

# ClearTalk

Information Bulletin of Hong Kong Securities Clearing Co. Ltd.

## One year on and all's well

It's just over a year since we were recognised by the Securities and Futures Commission as a clearing company and started accepting securities into the CCASS Depository for electronic clearing and settlement.

Since then, we have accepted more than 600 securities into CCASS and the number continues to grow as more companies become listed on the Stock Exchange. We introduced electronic clearing and settlement, first on a trade-for-trade basis, in June last year, and on a CNS basis in October. And it all works.

We shouldn't be surprised as our systems are only doing what they were designed to do. But we have also held up supremely well under a period of sustained heavy trading, together with a degree of price volatility. Just how well we have done is apparent from the statistics we report in this edition of *ClearTalk*.

In addition to making the system work, we have introduced new services for participants and are considering additional services and developments which will benefit Hong Kong's securities industry. Some of these we look at in this issue.

The success of our Securities industry depends to a large extent on the trust that investors have in the integrity of industry professionals and their ability to protect the property of investors.

The Clearing Company and Stock Exchange held a series of joint seminars on internal control measures for market participants in March, at which specific recommendations to raise the level of security in participants' offices were made.

Government recognition of the growing importance of the financial services industry to Hong Kong's continued prosperity came with the establishment this year of a policy making Financial Services Branch. Michael Cartland, the Secretary of the new branch visited the Clearing Company in March, shortly after taking up his appointment, and we were able to brief him on our role and contribution to the securities industry.

By the time this newsletter is published, the first of nine Chinese state enterprises should have been listed on the Stock Exchange of Hong Kong. The Clearing Company anticipates playing an important role in providing registration and other services in Hong Kong for these companies, in addition to depository, clearing and settlement services.

Clearly much has happened since the publication of the previous issue and much is expected to happen before the first anniversary of the launch of CNS on October 7.

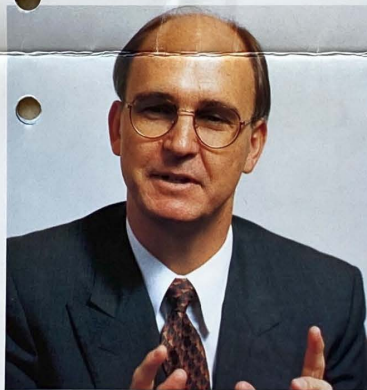
In the meantime, we invite readers to complete the questionnaire enclosed with this issue. We hope this will help us to get to know our readers and their interests better.

*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 Operational Procedures. Letters raising questions relevant to the Clearing Company or CCASS are most welcome at the address given on page 8. ■

## Modified share allotment arrangements for China-registered enterprises listed in Hong Kong

The Clearing Company will provide share registration services for the China-registered enterprises due to be listed in Hong Kong.

This marks a new development for the Clearing Company with the provision of a new set of services to the securities industry.



Richard Heckinger, "The Clearing Company will provide one-stop settlement and share registration services."

Richard Heckinger, chief executive of the company said China-registered enterprises had asked the Clearing Company to provide one-stop settlement and share registration services.

"A modified share allotment arrangement will be introduced for investors who apply for shares through CCASS participants," he said.

### Share allotment procedure

When China-registered enterprises make public offerings in Hong Kong, investors who have successfully applied for shares through a CCASS participant can receive new shares through their CCASS participants' stock accounts kept with CCASS. These shares will be issued in the name of the common nominee.

This simplified allotment procedure will make newly issued shares immediately available for electronic book-entry settlement under CCASS; and save time and the cost

of re-issuing shares deposited with CCASS into the name of the common nominee as well as the transfer deed stamp duty to be paid by the depositing participants.

Alternatively, investors who elect not to apply through a CCASS participant will receive new shares in the normal way.

### Jumbo certificates

On the Clearing Company's instruction, the share registrar will issue one or more jumbo certificates in the name of the common nominee to represent all the shares held by investors through CCASS participants.

"This will reduce the risk of securities loss during allocation and reduce the time and costs involved in printing, processing and depositing new share certificates," Mr Heckinger said.

However, a supply of certificates in board lots will also be available for withdrawal by participants.

Albert Silva, senior manager of the Share Registration Services Department said a wholly-owned subsidiary of the Clearing Company, 'HKSCC Registrars Limited', had been incorporated to take up the company's share registration functions. "In order to have all the required features and functions ready by late June or early July, the company has decided to sub-contract day-to-day operations to existing share registrars on a non-exclusive basis.

"At present, four share registrars have been selected to act as HKSCC Registrars' agents. However, HKSCC Registrars will remain the principal to the China enterprises in maintaining their registers of members," Mr Silva said.

