



# INSIDE CLEAR TALK

“  
ISSUE 32”

MARCH 1998

1

- Individual and Corporate Investor Accounts in CCASS

2

- Hongkong Clearing on the Internet

3

- Realtime DVP for SI transactions

4 - 5

- Release of Interim Report

6 - 7

- A Stiff Challenge During the Upsurge of Share Withdrawals

8

- An Outstanding Performance
  - Brokers' Liquidation

9

- Seminar for Revenue Staff
- CCASS Seminars for Investors

10 - 11

- CCASS Statistics
  - Quick Quiz

12

- CCASS Notice Board
- Direct Stock Admissions


# **ClearTalk**

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

The Editor, Clear Talk  
c/o Corporate Communications Department  
Hong Kong Securities Clearing Company Limited  
12/F Chinachem Exchange Square  
1 Hoi Wan Street, Quarry Bay  
Hong Kong

For any enquiries regarding content of such contributions, please contact Betty Chan, Assistant Director, Corporate Communications Department.

Telephone: 2597-0870  
Fax: 2579-0075

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. No responsibilities for any loss arising to any person relying upon the information contained in this publication shall be accepted by Hong Kong Securities Clearing Company Limited. 





Individual and corporate investors are now invited to open Investor Accounts in the Central Clearing And Settlement System (CCASS), said John Chan, Chairman of Hongkong Clearing.

Speaking at a luncheon on 26 March 1998, Mr Chan announced that Hongkong Clearing would launch the new service on 8 May 1998.

The luncheon was attended by over 300 CCASS Participants. Mr Rafael Hui, Secretary for Financial Services, Mr Anthony Neoh, Chairman of The Securities & Futures Commission and Mr Lee Hon Chiu, Chairman of The Stock Exchange of Hong Kong were the Guests of Honour.

Mr Chan said: "In response to the demand from the market and investors, Hongkong Clearing decided to introduce Investor Participation in CCASS in the middle of last year. We then started developing various tasks to support the new service. The development process is nearly complete and, from tomorrow, individual and corporate investors can apply to open Investor Accounts in CCASS.

"Investor Participation in CCASS is an innovative service that gives investors a new alternative to safekeep their shares, and allows them to have legal and physical control over their shares.

"From the perspective of brokers and custodians, Hongkong Clearing will provide comprehensive nominee services to investors, thus reducing the workload of brokers and custodians. In addition, Hongkong Clearing will facilitate money

settlement between brokers/custodians and investors. The money settlement process will be quicker and more convenient for both sides."



## HONGKONG CLEARING WELCOMES INDIVIDUAL AND CORPORATE INVESTORS TO CCASS



There are three types of Investor Accounts in CCASS: Individual Investor Accounts, Joint Individual Investor Accounts and Corporate Investor Accounts.

By opening an account in CCASS, investors can use a touch-tone or screen phone to access CCASS and affirm stock transfers, issue instructions on corporate activities and make enquiries. Investors can also deposit and withdraw share certificates from the CCASS Depository and enjoy the benefits of our book-entry clearing and settlement system.

Mr Chan said: "The monthly minimum usage fee for an Investor Account will not

exceed \$200, which is lower than the \$300 proposed in last year's consultation paper. Hongkong Clearing charges Investor Participants the same CCASS service fees as it charges other CCASS Participants, such as brokers and custodians. If the total CCASS service fee equals or exceeds \$200, the minimum monthly usage fee is waived.

"We will start with a pilot scheme to admit 1,000 investors and then, we will admit all other applicants as quickly as possible."

An Investor Service Enquiry Hotline (2979 7000) is set up to answer investors' enquiries.

