



INSIDE CLEAR TALK

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ClearTalk

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

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Despite extremely heavy trading turnover on 27 August 1998 (\$22.9 billion) and on 28 August 1998 (\$79 billion), the settlement efficiency of Hongkong Clearing's Central Clearing And Settlement System (CCASS) remained above 90 per cent on T+2, the second business day after a trade has been executed, and above 99 per cent on T+3.

In response to requests made by the Government on 29 August 1998 and after consultation with the Securities & Futures Commission, Hongkong Clearing implemented new measures on 1 September 1998 to shorten the overdue settlement period within the limits of the General Rules of CCASS.

On 18 September 1998, Hongkong Clearing's Board of Directors approved a resolution to amend its Rules to enable it to close out Broker Participants' unsettled Continuous Net Settlement (CNS) positions as from the morning of T+3 unless an exemption is granted in certain specified circumstances. The resolution also included a provision for the Company to impose penalties on Broker Participants who do not settle their CNS short positions by the end of T+2.

In approving the resolution, the Board had taken into account recent market developments, Hongkong Clearing's risk management policy, and suggestions made by the Government to ensure the integrity and discipline of the financial market.

Under the new Rules, Hongkong Clearing will execute a compulsory buy-in as from 10:00 a.m. on T+3 to purchase the shares needed to close out the Broker Participant's outstanding stock position. The defaulting broker will be responsible for the cost of the shares purchased through the compulsory buy-in, as well as any associated costs.

Under the resolution, unless an exemption is granted, Broker Participants with unsettled CNS positions at the end of T+2 will also be subject to a fine, which will be determined according to the following formula:

Hongkong Clearing Implements Compulsory T+3 Buy-in

$[\text{Number of shares outstanding}] \times [\text{The closing price of the shares on T+2}] \times [0.25\%]$

The CCASS Rules and Operational Procedures were amended to allow Hongkong Clearing to revise the percentage, which is currently set at 0.25%, as circumstances require.

Hongkong Clearing will also study ways to fulfill the settlement obligations of Broker Participants with long positions. It will examine the viability of implementing a compulsory stock borrowing mechanism and any other means to compensate the long brokers.

The amendments of CCASS Rules and Operational Procedures were approved by the Securities & Futures Commission. The new measures took effect on the Exchange Trades concluded on or after 24 September 1998.

Exemptions to the T+3 Compulsory Buy-in Rule

(A) Exemptions to be granted

CNS short positions remain unsettled by T+2 under the following circumstances will not be subject to buy-in on T+3. However, if the positions remain unsettled by the end of T+3, the Broker Participants carrying such positions may be subject to subsequent disciplinary measures:

1. Delivery of physical certificates to CCASS Depository after its service hours but not later than 4:15 p.m. on T+2.
2. Share certificates deposited on T+2 but are rejected due to errors and/or omission such as minor defects in relation to the instrument of transfer.
3. Selling broker is able to provide evidence that the delivering participant has sufficient shares in CCASS. The delay in transfer of

shares is a result of unmatched Settlement Instructions (SI) due to clerical errors.

4. System breakdown.
5. Acts of god such as black rainstorm, typhoon, fire, flood and/or labour disputes which lead to communication breakdown.
6. Overselling of shares due to calculation errors which have been reported to the Stock Exchange and the difference in shares have been bought back on the next day following the trade day when errors occurred.

(B) Exemptions to be granted as an interim measure only

1. When short positions result from the exercise of call options. This exemption is an interim measure only, until the SEHK Options Clearing House changes the options exercising arrangement to fit in with the T+2 Rule.
2. When an investor buys and sells shares of the same stock through different brokers on the same day, the buying broker may not be able to deliver shares purchased in time for the selling broker to fulfill its delivery obligations under the T+2 Rule. This exemption is an interim measure, until investors can be made fully aware of their obligations to provide funds to buying brokers for the early release of shares on T+2. This exemption will be subject to review at the monthly Risk Management Committee meeting.
3. The participant for exemption is due to receive sufficient stocks from a delivering participant who has received valid instruction from the seller to deliver the stocks but is unable to do so as the relevant stocks are received by the delivering participant in CCASS in the last Batch-settlement-run on T+2. This exemption will also be subject to review.

