 500,000 trades. Preparing for the rapid increase in trading volume, Hongkong Clearing has implemented plans to upgrade the computer capacity for both its main and back-up data centres in two phases this year.

In the first phase, the capacity of the main data centre has been upgraded from 140 MIPS (million instructions per second) to 219 MIPS in March 2000. A similar upgrade for the back-up data centre is planned to take place in the second phase in mid 2000. "The upgrade of the main data centre has doubled the CCASS processing capacity to a maximum of one million trades a day. The two

upgrades will cost about \$17 million," said Peter Lam, Assistant Director of Technical Services Department.

He added: "The upgrades will ensure Participants enjoy a higher level of service, even during days of high trading volume. The response time for online functions, batch settlement runs and report download will also be faster."

## DINNER IN HONOUR of THE RETIRED DIRECTORS

Following the merger of the Stock Exchange, the Futures Exchange and Hongkong Clearing, a dinner in honour of the outgoing Directors of Outgoing Directors and Alternate Directors.

Hongkong Clearing was held in March 2000 to thank them for contributing their time and professional advice to the Company.

On the occasion, John Chan, former Chairman, said Hongkong Clearing had "played an integral role in Hong Kong's emergence as a leading financial centre" and the Company's accomplishments would not have been possible without the leadership and expertise of its Directors.



Alec Tsui, Chief Operating Officer of HKEx (right), presents a souvenir to John Chan, former Chairman of Hongkong Clearing.



## Hongkong Clearing Welcomes Delegates from Taiwan Securities Central Depository

As the Taiwan Securities Central Depository (TSCD) is currently building a new vault facility and a computer processing center, a

14-member delegation from TSCD visited Hongkong Clearing in March 2000 to share the Company's experiences on setting up computer



Hongkong Clearing's executives give a presentation on CCASS's computer operations.

operational frameworks for the CCASS Depository and vault.

Led by TSCD's Executive Vice

President, Mr Su Song-Chin, the delegation comprised of senior executives from TSCD's Information Department and Internal Auditing Department. The delegates were given an in-depth presentation by Henry Chan, Head of Information Technology Division, on CCASS' computer systems. Topics like second-site system operation and management, electronic command centre and system automation, security management and e-business application solutions in the securities industry were discussed. After the presentation and discussion session, the delegation was given a guided tour of CCASS' Data Centre.

# CCASS STATISTICS

The Hang Seng Index closed at 15,532 at the end of January 2000. It continued to surge in February and closed at 17,169.

## Exchange Trades

In January, an average of 231,048 trades were processed daily in CCASS, involving 17.74 billion shares with a value of \$17.57 billion. In February, the daily average trades handled by CCASS increased to 287,163 involving 21.92 billion shares with a value of \$22.23 billion.

During the months of January and February, more than 99.97 per cent of Exchange trades were processed daily in CCASS.

## Netting Efficiency of CNS Trades

In January, an average of 228,277 Exchange trades valued at \$16.31 billion went through CCASS daily for CNS. An average of 11.30 per cent of the novated contracts created were due for settlement daily.

The daily average number of trades went through CCASS for CNS in February increased to 283,731 valued at \$20.07 billion. After novation and netting, 11.27 per cent of the novated contracts were due for settlement daily.

In January, novated contracts generated a daily average of \$32.62 billion in money obligations which were netted to \$5.65 billion. Daily average funds netting efficiency was 82.58 per cent. In February, \$40.13 billion a day in money obligations were netted to \$6.25 billion. Daily average funds netting efficiency was 84.08 per cent.

## Settlement Efficiency of CNS Stock Positions

The daily average settlement efficiency rate of CNS stock positions for January was 99.25 per cent on the due day and 99.96 per cent on the settlement day following the due day. The corresponding figures for February were 99.23 per cent and 99.95 per cent.

## Settlement Instructions (SIs)

In January, an average of 40,515 SIs were settled daily in CCASS, involving 9.16 billion shares with a market value of \$26.83 billion.

In February, the figures increased to 51,558 SIs, involving 12.60 billion shares with a value of \$39.03 billion.

## Investor Settlement Instructions (ISIs)

In January, an average of 337 ISIs were settled daily in CCASS, involving 96.40 million shares with a market value of \$484.18 million.

In February, an average of 470 ISIs were settled daily in CCASS, involving 187.31 million shares with a market value of \$505 million.

## Depository Transactions

In January, the CCASS Depository handled an average of 2,088 deposit and withdrawal transactions per business day. The number of share certificates processed daily amounted to 25,000. The corresponding figures for February were 2,736 transactions involving 37,000 share certificates per business day.

As at the end of February, 968 stocks had been admitted into CCASS for clearing and settlement. About 508.34 billion shares were under the custody of the CCASS Depository, representing 56.37 per cent of the total number of shares of the admitted stocks in issue. The total market value of the shares was \$1,615.82 billion, representing 32.05 per cent of the total market capitalisation of the admitted stocks.