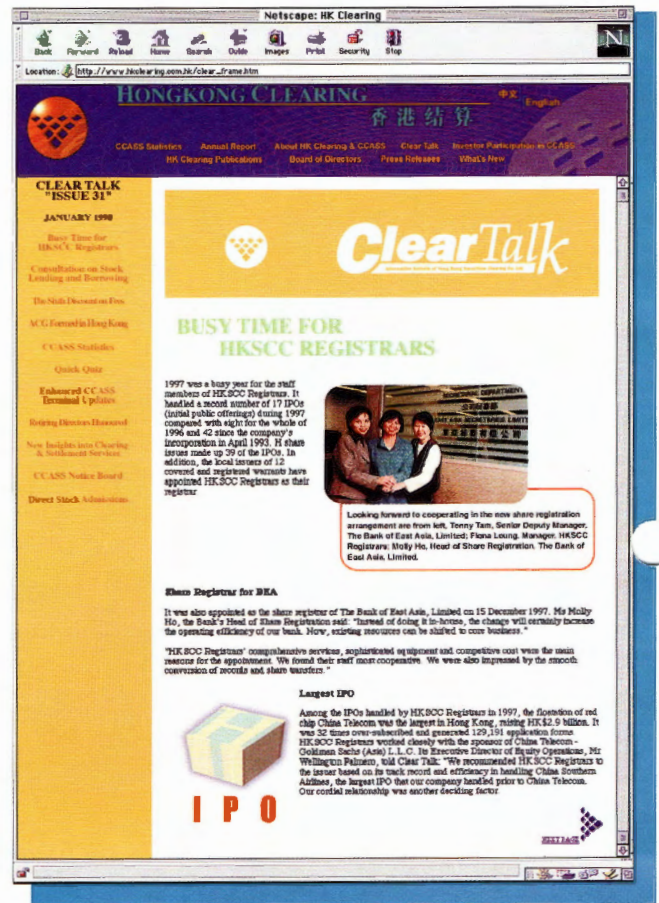
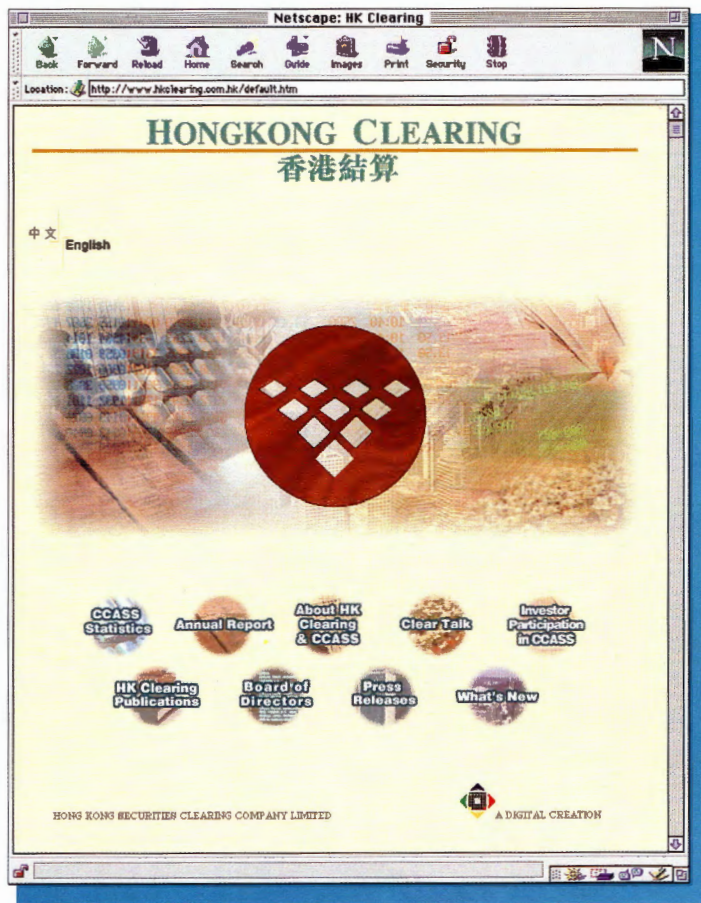


(From left) Lee Hon Chiu, Chairman of The Stock Exchange; Rafael Hui, Secretary for Financial Services; John Chan, Chairman of Hongkong Clearing; Anthony Neoh, Chairman of SFC and Stewart Shing, Chief Executive of Hongkong Clearing.



# HONGKONG CLEARING NOW ON THE INTERNET

Website Offers a Range of Information for Investors and the General Public



The two-frame design of each page allows browsers to switch to any topic (left-frame) or any section (top-frame) at any time



Hongkong Clearing announced the launch of its website (<http://www.hkclearing.com.hk>) on 26 March 1998. The site provides a range of information about Hongkong Clearing and its services, in both Chinese and English.

"The Internet is an increasingly popular form of communication and it provides our company with an additional channel to communicate with both investors and the general public," noted a spokesman for Hongkong Clearing. "This popularity, combined with our new service for individual and corporate investors, makes this an excellent time to introduce an Internet site."

Hongkong Clearing announced details of Investor Participation in CCASS on 26 March, a service that lets individual and corporate investors open stock accounts in the Central Clearing And Settlement System (CCASS). An Investor Account Guide, which explains the admission criteria and procedures for opening and operating an Investor Account, is also available in the "Investor Participation in CCASS" section of the website.