It is expected that HKSCC Registrars Limited will undertake its own share registration functions within the next year. ■

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# Statistics of CCASS operations

June 1993 marked the first anniversary of the launch of CCASS. During the year, the system witnessed periods of high turnover and volatile market conditions during which CCASS proved effective.

The increasing number of securities

admitted for clearing and settlement in CCASS and active market conditions led to continuous growth in the number of daily transactions, both Exchange trades and settlement instructions (SI), processed, through the system.

Within the five CCASS business days in June 1992 when only two stocks had been admitted into CCASS, about 3,000 Exchange trades were processed through CCASS.

Following the inclusion of more stocks

into CCASS, the total number of Exchange trades processed in CCASS showed a significant increase. In May 1993, the total number of Exchange trades (including CNS trades, isolated trades and cross trades) processed through CCASS amounted to 1,056,864, representing 91.63 per cent of total Exchange trades.

From June 24, 1992 to the end of May 1993, the cumulative total of Exchange trades processed in CCASS amounted to 3,774,785. The number of shares amounted to 100.3 billion, with a total value of \$488.1 billion.

Within the five business days in June 1992, the number of SIs settled in CCASS was 504. The monthly total rose from 14,960 in July last year to 275,096 in May this year. At the end of May, the cumulative total of SIs settled in CCASS amounted to 1,148,490, involving 119.7 billion shares with a total value of \$1,077.4 billion.

May 1993 was a month of sustained high turnover: out of the average daily turnover of 2.2 billion shares valued at \$5.37 billion, Exchange trades handled under CCASS on average accounted for 87.6 per cent of the total market turnover in share quantity and 95.0 per cent in value.

The capacity of the system to handle large trading volumes was reflected on May 28, when a record high in the number of Exchange trades handled under CCASS was recorded.

A total of 63,981 Exchange trades (including 4,636 cross trades and 17 isolated trades) were processed through the system on that day. A total of 118,656 novated contracts were created and netted to 31,582 CNS positions, leaving only 26.62 per cent of the novated contracts due for settlement.

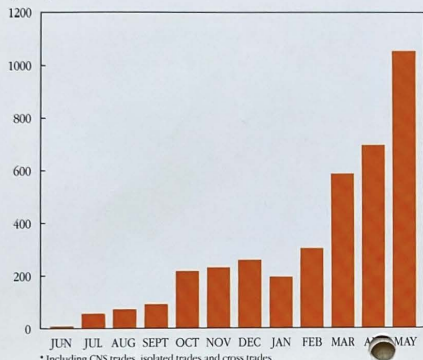
In terms of money obligations, \$11.3 billion generated from the novated contracts on May 28 were netted to about \$2.63 billion, reducing substantially the money settlement obligations to be met by broker participants.

The settlement rate on settlement due day since the launch of CNS remained stable, and was consistently over 90 per cent during periods of sustained high turnover and market volatility.

As at the end of May, cumulative average settlement efficiency of CNS stock positions was 91.0 per cent on the due day, and 99.5 per cent on the day

## Operations highlights (June 24, 1992-May 31, 1993)

Quantity in Thousands

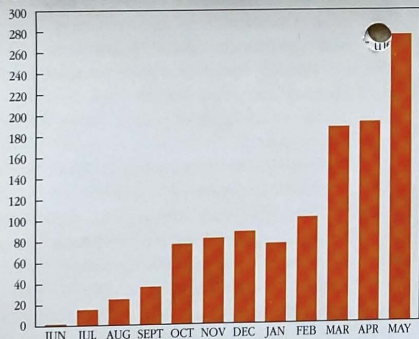


\* Including CNS trades, isolated trades and cross trades

### Exchange trades\* processed in CCASS

	Quantity
June	3,081
July	54,508
August	71,560
September	90,586
October	216,792
November	230,565
December	258,916
January	195,728
February	304,175
March	590,641
April	701,369
May	1,056,864
Total	3,774,785

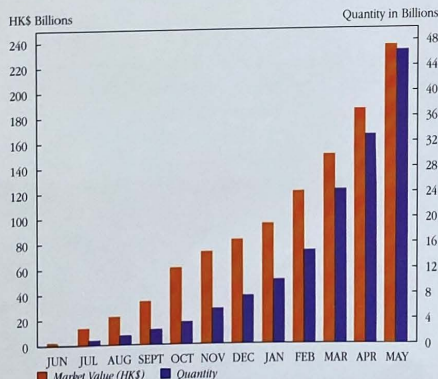
Quantity in Thousands



### Settlement instructions (SI) settled in CCASS

	Quantity
June	504
July	14,960
August	24,302
September	35,932
October	76,350
November	81,444
December	87,350
January	75,732
February	100,116
March	185,816
April	190,888
May	275,096
Total	1,148,490

HK\$ Billions



### Stock under CCASS custody

	Expressed in billions	
	Market Value (HK\$)	Quantity
June	1.7	0.1
July	13.1	0.7
August	22.2	1.5
September	34.3	2.4
October	60.7	3.6
November	73.0	5.6
December	82.4	7.7
January	95.0	10.1
February	120.6	14.7
March	150.0	24.4
April	186.0	33.1
May	236.3	46.3

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# Internal control and prevention of fraud seminar

**I**nternal controls to prevent loss through fraud are a major concern for the management of securities businesses. In March this year, the Clearing Company and the Stock Exchange held a series of seminars to advise CCASS participants on the principles of establishing internal controls that will help improve their internal control systems for clients' securities in their custody.