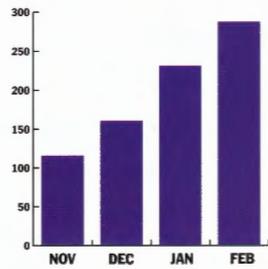
## Participants

At the end of February, there were 3,658 CCASS Participants, comprising 497 Broker Participants, 63 Custodian Participants, seven Stock Pledgee Participants, one Clearing Agency Participant and 3,090 Investor Participants.

# OPERATIONS HIGHLIGHTS (NOV 99 - FEB 00)

**Average Daily Stock Exchange Trades Processed in CCASS**  
(including CNS trades, isolated trades and cross trades)

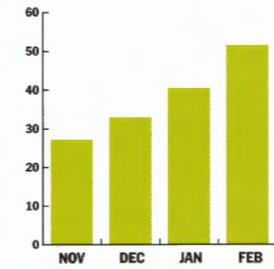
Quantity in thousands



|     | Number of trades | % of total number of Exchange trades |
|-----|------------------|--------------------------------------|
| Nov | 115,892          | 99.99                                |
| Dec | 160,533          | 99.98                                |
| Jan | 231,048          | 99.94                                |
| Feb | 287,163          | 99.99                                |

**Average Daily Settlement Instructions (SIs) Settled in CCASS**  
(both receiving and delivering SIs are counted)

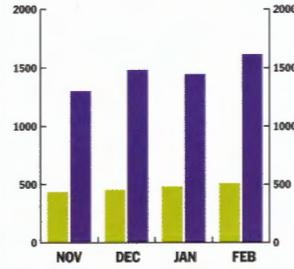
Quantity in thousands



|     | Number of SIs | SIs by shares (billion) | SIs by value (\$ billion) |
|-----|---------------|-------------------------|---------------------------|
| Nov | 27,229        | 5.47                    | 28.99                     |
| Dec | 32,967        | 7.77                    | 26.32                     |
| Jan | 40,515        | 9.16                    | 26.83                     |
| Feb | 51,558        | 12.60                   | 39.03                     |

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

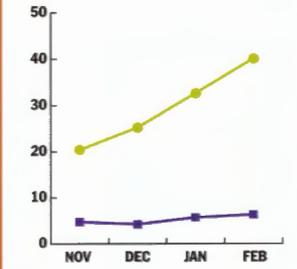
Quantity in billions      \$ billion



|     | Number of shares (billion) | Market value (\$ billion) |
|-----|----------------------------|---------------------------|
| Nov | 434.17                     | 1,300.83                  |
| Dec | 452.37                     | 1,482.45                  |
| Jan | 480.35                     | 1,445.64                  |
| Feb | 508.34                     | 1,615.82                  |

**Average Daily Funds Netting Efficiency under CNS**

\$ billion



|     | Money obligations arising from novated contracts (\$ billion) | Money obligations after netting (\$ billion) | Funds netting efficiency (%) |
|-----|---|--|------------------------------|
| Nov | 20.37   | 4.70   | 76.49                        |
| Dec | 25.23   | 4.20   | 82.90                        |
| Jan | 32.62   | 5.65   | 82.58                        |
| Feb | 40.13   | 6.25   | 84.08                        |

## Quick Quiz

1. What is the handling fee for each Electronic Application Instruction in CCASS for new issues?

2. What function can be used to enquire the allotment results in CCASS of initial public offerings?

3. Which stock account of a CCASS Intermediary Participant (such as broker or custodian) will be used for allocating stocks as a result of successful applications for new issues?

Answers on page 8.

## REDEMPTION OF EXCHANGE FUND NOTES IN CCASS



Exchange Fund Notes (EFN) were introduced to CCASS and

retail investors in August last year. Since then, CCASS Intermediary Participants and Investor Participants can tender for and settle EFN through CCASS Terminals or the CCASS Phone System.

Do you know how EFN are redeemed by Intermediary Participants in CCASS?

All EFN are to be redeemed by Hong Kong Monetary Authority (HKMA) on their maturity dates. The redemption announcements will be given in the "Enquire Announcement Information" function and posted to the "Book-Close Reminder" section in the Entitlement Statement, normally seven business days before maturity date.

Usually on the business date before maturity, Hongkong Clearing will determine the redemption rights of each Participant by referring to its EFN holding in CCASS. Expired EFN will be automatically debited from the Participants' CCASS Stock Accounts and the corresponding redemption monies will be recorded as receivable in the "Bond Redemption" section of the Participants' Entitlement Statements.

Hongkong Clearing will normally receive the payment from HKMA on the date following the maturity date. Hongkong Clearing will inform Participants of the receipt through its Broadcast Message Services.

If the payment is received by Hongkong Clearing on or before 3:45 pm (or 10:00 am on a Saturday), Hongkong Clearing will credit the monies to Participants' bank accounts on the same day. Otherwise, the monies will be credited on the following business day. Participants' Entitlement Statements will be updated when the monies are credited to their bank accounts.

