

ClearTalk

Information Bulletin of Hong Kong Securities Clearing Co. Ltd.

The Clearing Company is in good shape for second year

The Clearing Company has entered its second year of operations in excellent shape, after a better than anticipated first year.

Repayments of its development loans are ahead of schedule, the accumulated deficit has been eliminated, and participants are enjoying discounts on certain CCASS services.

Recent trading volume on the Stock Exchange and the planned introduction of the automatic trading system offer grounds for confidence in this year's results.

In this issue, we assess the likely impact of automatic trading system on CCASS. We also review the performance of some of the new services introduced since the launch of continuous net settlement in October last year.

Proposed extensions of Clearing Company services are considered, including wider availability of share registration services and direct admission of new issues to CCASS on their first dealing date.

Finally, we report on the results of a survey of our readers conducted since the previous issue of *Clear Talk*. The views expressed by our readers provide valuable guidance to us in planning future issues.

Clear Talk 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 4. ■

Clearing Company develops more efficient and cost-effective post-trade services

CCASS has been operating for more than a year and new services have been developed to help raise the level of post-trade services in Hong Kong.

Direct stock admission with jumbo certificate arrangement

Since July, the Clearing Company with its share registration arm, HKSCC Registrars Limited (the Registrar Company), assisted five China incorporated issues to be directly admitted into CCASS on their first listing dates through a jumbo certificate arrangement. This raised the efficiency of post-trade settlement by eliminating the investors' and participants' need for physical delivery of shares in settlement of transactions. Shares allotted following successful applications through participants had been credited to the stock accounts of CCASS participants on or before the first listing date.

In addition, immobilisation of scrip increased and the cost effectiveness of the depository improved.

Value of jumbo certificate arrangement

Alan Lee, director of Operations Services Division said the success of direct stock admission for the China incorporated enterprises had clearly demonstrated the value of the jumbo certificate arrangement, "An average 42.8 per cent of newly issued 'H' shares were allotted in the name of HKSCC Nominees Limited, compared with the average 19.44 per cent of the shares of admitted stocks in the custody of the CCASS Depository before the admission of the China incorporated companies. This shows that direct stock admission under the jumbo certificate arrangement reinforces scrip immobilisation.

"Moreover, pressure on the CCASS Depository was eased by the reduction in the number of board lot certificates in the depository."

Mr Lee said investors and issuers also benefited from the jumbo certificate arrangement. "Investors who apply through CCASS participants, and are allotted new shares, benefit from the elimination of loss of certificate in transit risk; removal of delivery delay; saving of transfer deed stamp duty at time of first sale; and there is no need for physical delivery in settlement of transactions.

"Issuers benefit through reduced printing costs for share certificates and the lower handling fees charged by share registrars for issuing each board lot certificate.

"These benefits are possible due to the close interface between the Clearing Company, the Registrar Company, the company sponsor and CCASS participants," he said.

Extension of share registration services

The Clearing Company has decided to encourage new issues other than the China incorporated enterprises to be directly admitted into CCASS on their first listing dates with jumbo certificate arrangement.

The Registrar Company will now extend its services to non-China incorporated enterprises.

Mr Lee said the Registrar Company was prepared to take up appointments for other new company issues. "It has



Jumbo certificate arrangement reduces the time and costs involved in printing, processing and depositing new share certificates.

set up the procedures and necessary interface with CCASS to provide share registration under the jumbo certificate arrangement within the usual tight listing schedule."

Issuers may also appoint other share registrars to make a jumbo certificate arrangement. In that case, the appointed share registrar should approach the Clearing Company upon submission of formal listing application to the Stock Exchange. "They should allow enough time to set up the necessary interface with the Clearing Company," Mr Lee said.

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Statistics of CCASS operations

Stock market turnover fluctuated during the period June 1993 to September 1993. Following buoyant conditions in June, the market was relatively quieter in July, August and September.

In June the number of Exchange trades handled by CCASS amounted to 1,010,074, involving 52.9 billion shares and \$89.6 billion. The corresponding figures for July were 720,641 trades, involving 25.8 billion shares valued at \$69.1 billion.