More than 500 securities practitioners attended the seminars 'Internal control and prevention of fraud' in the trading hall of the Stock Exchange on March 16 - 19.

Participants were given an overall picture of various functional areas requiring proper supervision and internal control measures, including stock management, accounting measures, dealing transaction recording and bank balances. They were also advised on management responsibility, principles of setting up an internal control system and the specific internal controls applicable to each functional area.

As participants vary in size and structure, they may need to consider factors particular to their own companies, and the level of supervision the management intends to exercise as well as segregation of duties, when applying the control measures discussed at the seminars.

However, Kim Mok, assistant director of the Clearing Company's Compliance Department, said the overall principle was simple. "One important requirement is to employ people who are reliable and trustworthy, and put in place appropriate checks and balances over transaction authorisation and execution," she said.

Ms Mok said settlement instruction (SI) transactions were the main area of concern for brokers. "SIs should be counterchecked to make sure that these transactions are properly authorised, supported with clients' instructions, and there are no problems with title to the securities.

"Special attention should be paid to SI transactions between brokers, free of payment (FOP) SIs, and SIs with unusual money value relative to quantities transacted," she said.

Brokers were advised to pay special attention to the financial standing of their margin and cash clients, and

make proper assessments of the credit risks their clients were taking.

During a question and answer session, some brokers expressed concern that keeping their clients' shares in their stock clearing account, pending or after settlement under CNS, would violate Section 81 of the Securities Ordinance.

Section 81 states that securities brokers should register securities that are not their property in the name of the client or the broker's nominee as soon as practicable, or deposit them in safe custody in a designated account with an approved custodian.

"Since CCASS Depository is an approved custodian

"Under physical settlement, brokers had to send the shares for registration or deposit the shares with their custodians for safe custody and that involved much manual work," Ms Mok said.

Some brokers said it was very time consuming and created a great operational burden to transfer all shares remaining in their stock clearing accounts (that were not for immediate settlement purposes) to their segregated accounts.

Although a participant would have to input a number of account transfer instructions (ATIs) to effect these transfers, Ms Mok said it was still a great improvement over



The seminars will help brokers improve their internal controls.

under the Securities Ordinance, participants can choose to leave the shares in their stock accounts in CCASS for safe-keeping," Ms Mok said.

"Brokers should keep a client's shares which are not required for immediate settlement purposes in a segregated account, to prevent them from being used to settle another client's open positions.

physical delivery of shares to custodians.

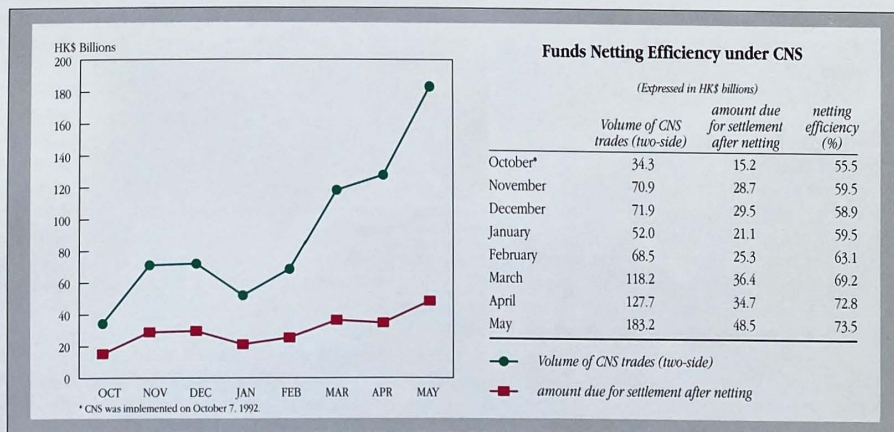
The seminars were only the beginning of a joint effort by the Clearing Company and the Stock Exchange to help brokers improve their internal controls. Ms Mok said: "Following this seminar, we will continue to cooperate closely with the Stock Exchange in reminding CCASS participants of risk management and compliance matters." ■

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following settlement due day.