Hongkong Clearing Participates in Professional Ethics Conference

Hongkong Clearing participated in the *Conference on Professional Ethics for the Securities, Futures and Investments Sector* held in Hong Kong on 11 September 1998. The objective of the Conference was to raise the awareness of the importance of ethical business practices in the financial industry.



Stewart Shing (third from left), Chief Executive of Hongkong Clearing, is one of the discussion leaders at the Conference.

The participants discussed the importance of professional ethics and the application of ethical practices in the day-to-day management of financial intermediaries. The Conference was jointly organised by Hongkong Clearing, the Independent Commission Against Corruption, Corporate Finance Association, Hong Kong Association of Financial Advisors, Hong Kong Futures Exchange, Hong Kong Investment Funds Association, Hong Kong Securities Institute, Hong Kong Securities Professionals Association, Hong Kong Stockbrokers Association, Securities & Futures Commission, and The Stock Exchange of Hong Kong.

The Honourable Donald Tsang Yam-kuen, Financial Secretary, addressed the gathering. He said: "There is no

doubt we are going through difficult times, but the conditions which have made Hong Kong into a leading international financial centre remain." Mr Tsang said that ethical behaviour alone clearly would not bring us out of our economic woes, but it would be an important driving force.

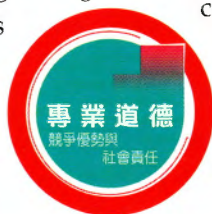
He added: "As ethical principles are designed to establish the common good, a community which practices them will work together to find prosperity. I see the Programme on Ethics as a declaration by the financial industry that it places great value on honesty and fairness. And a timely one, too, after the turmoil of the past ten months. I am sure it is a declaration which will stand the industry in good stead in the long term."

The heads of the joint organisers have stressed the importance of enhancing professional ethics among market practitioners. The Conference participants expressed determinations to maintain and further enhance Hong Kong's competitiveness as one of the leading financial centres.



The Honourable Donald Tsang Yam-kuen (left) presents a souvenir to John Chan, Chairman of Hongkong Clearing.

The Conference was a kick-off event for a two-year education programme on ethical business practices in the financial industry. Other forthcoming features of the Programme include the production of practical guidelines and training packages, and the holding of workshops and seminars for employees in the financial services sector.



Briefing to ICAC Visitors

Twenty-five executive officers of the Independent Commission Against Corruption learned about the operations of Hongkong Clearing during a visit to the Company on 21 August 1998.

Ms Betty Chan, Assistant Director of Corporate Communications, explained the organisational structure and role of Hongkong Clearing in the financial industry. The company's various services were also introduced to the visitors.



President of the Croatian Central Depository visits Hongkong Clearing

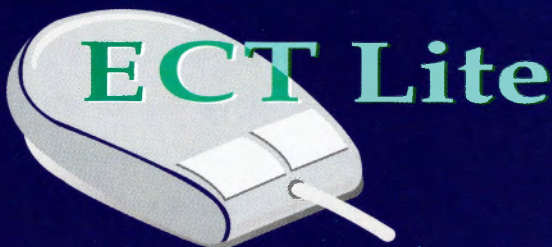
Ms Vesna Zivkovic, President of the Croatian Central Depository, visited Hongkong Clearing in July 1998 as part of a study tour of central securities depositories around the globe. Ms Zivkovic was accompanied by Ian Gilhooley, Consultant to the Depository.

The Croatian Central Depository was established in 1997. It has just started its registry operations on a pilot basis. Clearing, settlement and corporate action services of the Depository will be introduced in the second half of 1999.

Stewart Shing, Chief Executive of Hongkong Clearing, together with senior executives of the Company, gave the guests a presentation on CCASS's clearing, settlement and depository functions. The presentation also included a discussion on the administration of CCASS's Guarantee Fund and insurance, as well as the application of rules and regulations.



Stewart Shing (right) greets Vesna Zivkovic (left) and Ian Gilhooley.



Hongkong Clearing is studying the feasibility of offering a simplified version of ECT (Enhanced CCASS Terminal), known as ECT Lite, to CCASS Participants.