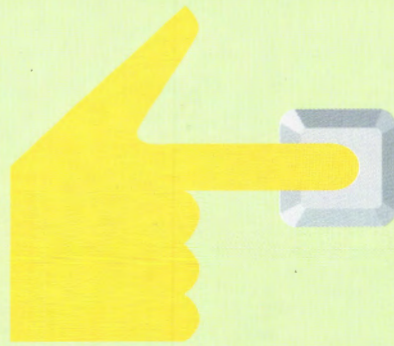
The website features a range of information, presented in the following sections:

- About Hongkong Clearing and CCASS
- Annual Report
- Board of Directors
- CCASS Statistics
- ClearTalk
- Hongkong Clearing publications
- Investor Participation in CCASS
- Press Releases
- What's New

The contents of the website will be updated regularly, and new features and sections will be added in the months ahead.



# REALTIME DELIVERY VERSUS PAYMENT FOR SETTLEMENT INSTRUCTION TRANSACTIONS



Hongkong Clearing will implement the first phase of Realtime Delivery versus Payment (RDP) for CCASS settlement in May 1998. "This will significantly reduce the credit risk involved in CCASS settlement," said **Mok**, Director of Compliance.

The development of the RDP is divided into two phases. In phase I, participants can choose to settle their Settlement Instruction (SI) transactions on a RDP basis. In phase II, this service will be extended to non-SI transactions, including cash prepayment for CNS trades and isolated trades.

At present, participants who choose to settle their SI transactions on a Delivery versus Payment basis are exposed to credit risk as shares are transferred to receiving participants' stock accounts from 10 am to 4 pm, while cash payments are settled overnight through the payment system of Hong Kong Interbank Clearing Limited (HKICL).

Ms Mok said: "Starting from May 1998, participants can choose to settle their SI transactions on a RDP basis. Under this settlement mode, shares in delivering participants' stock

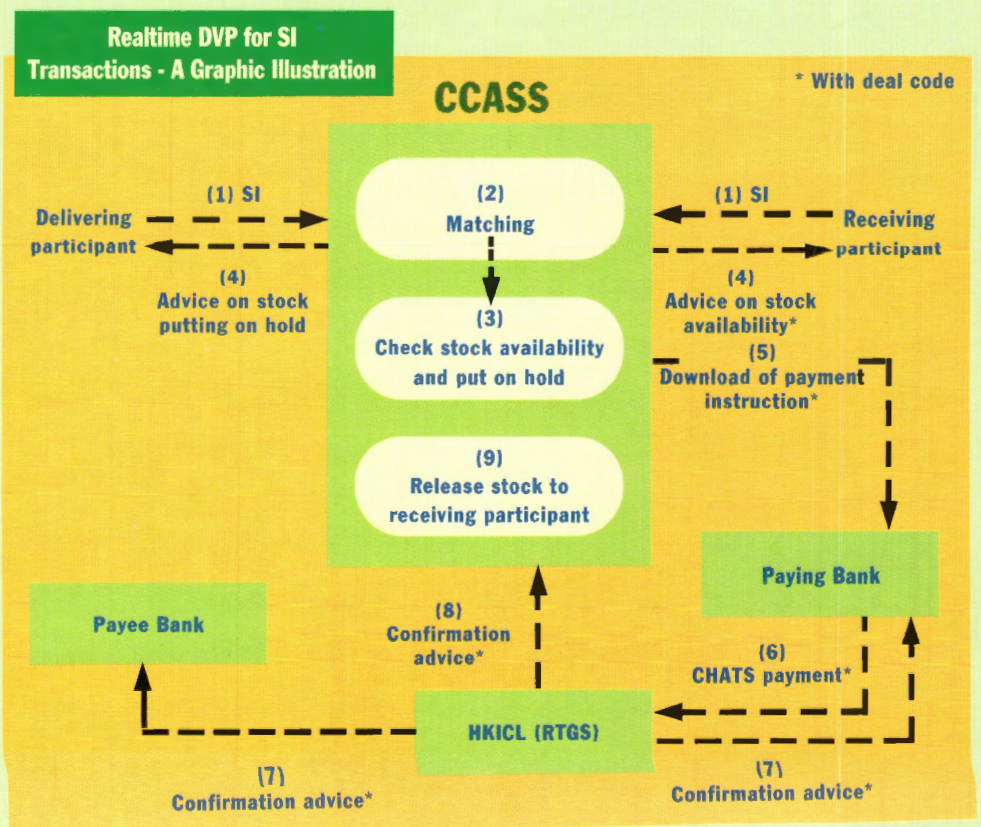
accounts, if available, will be put-on-hold and payment details are transferred automatically to receiving participants' designated banks. A deal code will be generated for identification purposes. Then, the receiving participants' designated banks will issue the Clearing House Automated Transfer System (CHATS) payments through the HKICL."