The comparative figures for August were 888,093 Exchange trades handled by CCASS, involving 26.6 billion shares and \$90.4 billion, while in September, 650,240 Exchange trades involving 21.7 billion shares and \$66.6 billion were handled by CCASS.

Despite the variations in trading

patterns in the four months, the percentage of Exchange trades processed through CCASS relative to total trading turnover was consistently high. During the four months, the percentage of Exchange trades handled by CCASS was consistently over 91.9 per cent of the total trades.

The high percentage of trades handled by CCASS during the four months was due to the completion of the scheduled stock admission plan in June, with 575 securities being admitted into CCASS for clearing and settlement. As at the end of September, the number of admitted securities amounted to 679, with 94.7 per cent of the Exchange trades going through CCASS for clearing and settlement during that month.

The settlement efficiency rate of CNS stock positions for the four months was consistently over 92.9 per cent on the due day and over 99.5 per cent on the settlement day following settlement due day.

From June 24, 1992 to the end of September 1993, the cumulative total of Exchange trades processed in CCASS amounted to 7,043,833. The number of shares amounted to 227.3 billion, with a total value of \$803.8 billion.

In June, 255,794 settlement instructions (SIs) were handled by CCASS. The number was 208,838 in July, 229,300 in August and 198,878 in September.

From the launch of CCASS to the end of September, the cumulative total of SIs settled in CCASS amounted to 2,041,300,

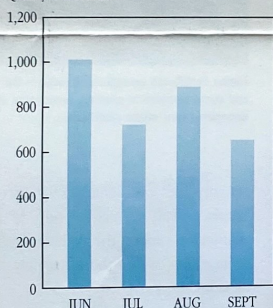
involving 236.5 billion shares with a total value of \$1,718.4 billion.

During the four months, 3,085,667 Exchange trades involving \$272.2 billion in value went through CCASS for continuous net settlement. Out of the \$544.4 billion novated contracts created, brokers need to settle only \$153 billion. Funds netting efficiency was consistently over 68 per cent.

At the end of September, about 73.5 billion shares representing 23 per cent of the issued share capital of the admitted stocks were under the custody of the CCASS Depository. The total market value was \$301.9 billion, representing 15.5 per cent of the total market capitalisation of the admitted stocks. ■

Operations highlights (June – September 1993)

Quantity in Thousands

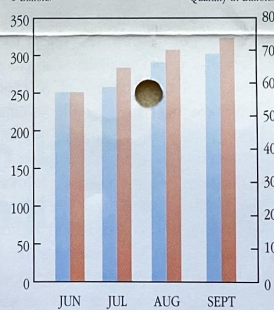


Exchange trades* processed in CCASS

| | Quantity |
|-----------|-----------|
| June | 1,010,074 |
| July | 720,641 |
| August | 888,093 |
| September | 650,240 |
| Total | 3,269,048 |

* Including CNS trades, isolated trades and cross trades

\$ Billions

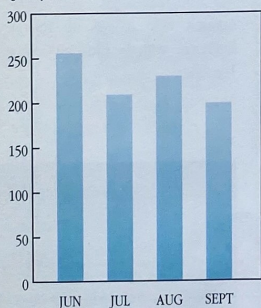


Stock under CCASS custody

Expressed in billions

| | Market value (\$) | Quantity |
|-----------|-------------------|----------|
| June | 251.1 | 57.5 |
| July | 257.9 | 64.6 |
| August | 290.9 | 69.8 |
| September | 301.9 | 73.5 |

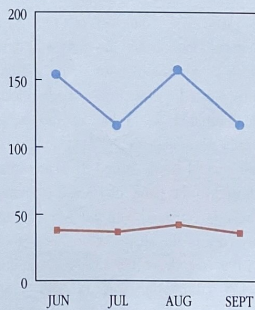
Quantity in Thousands



Settlement instructions (SIs) settled in CCASS

| | Quantity | SIs by value (\$billions) |
|-----------|----------|---------------------------|
| June | 255,794 | 165.5 |
| July | 208,838 | 142.4 |
| August | 229,300 | 171.4 |
| September | 198,878 | 161.7 |
| Total | 892,810 | 641.0 |