Functions of ECT include host-to-host connection, enhanced security control by using smart cards, electronic help desk, information alert, circular distribution, electronic software distribution, enhancement on report distribution and standard CCASS terminal functions.

ECT Lite is designed for CCASS Participants who do not require host-to-host connection, enhanced security control by using smart cards, electronic help desk and information alert functions. CCASS Participants can also select to use ECT and/or ECT Lite according to their needs.

Taking out these functions makes ECT Lite less expensive to install and maintain than a full-function ECT. Moreover, ECT Lite allows participants to use Windows applications like Office 97 while accessing CCASS, which is not possible with ECT. A market survey on the ECT Lite will be conducted with CCASS Participants. For enquiries on the market survey, please contact Mr William Ma, Data Communications Department at 2597 0626.

Windows NT or Windows 95



Interface Tests

In August 1998, Hongkong Clearing conducted the Year 2000 (Y2K) interface tests with its major business partners,

1999 and 3 January 2000 were completed in full. The remaining test to simulate 29 February 2000 is scheduled for 27

scheduled months. In addition, report retrieval will be arranged on certain weekdays. Further details will be available in the information package to be distributed to participants at the end of October 1998.

Distribution of Test Kits to CCASS Participants

Hongkong Clearing is developing an information package for the street-wide tests. The package will include testing schedules, pre-requisites for participation in the tests, and environmental set-up procedures. A test kit containing Y2K sample data such as the Stock Exchange's trade data and CCASS settlement reports is also being developed for delivery to participants together with the information package.

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including the Stock Exchange of Hong Kong (SEHK), the Stock Exchange of Hong Kong Options Clearing House Ltd (SEOCH), Hongkong and Shanghai Banking Corporation (HSBC) and Hong Kong Interbank Clearing Limited (HKICL). In addition, around 30 banks also participated in the tests.

The first two test dates simulated 31 December 1999 and 3 January 2000 with the aim of ensuring CCASS and its direct interfacing systems can operate normally without disruption when they roll over to the Year 2000. The third date simulated 29 February 2000 which tested Year 2000 as a leap year.

As of 15 September 1998, the tests to simulate the roll over on 31 December

September 1998. So far, the test results were successful.

Beta Test

A beta test for Hongkong Clearing, Hong Kong Futures Exchange (HKFE), HKFE Clearing Corporation Limited, SEHK, SEOCH, and some Y2K compliant brokers is scheduled for December 1998.

Street-Wide Tests

The tentative schedule for the street-wide tests is as follows:

- 1st street-wide test : January 1999
- 2nd street-wide test : March 1999
- 3rd street-wide test : June 1999

The street-wide tests will be mandatory for all CCASS Participants. When the tests are conducted, online sessions will be arranged over the weekends of the above

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Separate user IDs and passwords will be assigned to participants to perform CCASS function during testing. It is tentatively planned that each participant will be assigned two testing user IDs. The existing production key diskette can be used to access the Year 2000 testing system with a CCASS terminal. Enhanced CCASS Terminal (ECT) users, new development smart cards are used for access. The testing IDs, passwords and smart cards will be distributed to participants before the street-wide test commences.

To distinguish the Y2K testing system from the normal CCASS operations system, a Y2K testing message will be displayed on all CCASS menu screens. The date will be highlighted and displayed at the right hand corner of each screen.



Shortening Turnaround Time for the Exercise of Call Warrants

The Stock Exchange of Hong Kong has announced that the electronic settlement of underlying securities upon exercise of call warrants via CCASS will be introduced on 26 October 1998.

At present, issuers deliver physical share certificates to investors who exercise warrants. The settlement period is ten to 18 business days after the exercise day (E day), depending on whether the share registrars for the warrants and the underlying securities are the same or not.

Under the new mechanism, the settlement period will be no more than five business days following the exercise day (E+5). The period can be gradually reduced once the issuers are familiar with the procedures and parties involved encounter no serious difficulties.

Electronic settlement is an alternative to the

conventional settlement method. The current terms and conditions relating to physical delivery of share certificates will continue to apply.

For the new mechanism, Hongkong Clearing's wholly owned subsidiary, HKSCC Registrars Limited, recommended two operational procedures for the issuers' reference.