"Once the CHATS payments are settled through the Real Time Gross Settlement (RTGS) system, HKICL will pass the payment confirmation to

Hongkong Clearing and shares will be automatically transferred to the receiving participants' accounts," she added.

If the money payment is not confirmed by the cut-off time (at about 3:30 pm on each settlement day), the respective on-hold shares will be released to delivering participants before the final batch settlement run and the delivering participants can use the shares for other purposes.

Participants who want to use this service are required to complete a Debit Authorization For Clearing House Automated Transfer System (CHATS) Payment Instruction Form. This form authorizes Hongkong Clearing to generate payment instructions to participants' designated banks and the designated banks to effect transfers accordingly.





97-98  
HONGKONG CLEARING 香港結算  
中期報告 INTERIM REPORT

HONG KONG SECURITIES CLEARING COMPANY LIMITED 香港中央結算有限公司

# CCASS PROVED FULLY CAPABLE IN MEETING MARKET DEMANDS

\$277 million (1996 - \$88 million) on revenue of \$494 million (1996 - \$261 million).

The Company introduced two additional fee discounts on 1 July

1997 and 1 January 1998. This is the first time that the Company has introduced fee discounts twice within one financial year. Stock settlement fee is now 0.0025 per cent per side per trade for Stock Exchange trades and Settlement Instructions, and is just 25 per cent of the original fee in 1992.

## Investor Participation

The Company will launch its Investor Participation project in May 1998. It plans to start with a pilot scheme to admit 1,000 investors and allow them to open Investor Accounts in CCASS for share custody.

## Stock Lending and Borrowing

The Company issued a consultation paper in December 1997 on a proposed working model for stock lending and borrowing in CCASS. CCASS participants, market practitioners engaged in stock lending and borrowing, and other interested bodies were invited to express their views on the proposal. Subject to the approval of the Board, it will take about 11 months to develop the operating infrastructure of the service which will be available in early 1999.

## Corporate Communications

The project to improve the flow of corporate communications between listed issuers and non-registered holders of shares deposited in CCASS was implemented in February 1998. It gives non-registered holders of shares the same access to corporate information as registered owners.

"The Hong Kong securities market experienced turbulence and high volatility during the last six months of the year 1997 and CCASS proved to be fully capable of meeting the demands of the market," said John Chan, Chairman, in recently released interim report. "Our prudent risk management measures and highly responsive operations have also contributed to our success. We will continue to provide low cost, low risk and efficient services for the securities industry," he added.

For the six months ended 31 December 1997, Hongkong Clearing reported an unaudited surplus, after provision for tax, of

## Risk Management Measures

The Company started to accept stock as collateral as an alternative to cash marks in December 1997. This increased participants' flexibility in funding arrangements, reduced pressure on money market liquidity and increased the pace of stock immobilization. Hongkong Clearing is considering expanding the use of stock as collateral. Other possible uses include collateral in relation to stock lending and borrowing, collateral for settlement obligations, collateral in relation to trading beyond settlement cap, and contribution to the Guarantee Fund.

The Company is also collaborating with the Hong Kong Monetary Authority, Hong Kong Association of Banks and Hong Kong Interbank Clearing Limited to establish a link between CCASS and the banking industry's Real Time Gross Settlement payment system to achieve Realtime Delivery versus Payment for money settlement of CCASS transactions. This facility is expected to be implemented in May 1998.

In October 1997, the Company increased the insurance cover of the Guarantee Fund from \$158 million to \$200 million. As at 31 December 1997,

the size of the Guarantee Fund was about \$400 million.

## Technology Enhancement

The Company upgraded the capacity of both mainframes in the main data and back-up center to 140 MIPS (million instructions per second) in October 1997. This increased the capacity of the main data center by 60 per cent and back-up center by 140 per cent. At present, CCASS is able to handle a peak volume of 550,000 trades a day.