Trade netting efficiency since the launch of CNS was consistently over 73.7 per cent, which means that over 73.7 per cent of the novated contracts were netted off against each other. Between October 9, 1992, the first settlement day under CNS, and May 31, 1993, \$726.7 billion of novated contracts were netted to \$240.3 billion, giving a funds netting efficiency of 66.9 per cent.

At the end of May, 46.3 billion shares representing 16 per cent of the admitted stocks were under the custody of the CCASS Depository. The total market value was \$236.3 billion. ■



# Tailoring interna

*A seminar on internal controls and prevention of fraud was held. The seminar explained internal control procedures and the principles of securities business may find helpful in reviewing or setting up internal control systems. The following is a summary of the seminar in different categories.*

**W**hen deciding the extent of an internal control system, one important consideration is the degree of control that the management of a brokerage firm will exercise. Once this has been decided, the management should then take into account the nature, size and volume of transactions and factors particular to the company before tailoring an internal control system.

In establishing internal controls, a participant has to consider the level of supervision, segregation of duties, authorisation and approval, frequency and methods of management review, employment of quality staff and even the physical security of the company. There are five key control areas of which participants should take note.

## 1. Accounting controls

Accounting records must be kept up-to-date. Minor differences between the total balance of the sub-ledgers and the control account of the general ledger should not be overlooked and should be properly followed up. These small differences may not indicate the actual amount of irregularity because they can be the result of the netting of relatively large debits and credits. Accounts should be reviewed by a responsible officer.

## 2. Stock controls

### Access

Review user profiles to make sure that all users are authorised with the intended transaction limits. For high risk functions like input of settlement instructions (SIs), participants should make use of the maker-checker facility in order to allow proper segregation of duties.

When assigning transaction limits, consider the responsibility, integrity and capability of the authorising staff. CCASS activities of employees about to resign should be closely monitored. Change the user password at least once every three months and also when a user's employment is terminated for whatever cause.

CCASS users should keep the system diskette securely and their passwords strictly confidential. They should not leave the CCASS terminal without logging off.

### Stock movement

All physical deposits or withdrawals to and from the broker should be recorded in the counter register with details of date, identity of depositor or recipient, stock name and quantity, certificate number, and if applicable, acknowledgement receipt number, the contract reference and the payment received reference. This will leave an audit trail for participants to trace the source of the securities in case there are defective securities or securities loss.

Deposits and withdrawals through the CCASS Depository and share movement through settlement instructions (SIs) also demand special attention from brokers.

Retrieve and retain the 'statement of stock accounts'. Daily transactions accounting for increases and decreases of a broker's stock account balances with CCASS are recorded in this report with details such as type of stock movement, stock code and quantity received or delivered.

To obtain a record of share movements effected through SIs, brokers should retrieve and retain the 'settled position report', which contains details of settlement date, identity of transferor or recipient, stock name, quantity of stock received and delivered.

If applicable, record the contract reference or client's instructions on these reports.

Share movements should be checked against client's instructions to ensure that they are properly authorised.

Acknowledgement of receipt should be issued to clients for all stock deposited to the broker. Receipts must be authorised and signed by a responsible officer. They should be pre-numbered and sufficiently detailed. Unsettled receipts should be kept securely.

A responsible officer should check the sequence and details of the receipts against stock records on a regular basis. If stocks are received through an SI, the SI

reference number should be recorded on the receipt. The client's signature on the acknowledgement of receipt should be verified against the signature in the client's Account Opening Form.

### Stock record updating and management review

Stock records should show where the stocks are kept, for what purpose, for whom and by whom the stocks are held. If the stocks are pledged, record the details of pledging as well.

Stock counts should be conducted, both regularly and on a surprise basis. The stock keeper must not have access to the count records nor be in charge of the stock count.

The results of the stock count should be compared with stock records and reviewed by a responsible officer. All discrepancies should be immediately followed up.

Daily stock movements should be reviewed by a responsible officer with reference to the counter register, the SI activity report and the statement of stock accounts. Special attention should be paid to 'Free of Payment' (FOP) SIs, SIs with unusual money values relative to quantity transacted, and unusual withdrawals.

Monthly statements of stock position should be issued directly to all clients to allow an independent check on the accuracy of the stock records. Third party securities statements such as bank securities statements and CCASS reports, should be reconciled with the company's stock records on a regular basis.

## 3. Recording of dealing transactions

The daily totals of bought and sold transactions on the daily transaction record should agree with the totals posted to the accounting books.

An independent person should be assigned to check that contract notes are prepared daily for all concluded transactions as recorded in the purchases and sales journal. Contract notes should be pre-numbered. If the numbers are assigned by computer, a contract notes register should be maintained. These numbers should be checked regularly to ensure that there are no missing or duplicate numbers.

Clients' listing and monthly statements should be prepared by a responsible officer not involved in the recording and settlement of dealing transactions. Monthly statements should be mailed to clients directly by the preparer.