(1) Electronic Settlement -- Both exercise of call warrants and settlement of the underlying securities via CCASS

- HKSCC Nominees Limited (HKSCC Nominees) is the warrant-holder.
- When CCASS Participants exercise call warrants on behalf of their clients, the respective exercising participants' stock accounts will be immediately debited with the required quantity of call warrants and their designated bank accounts will be debited with the exercise money at day-end.
- The exercise instructions will be consolidated by the computer system at day-end, and

HKSCC Nominees will then physically deliver the warrant certificates, the exercise money and an exercise notice to the warrant registrars at or before 10:00 am on the E day. For details of the operational flows, please refer to the table below.

(2) Electronic Settlement -- Physical exercise of call warrants but settlement of underlying securities via CCASS

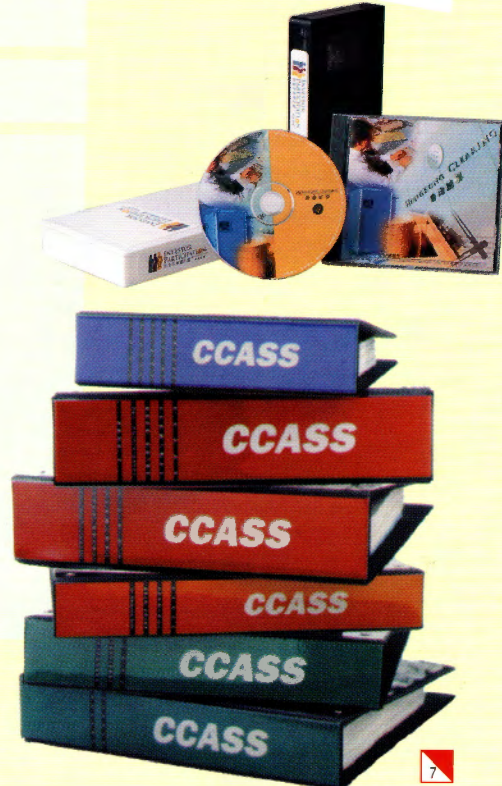
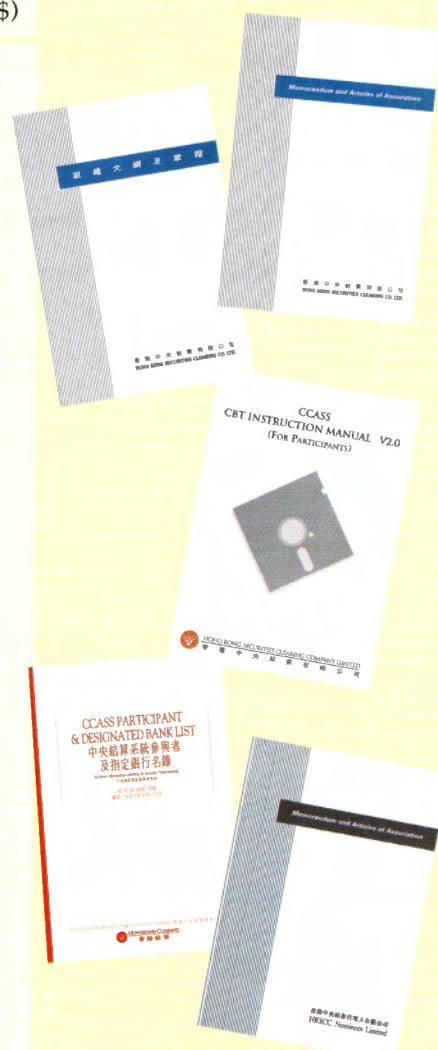
- For warrant-holders other than HKSCC Nominees
- The warrant-holder will physically deliver an exercise notice, exercise money and relevant warrant certificates to the warrant registrar on the E day.
- On settlement day (E+5), the issuer will instruct the warrant registrar to credit the warrant-holder's designated CCASS stock account with the underlying shares.
- The warrant registrar will arrange for the payment of the ad-valorem stamp duty to the Inland Revenue Department over the transfer of the shares on E+5.