The Company has shortened the time required for disaster recovery from four hours to two hours from December 1997. This is achieved by adopting the Remote Mirror Technology to conduct data updates simultaneously at both the main data and back-up center.

## Enhanced CCASS Terminals

The launch of the Enhanced CCASS Terminal (ECT) project in May 1997 was well received by participants. As at 31 December 1997, 60 participants have installed more than 70 ECTs. Over the

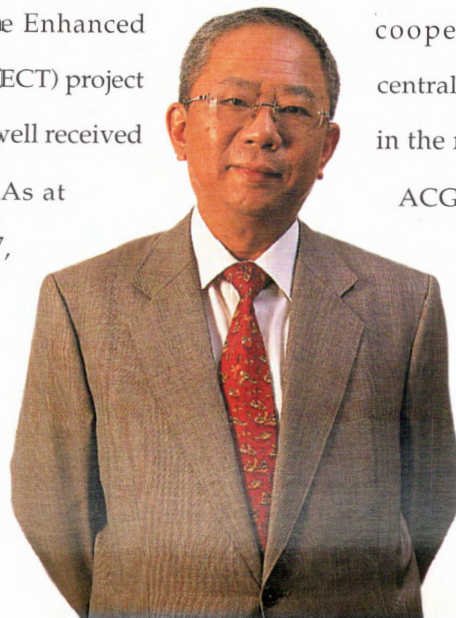
long term, Hongkong Clearing plans to replace all CCASS Terminals with ECTs.

## Year 2000 Compliance

CCASS is Year 2000 compliant by design. A detailed inventory and impact analysis was completed in 1997. The Company will complete all necessary modifications and finish testing by the end of 1998. Rehearsal testing for CCASS participants and designated banks will be scheduled in early 1999.

## Formation of ACG

Hongkong Clearing hosted the first Asia-Pacific Central Securities Depository conference in November 1997. An Asia-Pacific Central Securities Depository Group (ACG) was formed during the meeting. The Group's goal is to strengthen communications among central securities depositories and to foster regional development and cooperation. Seventeen central securities depositories in the region have joined the ACG. Hongkong Clearing was elected the first secretariat of the Group for a one-year term until the end of 1998.





# HONGKONG CLEARING MEETS A STIFF CHALLENGE DURING THE UPSURGE OF SHARE WITHDRAWALS

Hongkong Clearing's operation services faced one of its stiffest challenges recently. It came suddenly and with much force. The pressure was sustained for about a month. A combination of resourcefulness and teamwork enabled the Company to weather the storm.

The event took place when share withdrawals from the CCASS Depository reached a record high in the wake of the collapse of Peregrine Brokerage Limited and C.A. Pacific Securities Limited in January 1998. Orders for share withdrawals reached a peak of 23,000 on 23 January, a 30-fold increase on the average daily volume of 722 orders in 1997.

Because of the huge upsurge of withdrawals, the Depository staff had to be reinforced by staff from other operations departments as well as temporary staff to handle the voluminous processing work on a 24-hour basis. The number of withdrawal orders processed in one day was as high as 10,718.

Despite the record volumes, the Company managed to clear withdrawal orders in about three working days, and investors can receive the share certificates from their brokers in about four to five working days. However, when splitting of share certificates into board lots and odd lots are required, it takes about 10 extra working days

for the splitting process by share registrars.

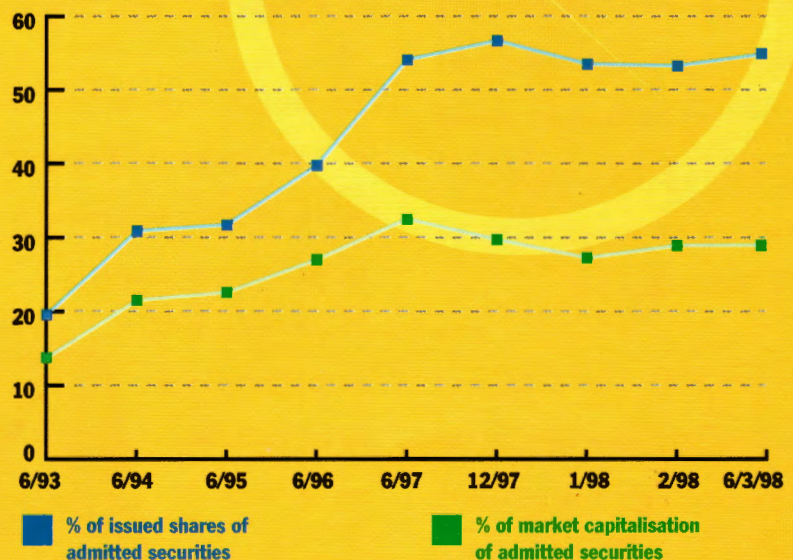
The Depository moved to 24-hour operations for almost a month from 22 January except for 28 January 1998 (Chinese New Year Day). By the weekend of 13 February 1998, most withdrawals had been cleared, leaving only 3,000 unprocessed orders which required the splitting of shares.