\$ Billions



Funds netting efficiency under CNS

Expressed in \$ billions

| | Volume of CNS trades (two-side) | Amount due for settlement after netting | Netting efficiency (%) |
|-----------|---------------------------------|---|------------------------|
| June | 153.6 | 38.0 | 75.3 |
| July | 116.3 | 36.7 | 68.4 |
| August | 157.2 | 42.2 | 73.2 |
| September | 117.4 | 36.1 | 69.3 |

Financial Secretary at anniversary

The Financial Secretary, Hamish Macleod, said the Clearing Company had demonstrated the efficiency required to cope with robust turnovers of \$4 billion a day during the first eight months of the year.

Mr Macleod was speaking as guest of honour at the company's fourth anniversary reception, and the first anniversary of CNS on October 6, following a meeting of the Legislative Council at which the Governor delivered his annual policy speech.

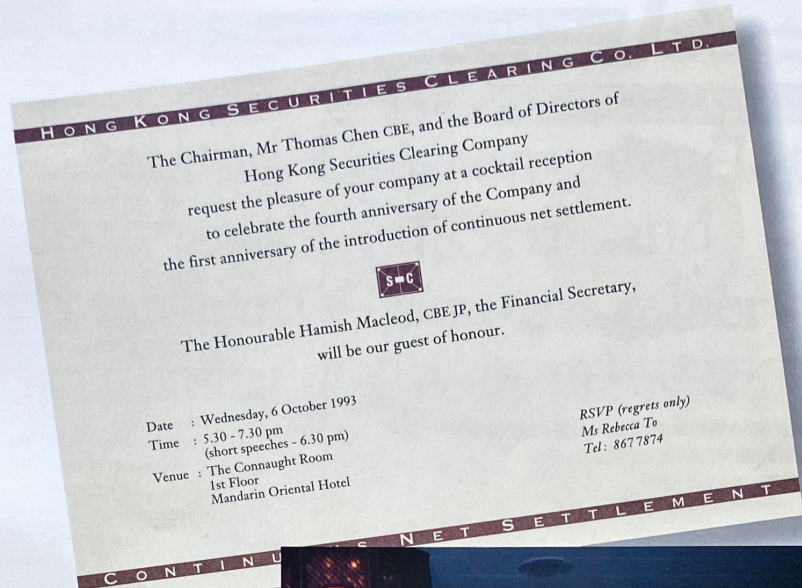
October 6 was also a noteworthy day elsewhere in Hong Kong. The Hang Seng Index passed the 8000 mark for the first time, and Stock Exchange turnover was close to \$7 billion.

Mr Macleod said the Governor's speech was relevant to all sectors of the community, and that the government would continue to invest in the infrastructure, including the securities sector.

In congratulating all members of the staff, he said the Clearing Company had fulfilled its commitments by keeping ahead of schedule in repaying its development loans and introducing discounts in its service charges.

Company chairman, Thomas Chen, said an effective central clearing and settlement system which enjoyed the confidence of all participants was at the heart of all successful securities markets.

"I believe our performance over the past year has earned us the confidence of Hong Kong stock market participants. CNS has met all our expectations," Mr Chen said. ■



Pictures show: (right) The Financial Secretary, Hamish Macleod with the chairman, Thomas Chen and chief executive, Richard Heckinger at the anniversary reception.



(bottom): The Financial Secretary proposing a toast with directors of the company.



Thank you

In the previous edition of *Clear Talk*, we asked you to complete and return a questionnaire to help us plan future issues. To the more than 500 readers who

took the time to complete the questionnaire, we say, *thank you very much*.

Many of the responses confirmed our views on a number of topics, and some others surprised us. However, we have learned a bit more about our readers and their subject matter preferences, and this will help us plan and prepare future editions.

Not surprisingly, most of the respondents (53 per cent) were from CCASS participants. Others were from participants' designated banks and other financial institutions, listed companies, government, and stock exchange staff.

A substantial majority, 60 per cent, were in managerial positions and 27 per cent were in operational positions. The rest were in technical and other positions.