## DIRECT STOCK ADMISSIONS

During the two months of January and February 2000, a total of 55 eligible new issues were admitted to CCASS of which 8 issues adopted Jumbo Certificate arrangement.

|  | Ordinary Shares | Preference Shares | Registered Warrants | Debts | Unit Trusts | Rights | Total |
|--|-----------------|-------------------|---------------------|-------|-------------|--------|-------|
| Eligible new issues listed on the Stock Exchange and admitted to CCASS | 12              | 0                 | 35                  | 2     | 0           | 6      | 55    |
| Issues adopted Jumbo Certificate arrangement                           | 8               | 0                 | 0                   | 0     | 0           | 0      | 8     |



### Quick Quiz

- \$5 per instruction.
- The "Enquire Allotment Result" function.
- Stock allocated to a CCASS Intermediary Participant as a result of successful applications for new issues will be allocated to the Entitlement Account of the Participant.

## INVESTOR PARTICIPANTS PAY LESS

Hongkong Clearing has waived the deposit requirement for new Investor Accounts in CCASS and the minimum monthly Stock Custody Fee. Previously, a \$1,000 deposit was required for each Investor Account, which was also subject to a minimum Stock Custody Fee of \$20 per month.



Both waivers will remain in effect until 31 December 2000, and Investor Participants who had already paid the \$1,000 deposit received a refund in February 2000.

The monthly Stock Custody Fee will continue to be assessed at \$0.012 per board lot or odd lot for registered securities, and at 0.012% per annum on the nominal value of bearer debt securities, calculated on a daily basis.

(Calculation of the Stock Custody Fee

for bearer debt securities also applies to Exchange Fund Notes, Hong Kong Mortgage Corporation Notes and other specified instruments)

"The waivers make the Investor Account Service more attractive for all investors, especially those who trade infrequently or have smaller portfolios," said Stewart Shing, Hongkong Clearing's Chief Executive. "By minimising the cost of opening and operating an account, and by introducing new facilities like Internet access, we are committed to making the Investor Account Service a cost-effective and convenient tool for Hong Kong's investors."

For example, Mr Chan has 1,000 board lots of Hong Kong and China Gas Company (with a market value of \$10,000,000) and 40 board lots of Exchange Fund Notes (with a daily nominal value of \$2,000,000) in his Investor Account.

|                                     |                               | <b>New Calculation<br/>with Minimum<br/>Fee Waiver</b> | <b>Original Calculation<br/>without Minimum<br/>Fee Waiver</b> |
|-------------------------------------|-------------------------------|--|--|
| For Hong Kong and China Gas Company | 1,000 board lots X \$0.012    | \$12   | \$20 (since \$12 is less than the \$20 minimum fee)            |
| For Exchange Fund Notes             | \$2,000,000 X 0.012% X 31/365 | \$20.38  | \$20.38  |
| <b>Total Stock Custody Fee</b>      |                               | <b>\$32.38</b>   | <b>\$40.38</b>   |

The Stock Custody Fee payable by Mr Chan at the end of the month is \$32.38, almost 20 per cent less than before.

With the introduction of waivers for the account opening deposit and the minimum monthly Stock Custody Fee, the number of applications for the Investor Account Service has been further increased. As of 18 March 2000, Hongkong Clearing had received a total of 3,878 applications, including 3,395 applications for Individual Accounts, 337 for Joint Individual Accounts and 146 for Corporate Accounts.

# Lower Fees and Quicker Services

With the waivers for the account opening deposit and minimum stock custody fee, investors can now open a CCASS Investor Account for free and enjoy savings in stock custody expenses. In addition, the account opening period has been shortened.

## Quick Account Opening Arrangement

Provided that all required documents are submitted with a completed Account Opening Form, Hongkong Clearing needs only three business days to process an application. Participant IDs, User IDs and Initial User Passwords will be given to the successful applicants immediately upon submission of their applications in person. Otherwise, the successful applicants will be notified by post to collect their IDs and passwords.

On the Account Opening Date (usually the third business day after submitting the Account Opening Forms, as advised by Hongkong Clearing), Investor Participants can start operating their Investor Accounts. However, the money settlement functions will not be available at that time because Hongkong Clearing will have to send the debit authorisation forms to the Investor Participants' Designated Banks for setting up the CCASS electronic money settlement arrangement. In general, the banks will take about ten calendar days to complete this arrangement and will issue a confirmation to Hongkong Clearing afterwards. Hongkong Clearing will notify the Investor Participants via post when money settlement function is ready for use.

## Simplified Operations

In addition to the fee waivers and quick account opening arrangement, certain operating procedures covering the maintenance of the Investor Accounts have also been simplified, offering Investor Participants greater flexibility to operate their accounts.

When Individual and Joint Individual Investor Participants' passwords are revoked and need to be reset by Hongkong Clearing, they have a choice of collecting the new passwords in person, through an authorised representative or by post. They can also authorise their representatives to submit the required Counter Input Forms if they inform the Company's Customer Service Representatives to input an instruction for them. For Corporate Investor Participants, the Designated Officers no longer need to be a company director.

## Upcoming Enhancements

From April, Investor Participants can choose to receive Activity Statements and Monthly Statements in Chinese or English.

In the third quarter of 2000, Investor Participants will also be able to access their CCASS accounts via the Internet. Details of these enhancements will be announced in due course.