Operational model for electronic settlement of underlying shares for the exercise of call warrants

Parties involved	E day	E+5
Warrant-holder (HKSCC Nominees)	<ul style="list-style-type: none"> • Delivers exercise notice, warrant certificate(s) and exercise money to warrant registrar before 10:00 am • Receives receipt issued by warrant registrar 	<ul style="list-style-type: none"> • Receives underlying shares through CCASS from the issuer by 4:00 pm
Warrant registrar	<ul style="list-style-type: none"> • Receives exercise notice, warrant certificate(s) and exercise money from warrant-holder • Issues receipt to warrant-holder • Notifies issuer of the details of the warrant exercise • Arranges for payment of the exercise money to the issuer • Cancels exercised warrant certificate(s) 	<ul style="list-style-type: none"> • Arranges with HKSCC Nominees to debit issuer's or its designated CCASS Participant's stock account with the underlying shares • Arranges to pay the ad-valorem stamp duty to Inland Revenue Department in respect of the transfer of the underlying shares • Receives debit confirmation advice from HKSCC Nominees • Sends debit confirmation advice to issuer
HKSCC Nominees		<ul style="list-style-type: none"> • Receives instructions from warrant registrar and issuer to debit underlying shares from issuer's designated CCASS Participant's stock account • Debit issuer's designated CCASS Participant's stock account • Sends confirmation advice to warrant registrar • Credits underlying shares to exercising CCASS Participants' stock accounts
Issuer	<ul style="list-style-type: none"> • Receives notification of the details of the warrant exercise from warrant registrar 	<ul style="list-style-type: none"> • Instructs warrant registrars to arrange to debit its designated CCASS Participant's stock account • Receives debit confirmation advice from warrant registrar

List of CCASS Information Materials for Sale

CCASS Publications	Price per copy(HK\$)
CCASS Operational Procedures (English)	
First Edition (June 92)	350
Oct 94 Amendments	50
Jan 96 Amendments	100
Jan 97 Amendments	110
May 98 Amendments	220
Full Set (with binder)	600
CCASS Operational Procedures (Chinese)	
First Edition (October 92)	350
Oct 94 Amendments	50
Jan 96 Amendments	100
Jan 97 Amendments	110
May 98 Amendments	240
Full Set (with binder)	600
General Rules of CCASS (English and Chinese)	
First Edition (June 92)	250
Oct 94 Amendments	50
Jan 96 Amendments	60
Jan 97 Amendments	40
May 98 Amendments	130
Full Set (with binder)	400
CCASS Terminal User Guide for Participants	
Full Set	350
Full Set (with binders)	500
CCASS Terminal User Guide for Designated Banks	
Full Set	200
Full Set (with binder)	500
CCASS Computer-based Training (CBT) Package (To buy CBT package, please call Customer Service Hotline at 2852 8000)	200
Others	
CCASS Participants & Designated Bank List	50
Corporate CD-ROM	20
Guide to Eligibility & Admission of Securities to CCASS	50
Investor Account Video	22
Memorandum and Articles of Association of Hong Kong Securities Clearing Company Limited (English)	100
Memorandum and Articles of Association of Hong Kong Securities Clearing Company Limited (Chinese)	100
Memorandum and Articles of Association of HKSCC Nominees Ltd	100



The above information materials are available for sale at : Hongkong Clearing service counters hall, 2/F, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.

CCASS STATISTICS

The market dropped continuously during the months from June to August 1998. During the period, Hang Seng Index fell by 1,660 points from the end of May to close at 7,275. However, market turnover reached a record of over \$79 billion on 28 August.

Exchange Trades

In June, an average of 58,771 trades were processed daily in CCASS, involving nearly 2.7 billion shares with a value of \$5.9 billion. In July, the daily average trades handled by CCASS reduced to 41,999 involving 2.2 billion shares with a value of \$4.1 billion. The daily average trades handled by CCASS rose to 59,635 involving 3.1 billion shares with a value of \$10.8 billion in August.

During the months of June, July and August, more than 99.98 per cent of Exchange trades were processed daily in CCASS.

Netting Efficiency of CNS Trades

In June, an average of 57,925 Exchange trades valued at \$5.4 billion went through CCASS daily for CNS. An average of 17.5 per cent of the novated contracts created was due for settlement daily.