We enjoy a regular readership, with 42 per cent having read all seven issues and 34 per cent having read four to six issues. In addition, 85 per cent circulated *Clear Talk* to colleagues; and 83 per cent kept the newsletter for future reference.

The language preference of our readers was almost equally divided with a small majority favouring Chinese.

However, 35 per cent read both the Chinese and English editions.

Most respondents (67 per cent) believed that *Clear Talk* improved their understanding of CCASS; and 32 per cent found it useful to their operations.

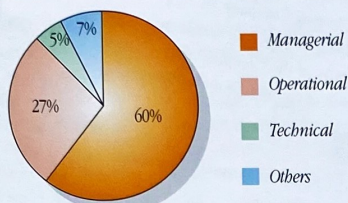
This was also reflected in the respondents' choice of subject matter with 81 per cent finding articles dealing with clearing and settlement operations most useful.

Other subjects in order of usefulness expressed by CCASS participants were CCASS Depository operations, the Clearing Company, risk management, legal matters, tariff, and technical services.

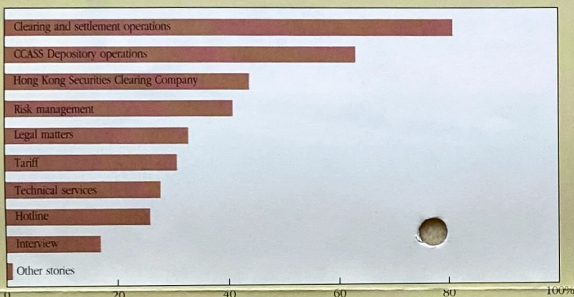
The most gratifying aspect of this survey for the editorial team was the confirmation that *Clear Talk* was widely read and contributed to readers' understanding of CCASS. This will prove increasingly important as service enhancements are made, and new services and financial products are introduced.

Again we thank you for contributing to this survey and invite you to write to us with your views on any aspect of the Clearing Company or CCASS at any time. ■

Positions of the 526 respondents in their companies



Stories which respondents considered useful:



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First non-China incorporated issue with jumbo certificate arrangement

In late October, a covered warrant on Hysan Development issued by S G Warburg OTC plc was listed and directly admitted into CCASS under the jumbo certificate arrangement.

This was the first non-China incorporated issue handled by the Registrar Company.

Mr Lee said at the request of the issuer, an added service would be provided which would further improve liquidity of the underlying shares by shortening the warrant conversion period from between ten and 30 days to just two days.

"Participants exercising their subscription rights on exercise (E) day will receive shares credited to their stock accounts by the end of E+2."

Mr Lee said the length of conversion period would depend on the time taken to meet the requirements of the issuer and to set up the necessary procedures. "But the Clearing Company will take every possible step to cooperate with and assist the issuer," he said. ■

CCASS interface with the automatic trading system

Implementation of the Automatic Order Matching and Execution System by the Stock Exchange in November is a significant step forward in the development of a more efficient and effective market through automation.

Trade negotiations between trading counter-parties as well as the process of inputting transaction details into the computer system to confirm that a deal is struck can be eliminated when trades are automatically matched and executed by computer.

Experience from overseas stock markets has shown that trade automation will usually bring about an upsurge in trading volume. The Clearing Company's computer capacity has been expanded in January to accommodate the anticipated increase in trading volume.

The increase in trading volume may not necessarily mean an equivalent increase in workload for participants. With continuous net settlement, Exchange

trades on the same stock for a broker participant will be netted to a single position and only the settlement of the net position is required.

Simulations of the operations of the automatic trading system have been conducted by the Stock Exchange in conjunction with the Clearing Company to ensure smooth interface between CCASS and the automatic trading system.

Staff of the Clearing Company have attended training sessions to familiarise themselves with the operations of the system.

In addition, the company has been preparing for the development of real time transfer of trade data from the Stock Exchange into the host computer of CCASS instead of a batch transmission at the end of the trading day. This will expedite the processing and validation of trade data and enable more timely monitoring of the trades for risk management purposes.

Combined with CCASS, the Automatic Order Matching and Execution System will help transform Hong Kong's securities market operations from a labour intensive one to an automated one, providing additional capacity for the expansion of trading and introduction of new financial products. ■

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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