Peter Tsang, Senior Manager, Depository Services Department, said: "In the 25 years that I have served the industry, the handling of the recent upsurge of share withdrawal requests was the biggest challenge faced me. Thanks to the dedication of our staff, co-operation from our participants and share registrars, we were able to maintain our service standards."

Since February, the number of withdrawal orders has returned to the normal level while share deposits have increased significantly. In January 1998, deposit orders were about 650 a day. Since February, there has been a sustained high volume of about 2,500 deposit orders daily with a record peak of 3,400 orders seen on 3 March."

"On top of the useful experience gained from handling the recent pressure of business, Hongkong Clearing has taken steps to increase its operational efficiency. The Systems Development Department enhanced the CCASS Depository system in February, resulting in an even more efficient and sophisticated Depository system for handling unusually large volume of withdrawal and deposit of share certificates," said Mr Tsang.

SHARES IN DEPOSITORY





## CCASS Depository Statistics of Stock Deposit & Withdrawal Orders



Peter Tsang

### Depositing and Withdrawing Shares

CCASS Participants can deposit share certificates into the CCASS Depository. When a completed Stock Deposit Form, together with the share certificates are submitted to the Depository Counter at 2/F, Vicwood Plaza, the Stock Account of the CCASS Participant will be credited. This process takes about 15 minutes. The deposited share certificates will then be sent to the registrar for re-registration. The registration process usually takes about 10 business days.

To withdraw share certificates from the CCASS Depository, CCASS

Participants have to input a Withdrawal Order via their CCASS Terminals. Once the share certificates and the transfer deeds are ready, a "ready for collection" message will be displayed on the Participant's CCASS Terminal. The CCASS Participant can then collect the share certificates from the Depository Counter. Under normal circumstances, the whole withdrawal process can be completed between one-half and one day.





## *An Outstanding Performance*

"Simply outstanding." That's how Chairman John Chan rated the performance of Hongkong Clearing's staff during the recent Asian financial turmoil and surge in share withdrawals. Mr Chan, who was speaking at the Company's annual staff dinner in early March, added, "Staff are a company's most important asset, especially when they can display extraordinary ability in the face of a crisis."

Chief Executive Stewart Shing thanked the staff for maintaining Hongkong Clearing's service standards while coping with a very heavy workload. Mr Shing also noted that the Company had gained many valuable insights during the past six months, and thanked the Chairman and Board of Directors for their support and guidance during a very challenging time.



The Board of Directors toast the staff of Hongkong Clearing for their hard work.

# BROKERS' LIQUIDATION

Provisional liquidators were appointed for Peregrine Investments Holdings Limited and C.A. Pacific Securities Limited in January 1998. Hongkong Clearing did not suffer any losses in either incident.

On 9 January, the Securities and Futures Commission issued Restriction Notices on certain members of the Peregrine Group, including Peregrine Brokerage Limited. The Restriction Notices expressly permitted Peregrine Brokerage Limited to take all action necessary to settle securities transactions in the Central Clearing And Settlement System (CCASS). All of Peregrine Brokerage Limited's outstanding Continuous Net Settlement (CNS) positions in CCASS have since been settled.

On 20 January, Hongkong Clearing declared C.A. Pacific Securities Limited a defaulter and suspended its CCASS participation as a result of its failure to meet money obligations of about \$38.5 million under the CNS system.

Hongkong Clearing pursuant to its default procedure effected closing-out of the unsettled CNS positions of C.A. Pacific Securities Limited. Shares which were available for settlement of C.A. Pacific Securities Limited's CNS positions but had not been paid for were sold at the prevailing market price. Hongkong Clearing also effected buy-in to settle outstanding stock positions of C.A. Pacific Securities Limited under the CNS system. The closing-out action enabled Hongkong Clearing to meet its obligations under the CNS system to other broker participants. All the outstanding CNS positions of C.A. Pacific Securities Limited were successfully closed-out.