The daily average number of trades went through CCASS for CNS in July dropped to 41,342 valued at \$3.7 billion. After novation and netting, 19.4 per cent of the novated contracts were due for settlement daily.

In August, the daily average number of trades went through CCASS for CNS increased to 58,618 valued at \$10.2 billion. An average of 15.8 per cent of the novated contracts created was due for settlement daily.

The novated contracts in June generated a daily average of \$10.8 billion in money obligations which were netted to \$3.0 billion. Daily average funds netting efficiency was 72.1 per cent.

In July, \$7.4 billion a day in money obligations were netted to \$2.4 billion. Daily average funds netting efficiency was 68.3 per cent.

In August, money obligations arising from novated contracts amounted to an average of \$20.4 billion daily, which were netted to \$12.7 billion. Daily funds netting efficiency was 47.5 per cent.

Settlement Efficiency of CNS Stock Positions

The daily average settlement efficiency rate of CNS stock positions for June was 94.8 per cent on the due day and 99.9

per cent on the settlement day following the due day. The corresponding figures for July were 94.9 per cent and 99.8 per cent. And the corresponding figures for August were 93.6 per cent and 99.6 per cent.

Settlement Instructions (SIs)

In June, an average of 19,835 SIs was settled daily in CCASS, involving 4.6 billion shares with a market value of \$20.2 billion.

In July, the figures decreased to 15,026 SIs, involving 4.2 billion shares with a value of \$14.0 billion.

An average of 17,831 SIs was settled daily in CCASS in August, involving 4.9 billion shares with a market value of \$24.9 billion.

Investor Settlement Instructions (ISIs)

In June, an average of 147 ISIs was settled daily in CCASS, involving 59.1 million shares with a market value of \$30.6 million.

An average of 95 ISIs was settled daily in CCASS in July, involving 23.9 million shares with a market value of \$43.3 million.

In August, the corresponding figures were 144 ISIs involving 19.9 million shares with a value of \$25.2 million.

Depository Transactions

In June, the CCASS Depository handled an average of 4,047 deposit and withdrawal transactions per business day. The number of share certificates processed daily amounted to 42,000.

The corresponding figures for July dropped sharply to 1,490 transactions involving 18,000 share certificates per business day.

In August, the Depository handled an average of 1,697 deposit and withdrawal transactions per business day. The number of share certificates processed daily amounted to 24,000.

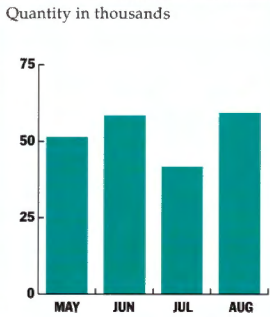
As at the end of August, 951 stocks had been admitted into CCASS for clearing and settlement. About 356.2 billion shares were under the custody of the CCASS Depository, representing 50.5 per cent of the total number of shares of the admitted stocks in issue. The total market value of the shares was \$545.8 billion, representing 26.9 per cent of the total market capitalisation of the admitted stocks.

Participants

At the end of August, there were 1,801 CCASS Participants, comprising 499 brokers, one clearing agency, 62 custodians, 8 stock pledgees and 1,231 investors.

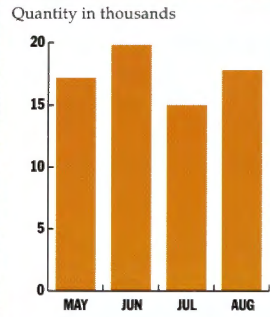
OPERATIONS HIGHLIGHTS (MAY-AUG 98)

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



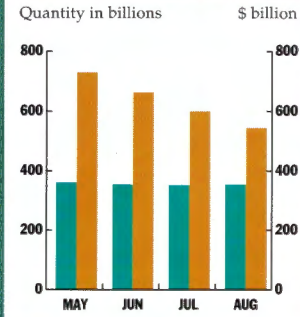
	Number of trades	% of total number of Exchange trades
May	51,636	99.93
Jun	58,771	99.98
Jul	41,999	99.98
Aug	59,635	99.98