All write-offs of bad debts should be properly authorised by senior management who are, preferably, independent of authorising clients' credit limits.

A list of amounts written-off should be kept and reviewed by senior management regularly to determine the necessity of follow up action. Care must be taken that any receipt of balances which have been previously written off are not misappropriated.



Internal controls should take into account the varied sizes and structures of brokerage firms.

reference number should be recorded on the receipt.

Withdrawal request must be supported by the original receipt issued for the stock when it was kept by the participant for safe custody.

Receipts should be subsequently marked 'cancelled' so that they can not be re-used. Without the client's written authorisation, no stocks can be delivered to a third party. Recipients must acknowledge receipt for all stock

# control systems

*in March by the Clearing Company and the Stock Exchange. The  
 les of a good internal control system that the management of  
 p their own internal controls for clients' securities in their  
 rty of the procedures suggested  
 nrol areas.*

## 4. Handling clients' accounts

Rule 532 of the Exchange requires all brokers to have their clients sign the Account Opening Form and Client's Agreement. Brokers must have full knowledge of the background and financial standing of their clients, whether cash or margin clients.

The true names of the clients must be established as required in Rule 537 of the Exchange. Separate identifications should be maintained for the accounts of the broker's employees and known relatives so that transactions in these accounts can be reviewed by appropriate personnel.

The accounts of both cash and margin clients should be monitored to avoid buying beyond their financial ability. It is particularly risky to allow employees to engage in speculative buying and day trading.

All transactions should be settled on a cash basis. Clients should not be allowed to place orders directly with authorised clerks on the trading floor.

When approving the credit limit for margin clients and when deciding the margin percentage for each type of collateral, brokers should take into account the volatility of the shares offered as collateral and their liquidity. Collateral should be a diversified portfolio of shares rather than concentrated on shares of one or two companies.

Clients' collateral must be marked to market at least daily and any shortfall in value of margin collateral must be followed up promptly.

Only marketable securities with instruments of transfer duly executed should be accepted as collateral.

## 5. Control of bank balances

### Issue of cheques

The duties of transactions recording and cheque signing must be separated. Ideally, the duties of settlement clerks receiving cheques from clients and brokers, personnel responsible for paying-in money received, personnel for recording transactions, cheque preparers and signatories should be segregated.

Appropriate limits of authority should be set for approval of expenditure and signing of cheques. Signing blank cheques should be avoided. Cancelled cheques should be marked 'cancelled' clearly and retained for sequential control purposes. In addition, unused cheques should be kept securely.

If a cheque signing machine is used, the signature plate should be kept securely and the key to the machine should be controlled by an independent officer who does not have access to the plates. Authorised signatories should monitor meter readings of the machine and control the use of signature plates.

### Funds received from clients

Clients should be advised to issue crossed cheques

made payable to the participant and any uncrossed cheques received should be crossed immediately upon receipt. Cheques received should be banked promptly. Originals of pay-in slips must be retained and checked against the list of cheques received.

Use of third party cheques by clients to settle transactions should not be allowed except with prior approval from a responsible officer.

There should be adequate security for funds held in the office. Any returned cheques should be properly followed-up. Adequate procedures should be established to cover the recording and verification of payments made directly to the participant's banker by clients.

### Bank reconciliation

All bank accounts should be reconciled regularly.

Bank reconciliation should be performed by a person who is not involved in the processing or recording of money or transactions on that bank account.

### Other controls

A responsible officer should review the bank balances daily to ensure that the company has adequate funds to cover cheques issued and amounts payable to the Clearing Company; and that any misappropriation of funds can be detected at an early stage.

Internal controls should be established for non-routine receipts and payments.

The business owner is expected to exercise close supervision and participate in all key control areas to avoid the breakdown of internal controls which may arise through collusion or management override. ■

## Improved access to securities-on-hold

The cash prepayment service introduced on May 3 allows broker participants to make use of on-hold securities on T+2, which would normally be held until confirmation of receipt of good funds at 9:30am on the following business day.

This service provides a further choice for CCASS participants in the management of their stock accounts with the Clearing Company.

By making cash remittances to reduce the sums owed to the Clearing Company, CCASS broker participants can make use of securities on hold allocated to them on T+2, equivalent to the discounted market value of the securities.

To avoid undue concentration of exposure, the Clearing Company will decline cash prepayment from a bank if this would extend the company's risk exposure to the bank beyond the limit set by the Risk Management Committee. However, the broker can always make payment through another bank.

CCASS broker participants intending to make cash prepayment must inform the Clearing Company in advance by telephone of the amount and the bank making the payment. The company will advise the participant if

these are acceptable.

If the prepayment is acceptable, the broker participant should instruct his bank to execute the transfer to the company's specified bank account.