## INLAND REVENUE OFFICIALS SEMINAR

Stewart Shing, Hongkong Clearing's Chief Executive, was invited by the Inland Revenue Department to give a presentation on the Company's Central Clearing And Settlement System (CCASS) on 20 February.

The invitation followed Hongkong Clearing's discussion with the Inland Revenue Department regarding the availability of relief from stamp duty and ways to centralize and minimize registration and reporting requirements of the Company's proposed stock lending and borrowing service. The presentation was attended by the Department's Deputy and Assistant Commissioners and about 150 assessing officers.



## CCASS SEMINARS WELL-RECEIVED BY INVESTORS

More than 800 investors attended three investor education seminars presented by Hongkong Clearing and organized by the Stock Exchange in February and March 1998.

Entitled *Investment Basics II*, the seminars were the second in a series of seminars aimed at providing investors with a better understanding of the local stock market operations. The three seminars on Hongkong Clearing focused on the operations of the Central Clearing And Settlement System (CCASS) and the Investor Participation project.

Representatives from the Company's Customer Services Department, Compliance Department and Corporate Communications Department highlighted the role of Hongkong Clearing in providing low cost, reliable and efficient clearing and settlement services to the securities market. Investors were introduced to the Company's current services to intermediary participants, so that they can learn more about their brokers' and custodians' operations with Hongkong Clearing.

Investors were very interested in the Investor Participation project that Hongkong Clearing will launch in May 1998. They raised many questions regarding the operations and benefits of Investor Accounts.



Representatives from Hongkong Clearing answer questions raised by the investors.



Investors are introduced to the operations of CCASS at one of the seminars held at the Exchange's trading hall.



Investors take the opportunity to chat with the Company's representatives at the end of a seminar.



# CCASS STATISTICS

The market continued its downward trend in the month of December 1997 and January 1998. Hang Seng Index closed at 9,252.4 on 27 January 1998.

## Exchange Trades

In December, an average of 76,442 trades were processed daily in CCASS, involving nearly 3.1 billion shares with a value of \$8.2 billion. In January, the daily average trades handled by CCASS rose to 78,727, involving 3.0 billion shares with a value of \$8.9 billion.

During the months of December and January, more than 99.9 per cent of Exchange trades were processed daily in CCASS.

## Netting efficiency of CNS trades

In December, an average of 75,532 Exchange trades valued at \$7.7 billion went through CCASS daily for CNS. An average of 18.8 per cent of the novated contracts created were due for settlement daily.

The daily average number of trades went through CCASS for CNS in January increased to 77,826 valued at \$8.3 billion. After novation and netting, 16.2 per cent of the novated contracts were due for settlement daily.

In December, novated contracts generated a daily average of \$17.1 billion in money obligations which were netted to \$5.1 billion. Daily average funds netting efficiency was 69.8 per cent. In January, \$17.6 billion a day in money obligations were netted to \$6.2 billion. Daily average funds netting efficiency was 65.0 per cent.

## Settlement efficiency of CNS stock positions

The daily average settlement efficiency rate of CNS stock positions for December was 95.2 per cent on the due day and 99.8 per cent on the settlement day following the due day. The corresponding figures for January were 93.5 per cent and 99.8 per cent.

## Settlement Instructions (SIs)

In December, an average of 22,084 SIs were settled daily in CCASS, involving 5.3 billion shares with a market value of \$23.7 billion.

In January, the figures increased to 24,380 SIs, involving 6.5 billion shares with a value of \$29.1 billion.

## Depository transactions

In December, the CCASS Depository handled an average of 1,527 deposit and withdrawal transactions per business day. The number of share certificates processed daily amounted to 27,000. The corresponding figures for January rose sharply to 7,888 transactions involving 90,000 share certificates per business day.

As at the end of January, 1,128 stocks had been admitted into CCASS for clearing and settlement. About 441.1 billion shares were under the custody of the CCASS Depository, representing 53.5 per cent of the total number of shares of the admitted stocks in issue. The total market value of the shares was \$743.6 billion, representing 27.3 per cent of the total market capitalisation of the admitted stocks.

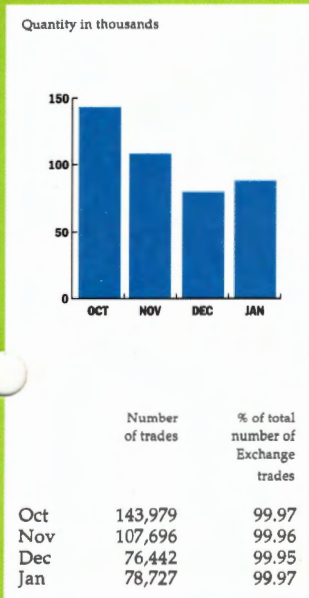
## Participants

At the end of January, there were 570 CCASS participants, comprising 498 broker participants, 63 custodian participants, eight stock pledgee participants and one clearing agency participant.