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



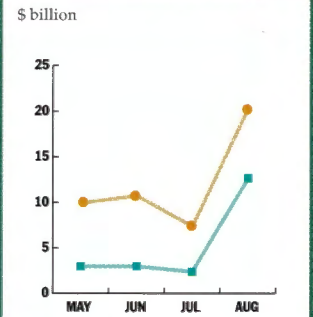
	Number of SIs	SIs by shares (billion)	SIs by value (\$ billion)
May	17,202	3.6	20.3
Jun	19,835	4.6	20.2
Jul	15,026	4.2	14.0
Aug	17,831	4.9	24.9

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



	Number of shares (billion)	Market value (\$ billion)
May	362.4	730.5
Jun	356.2	664.4
Jul	354.0	601.2
Aug	356.2	545.8

Average daily funds netting efficiency under CNS



	Money obligations arising from novated contracts (\$ billion)	Money obligations after netting (\$ billion)	Funds netting efficiency (%)
May	10.0	3.0	69.93
Jun	10.8	3.0	72.10
Jul	7.4	2.4	68.27
Aug	20.4	12.7	47.49

Quick Quiz

1. What is the size of a share withdrawal order that will be considered a "Bulk Withdrawal" by Hongkong Clearing?

2. When should Participants input their withdrawal orders or submit their withdrawal order forms if they are going to make a Bulk Withdrawal?

3. How does Hongkong Clearing handle the pending withdrawal orders that are not authorised?

Answers on page 10.

CCASS NOTICE BOARD

Service Enhancements

Hongkong Clearing has introduced the following service enhancements.

Transfer of Scrip Fee Concession Due to Change of Membership

A CCASS Participant which restructures its business structure - for example, change from a sole proprietor to a limited company - but maintains substantially the same beneficial ownership, can apply to Hongkong Clearing to carry forward the scrip fee concession entitled by the "terminated" participant account to the new participant account.

Previously, a CCASS Participant needed to keep track of the information in its own records to reconcile subsequent scrip fee payments. With the new enhancements implemented on 31 August 1998, CCASS automatically provides the above information. A new sub-section about the scrip fee concession, arising and brought forward from the change of membership, is now included in the Scrip Fee section of the Entitlement Statement upon collection of scrip fee for respective stocks.

Full Redemption and Conversion of Preference Shares

Two new codes, 'FR' for Full Redemption and 'BV' for

Bond/ Preference Shares Conversion, have been created to differentiate these two activities in CCASS. Relevant sections of the Entitlement Statement and Nominee Functions Input Activities Report have been amended to provide this additional information.

Enquire SI

To accelerate the Settlement Instruction (SI) enquiry process, two new selection criteria, Instruction Type and Settlement Account, has been created. In addition, participants can now retrieve a list of SIs with 'Internal Transaction Reference Number' through the Enquire SI Function.

Enquire Announcement Information Function

A new selection criterion has been added to the Enquire Announcement Information Function to let participants enquire about subscription announcements relating only to put or call warrant issued based on index or equity.

For further information on the above service enhancements, participants can refer to the circular (no. 162/98) and the revised Terminal User Guide (section 5.1, 5.14, 6.3 & 6.4).

DIRECT STOCK ADMISSIONS

During the two months of July and August 1998, a total of 64 eligible new issues were admitted to CCASS of which 7 issues adopted Jumbo Certificate arrangement.

	Ordinary Shares	Preference Shares	Registered Warrants	Debts	Rights	Total
Eligible new issues listed on the Stock Exchange and admitted to CCASS	8	0	48	0	8	64
Issues adopted Jumbo Certificate arrangement	6	0	1	0	N/A	7



Quick Quiz

1. Hongkong Clearing considers a withdrawal order of 5,000 or more share certificates at one time as a "Bulk Withdrawal".

2. Participants who want to make a Bulk Withdrawal are requested to input the withdrawal orders or submit the withdrawal order forms to Hongkong Clearing at least one clear business day in advance of the intended collection day.