To monitor and control its risk exposure to CCASS broker participants, the Clearing Company will only accept irrevocable remittances through the Clearing House Automated Transfer System (CHATS); or if the broker participant banks with Hongkong and Shanghai Banking Corporation, through Hexagon or Transfer Payment.

Brokers should transfer the funds to the Clearing Company before 11am and follow up with faxed copies of supporting documents to the company's Settlement Services Department before 11:30am.

On receipt of confirmation of payment from its banker, the Clearing Company will update the money ledger of the broker participant, who will then be able to make immediate use of the on-hold securities equivalent to their discounted value.

Any cash balances remaining in the sub-account (settlement account) of the money ledger will be refunded to the broker participant through direct credit instructions generated by the Clearing Company. ■

# Operational reviews of CCASS underline commitment to good service

Following a review of the central clearing and settlement system (CCASS) on a trade-for-trade basis (TFT) last year, the Clearing Company has completed a second operational review concentrating on continuous net settlement (CNS).

This review was conducted in the first quarter of 1993, nine months after the launch of CCASS and when CNS had been in operation for almost five months.

The purpose of the review was to find out how participants had adapted to CNS, as well as to gather participants' opinions about the operations of CCASS.

In order to help the Clearing Company monitor participants' progress, the same 45 participants from the previous review were interviewed.

The approach of the interview as well as the range of topics covered were also similar to the previous review.

Questions put to the interviewees covered all major aspects of their operations, including back office and terminal operations, CCASS functions, securities and money settlement, depository operations, CCASS statements and reports, participant-client dealings, customer services and training, as well as investor participation in the system.

Results of the CNS review again showed that most participants were satisfied with the system. Most broker participants interviewed reported a reduced workload.

Participants have become accustomed to most aspects of terminal user access control and input functions. They also found the CCASS reports and the hotline service useful, and had encountered no difficulties in reconciling their bank statements with the CCASS reports.

On the whole, interviewees were satisfied with the schedule of admission of stocks into CCASS. It is worth noting that at the time of the CNS review, 308 stocks had been admitted into CCASS, compared with only 33 Hang Seng Index constituent stocks when the TFT review was conducted. With more stocks admitted into CCASS, most participants recognised the range of benefits and advantages brought about by CCASS. They remained confident that once all stocks were admitted, the benefits would be even more apparent.

Most interviewees said their clients had become used to the T+2 settlement rule. It was also encouraging to learn that only a few investors had opted for physical settlement as they became more accustomed to CCASS. However, some brokers still insisted on physical settlement with their cash clients, because they did not want to bear the responsibility and risk of holding stocks for their clients.

Most participants interviewed also welcomed the idea of simplifying the share re-registration procedure from 'Common Nominee' name to client's name, although some were concerned that this might encourage more withdrawal requests.

Despite participants' rapid adjustment to CCASS, almost 80 per cent of broker participants interviewed reported an increase in operational costs and many of them considered the increase significant. They were concerned about when the Clearing Company would review the tariffs, and the possibility of a reduction. Most brokers passed on some of

the increased costs to their clients.

Some participants, however, attributed the rise in operational costs to the need to recruit more high quality staff for CCASS operations. Despite the increase, they were also aware that as only 308 stocks had been admitted into



Clearing Company staff continuously monitor CCASS operations.

the system, there was still the need to deploy staff for physical settlement. They remained confident that once the stock admission plan was completed, the elimination of physical settlement would eventually result in a reduction in operating costs.

Another concern expressed by the interviewees was the timing of the final batch settlement run. As was the case in the previous review, some brokers said the completion time of the last batch settlement run was too late for them to make funding arrangements with their banks.

Kelvin Lee, assistant director of Planning and Development, said the company was aware of the concern of the participants. In order to give participants more time to make funding arrangements with their banks, Mr Lee said the Clearing Company had been considering advancing the cut-off time for the input of on-line transactions, and advancing the opening hours of the Depository. It was proposed that the Depository would open at 9:00am and close at 3:30pm. The company hoped that by doing this, the final batch settlement run could be conducted earlier.

However other participants in the interview were opposed to the proposed new opening and closing times as they might not have the scrip and documents ready for deposit or withdrawal before 10:00am. Mr Lee said the

Clearing Company would continue to monitor the situation, and would look into other viable measures to ease the operations of participants.

The review also revealed that participants held different opinions towards the risk management measures of the Clearing Company. While most interviewees understood the mechanism of mark-to-market, some brokers criticised the securities-on-hold mechanism as affecting their onward deliveries of securities.

Assistant director of Compliance Department, Kim Mok said the participants' concern arose, perhaps, out of a lack of understanding of the responsibility of the Clearing Company as the central risk-taker. She said that as central risk-taker, the Clearing Company provided full backing for the settlement of CNS trades.