# OPERATIONS HIGHLIGHTS (OCT 97-JAN 98)

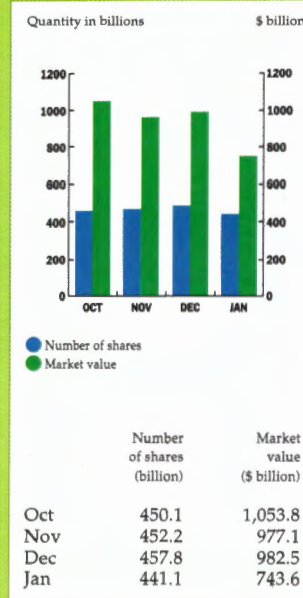
**Average daily Stock Exchange trades processed in CCASS**  
(including CNS trades, isolated trades and cross trades)



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



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



**Average daily funds netting efficiency under CNS**



## Quick Quiz

1. What and when was the highest number of daily share withdrawal instructions received by CCASS?

2. When may a terminated broker participant get a refund of its contributions to the Guarantee Fund?

3. What stocks will be accepted as Collateral Securities?

Answers on page 12.



## CCASS NOTICE BOARD

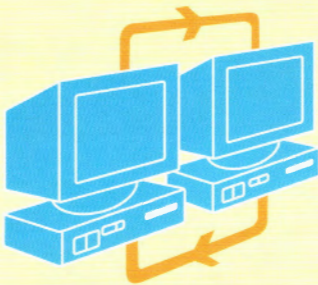
### CORPORATE COMMUNICATIONS RECIPIENT LIST

Hongkong Clearing has implemented a working model to improve the flow of corporate communications between listed issuers and non-registered holders of shares deposited in CCASS in February 1998.

As at 31 March 1998, 10 share registrars have sent requests to Hongkong Clearing for non-registered holders' information, a total of 191 corporate events were completed and 27,338 mailing labels were sent to share registrars.

Two new functions were added to help CCASS participants to submit the lists of recipients for a corporate event to Hongkong Clearing: the CCASS on-line input and the corporate communications recipient batch file transfer. The operational procedures of the two functions are as follows:

#### On-line Input



1. Use the ADD RECIPIENT MASTER function to build a master list, including names and addresses, of the recipients (non-registered holders who want to receive corporate documents from the listed issuers).

2. Use the CHANGE RECIPIENT MASTER function to edit the records on the master list.
3. Use the DELETE RECIPIENT MASTER function to delete the records on the master list.
4. When there is a corporate event, use the ADD EVENT RECIPIENT LIST to select names from the master list to prepare a recipient list for that particular event.
5. The lists prepared for a particular event will be erased by the system automatically after the event is due. But the master lists will be kept in the system until they are deleted by participants.

#### Batch File Transfer



1. Complete and return the GENERAL FILE TRANSFER MAINTENANCE FORM to our Customer Services Department at the second floor of Vicwood Plaza.
2. Collect a diskette which contains a validation programme for system testing and copies of corporate communications event report layouts and batch file data format.
3. Enhance the internal back office systems to generate the Corporate Communications Recipient Batch files.
4. When there is a corporate event, use the GENERAL FILE TRANSFER function to transmit the Corporate Communications Recipient Batch files to CCASS. The files can be stored either on a floppy diskette or on hard disk, and the name of the files must be "CCRFIL".

## DIRECT STOCK ADMISSIONS

During the two months of January and February 1998, a total of 19 eligible new issues were admitted to CCASS of which 4 issues adopted Jumbo Certificate arrangement.

	Ordinary Shares	Preference Shares	Registered Warrants	Debts	Rights	Total
Eligible new issues listed on the Stock Exchange and admitted to CCASS	6	-	11	1	1	19
Issues adopted Jumbo Certificate arrangement	4	-	-	-	N/A	4



### Quick Quiz

1. The highest number of daily share withdrawal instructions received by CCASS was 23,000 on 23 January 1998.

2. A terminated broker participant may get a refund six months after the termination date.
3. At present, only Hang Seng Index constituents will be accepted as Collateral Securities.