"If a broker participant fails to meet his CNS settlement obligations, the Clearing Company will complete the settlement on his behalf," Ms Mok said.

"With the securities-on-hold mechanism, the Clearing Company will be able to use the Guarantee Fund as a last resort to cover any loss that may result from market risk and defective securities.

"But in the absence of this risk management mechanism, if a broker defaults on money payment and the Clearing Company is unable to recover the shares which have not been paid for, the Guarantee Fund will become vulnerable in that the Clearing Company may need to utilise the fund to offset the loss.

"The Clearing Company may then need to increase the amount of contribution by CCASS participants to the Guarantee Fund in order to cover the additional risk exposure.

"This is against the principle of risk management that those who create a risk should bear the responsibility for the risk," Ms Mok said.

Participants also had differing views about investor participation in CCASS. Broker interviewees generally supported the idea, stressing that the admission criteria had to be clearly defined. Some brokers believed that only institutional clients should be admitted in order to minimise the burden on CCASS and the Depository. However, custodian interviewees did not favour the idea of admitting investors into the system, adding that their clients had not expressed any wish to become CCASS participants.

On the whole, Operations Services director, Alan Lee was delighted to learn that both participants and their clients had begun to recognise the benefits brought about by CCASS. "It is encouraging that the system has been well accepted by its users," he said.

He added that the successful completion of both the TFT review and the CNS review did not mark a full stop on the company's efforts to solicit participants' opinions.

"Participants are always welcome to voice their opinions or problems through channels such as the hotline service provided by the company.

"Their opinions and operational experiences will serve as important references for the company to fine-tune its services," Mr Lee said. ■

# Technology Services keeping up to date

**"K**eeping our technology up to date and maintaining quality services for CCASS participants are our two major objectives," said Henry Chan, director of Technology Services Division.

"With the experience gained in CCASS operations, we can more closely estimate our system capacity needs for future development. As we go down the road,

To maintain two-way communication between CCASS terminal users and the Clearing Company, the fault reporting hotline 852-8911 managed by the Technology Services Division has been functioning as a bridge for CCASS participants.

The number of calls received through the fault reporting hotline has been

Chan said.

In addition to managing the computer centre where data processing of CCASS is performed, the Technology Services Division is responsible for the back-up site of the computer centre. This secondary site is for emergency recovery of the computer centre. When the primary site cannot function normally, the secondary site will be used to continue operations.

"We are now planning to shorten the recovery time for continued operation after a system failure, and hope to have completed the task by the third quarter of this year," Mr Chan said.

One of the recently completed tasks in Technology Services was the feasibility study on real time data transmission from the Stock Exchange which will give the Clearing Company more timely access to trade data for earlier data processing.

Tests were conducted and the results proved that real time data transmission is technically possible. "It is anticipated that after the Stock Exchange launches the automatic matching and execution system (AMS), more detailed testing of the linkage of data between the Clearing Company and the Stock Exchange for real time data transmission will be performed," Mr Chan said.

### At a glance

There are two departments in Technology Services Division: Computer Operations and Technical Services. Computer Operations is responsible for the operations of the computer centre

where all data are kept and processed.

Technical Services provide technical support for the smooth running of the CCASS system software and help to look for new computer packages to improve operations. In addition, Technical Services operate the Fault Reporting Centre and provide PC and telecommunications support for both CCASS participants and internal users. ■



Henry Chan, director of Technology Services, at the computer centre.

we need to think of system enhancements and keep our technology up to date," Mr Chan said.

He said the system had sufficient capacity for the initial stage of admitting investors. System enhancements for this stage of investor participation were not necessary.

"We will continue to review different areas of system operations to make sure that we have the capability to handle anticipated changes or unforeseeable events," Mr Chan said.

steadily reducing since the launch of the system. In July 1992, the first month after CCASS was launched, 327 calls were received of which 147 were enquiries. But the figure dropped to an average of 172 calls per month between August 1992 and April 1993.

"Through the fault reporting hotline, we help participants identify technical problems which may be problems with their own computers. In cases where the problem is related to CCASS, we will investigate and rectify the problem," Mr

### BRIEF TALK

#### Bulk discount price for annual maintenance fee

Participants' one-year free maintenance period for the set of software (Packets/3270 and Crypto/3270) used in each CCASS terminal will start expiring from June 1993. The company has successfully secured a maintenance agreement with the software supplier at a bulk discount price. From the thirteenth month onwards, the annual maintenance fee for each set of software will be \$270. The company will bill all participants in July each year for the maintenance fee covering the chargeable period in the following year up to June 30.

#### Updating participants' CCASS terminal user guide

Due to introduction of the maker-checker function for settlement instructions, the terminal user guide for participants has been amended to reflect the new procedures. Photocopies of amended pages have been circulated to participants. Formal printed copies for replacement will be distributed in due course.

#### Feedback on maker-checker facility for SI

To prepare participants for the introduction of the maker-checker function on April 6, a series of demonstrations were held in late March. A total of 476 representatives from 289 CCASS participants attended the demonstrations during which attendees raised some operational questions and made suggestions for further enhancement.

Stewart Shing, deputy chief executive and director of Planning and Development Division said the company would consider those suggestions. ■

## CCASS Depository provides express depositing service

**T**he CCASS Depository has provided an express counter service since June 1, in addition to the existing counter services,

to reduce participants' time in making deposits.

Peter Tsang, senior manager of the

Depository Services Department said the CCASS Depository would provide the service between 10am and 1pm on any business day if long queues at the counter warranted it.

Depositing participants who choose to leave their shares together with the stock deposit forms with the express counter will be given a 'ticket'. Shares will then be verified and credited to the participants' stock accounts.

Mr Tsang said participants were requested to present the 'tickets' to the depository between 5pm to 6pm on the same day in exchange for their copies of stock deposit forms. ■



Participants who have their share with the express counter service will be given a 'ticket'.

# Cartland visits the Clearing Company

"The establishment of CCASS is one of the most important recent developments in Hong Kong's financial services

industry," said Michael Cartland, Secretary for Financial Services. Mr Cartland was speaking following a familiarisation visit to

the Clearing Company on March 11, shortly after taking up his post. He said it was encouraging that the system had been smoothly implemented and had proved its efficiency during periods of high turnover and market volatility.

Mr Cartland was welcomed by the chairman, Thomas Chen Tseng-tao and the chief executive, Richard Heckinger before paying a site visit to the computer centre. He also visited the CCASS Depository.

During his visit, Mr Cartland received briefings on the company's operations and planned developments.

Pictures show:

(Left) Clarie Lo, principal assistant secretary, Financial Services Branch, Arthur Yuen, assistant secretary, Mr Cartland and Henry Chan, director of Technology Services, the Clearing

Company.

(Bottom) Mr Cartland, Thomas Chen, chairman of the Clearing Company, and Richard Heckinger, chief executive. ■



# Stock conversion programme makes good progress

The Clearing Company's phased stock conversion programme, which started in June last year, was completed on schedule in June this year following the admission of registered warrants into CCASS.

Securities which become eligible following completion of the phased programme will be routinely admitted for clearing and settlement in CCASS.

A total of 610 securities had been admitted for clearing and settlement in

CCASS under the phased stock conversion programme. They included ordinary shares, preference shares and registered warrants.

The programme began with the opening of the CCASS Depository on June 2 last year, and was scheduled to take 52 weeks. Admission of stock was carefully phased to avoid drastic change and to allow participants to adapt gradually to CCASS, while maintaining operational

efficiency during the transition from physical to electronic settlement.

The order of admission was based on market turnover of the securities involved, with the more frequently traded Hang Seng Index constituent stocks being admitted in the first phase.

Ordinary shares by sectors and preference shares were admitted in the second phase, which was followed by registered warrants in the third and final phase. Within each phase, the admission sequence was determined by alphabetical order of stock name.

The amount of stocks under the custody of the CCASS Depository grew as more stocks were admitted into CCASS. The percentage of share quantity under CCASS custody throughout the initial four months of operation of the CCASS Depository had consistently been less than five per cent of the total issued share capital of the stocks admitted into CCASS.

On June 30, 1992 the CCASS Depository held 3.04 per cent by quantity of the securities of stocks admitted into CCASS. By March 1993, this had risen to 9.15 per cent. In April 1993, the figure rose to 12.09 per cent and to 16.03 per cent in May.

On May 31, 1993, a total of 46.3 billion shares with a market value of \$236.3

billion, representing 16.03 per cent in share quantity of the admitted stocks, were under the Clearing Company's custody at the CCASS Depository.

While the great majority of stocks listed on the Stock Exchange have been admitted into CCASS, certain categories of stock have, for various reasons, not been admitted. These include unit trusts, mutual funds, debt securities, stocks which have long suspended from trading on the Stock Exchange, and securities with regulatory restrictions on shareholdings. ■

## Help!

We are seeking your help in planning future issues of *Clear Talk*.

Enclosed with this issue is a short questionnaire which we ask you to complete and return to us.

Tell us what you like and what you dislike. This will help us prepare and select the articles which you find most useful and interesting.

And to make it worth your while, the first 500 to return completed questionnaires will receive this microdiary — free of charge. It combines a calculator with your personal telephone directory, memo and data storage, reminder alarm,



world time clock and many other useful functions.

The microdiary comes with its own protective case and fits easily into a shirt pocket. ■

## 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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