3. Hongkong Clearing will purge from CCASS the pending withdrawal order three business days after input.

MTR PROMOTIONAL CAMPAIGN FOR INVESTOR ACCOUNT SERVICE

Since the announcement to waive the minimum monthly fee on 8 July 1998, there has been a sharp increase in applications to join the Investor Account Service offered by Hongkong Clearing. As at 18 September 1998, a total of 1,546 applications were received, including 1,314 from individual investors, 157 from joint individual investors and 75 from corporate investors.

Hongkong Clearing continued to publicise the benefits of the Investor Account Service by holding an

exhibition at the Admiralty MTR station from 29 to 31 August 1998, attracting some 3,000 visitors. Further exhibitions are planned at other MTR stations.

Hongkong Clearing representatives provided the exhibition visitors with information about the service and application procedures. An Investor Account video was also shown at the exhibition.

Visitors were also invited to participate in a game in which they were asked to guess the number of investors who applied to join the

Investor Account Service by the end of 31 August 1998. One hundred entrants who gave the correct answer of 1,429 applications or the closest figure have won radios as prizes. Hongkong Clearing has notified the 100 winners by mail.



DEVELOPMENT OF CCASS INVESTOR PARTICIPATION OUTLINED

Some 280 senior executives from 240 CCASS Intermediary Participants (brokers/custodians) were given a briefing on the Development of Investor Participation (IP) in CCASS by Mr Stewart Shing, Chief Executive on 7 September 1998.

Mr Shing discussed the IP concept, what it has achieved, and plans for its further development in the short, medium and long-term.

He said: "The development of Investor Participation in CCASS can never be a great success without the support of market intermediaries such as brokers and custodians. IP development is important for the Hong Kong securities market."

He said that IP is a pre-requisite for the development of Straight-Through-Processing planned by the Stock Exchange in the same way that Continuous Net Settlement is essential for the development of the Exchange's Automatic Order Matching and Execution System.

Mr Shing's briefing followed two talks which he gave in August to members of the Hong



Some 280 participant representatives attend the briefing on IP.



Kong Stockbrokers Association and the Hong Kong Securities Professionals Association, attended by some 100 broker representatives. The talks outlined the development of IP from brokers' perspectives.

Mr Shing said that the good attendance by brokers and custodians at the talks and briefing on IP shows that it is gaining increasing support from brokers and custodians. He said Hongkong Clearing expects these accounts will grow at a faster rate as the market picks up and the service becomes better known in the market.



Stewart Shing at the luncheon talk for members of the Hong Kong Stockbrokers Association.



HONGKONG CLEARING OFFERS TWO NEW SERVICES TO CORPORATE INVESTOR PARTICIPANTS

Hongkong Clearing introduced new counterparty list, transaction limit and maker-checker functions for Corporate Investor Participants effective 1 September 1998, following service enhancements for the Investor Account Service announced earlier. The new services will help Corporate Investor Participants strengthen their internal control capabilities.

ISI Counterparty List

Corporate Investor Participants can now choose to maintain an Investor Settlement Instruction (ISI) counterparty list in CCASS. If a participant elects to maintain such a list, ISI affirmation and authorisation will only be accepted by CCASS if the counterparty specified in the ISI is contained in the list.

Participants may complete an "ISI Counterparty List Input Request Form" and return it by mail or in person to the Investor Service Centre to update the counterparty list. The process usually takes three business days. Upon completion, an activity statement printed with the updated counterparty list will be sent to the Investor Participant for reference. Participants who choose not to maintain the counterparty list can continue to affirm or authorise ISIs with no validation on the ISI counterparties.

Transaction limit for ISI affirmation and maker-checker facility for screen phone users

Maker-checker facility is available to the subscription, dividend election and corporate voting instructions maintenance functions. Users being assigned as "makers" will only be able

to input instructions, while those being assigned as "checkers" can only authorise instructions previously input by "makers". Instruction status will be "pending" after input, and updated to "authorised" after having been authorised by "checkers". Only the "authorised" instructions will be further processed by CCASS.

Both maker-checker facility and transaction limit are available to ISI affirmation. If a "maker" affirms an ISI within his transaction limit, the ISI will be affirmed right away. However, if he tries to affirm an ISI exceeding his transaction limit, the status of the ISI will be changed to "pending for affirm" and requires a "checker" with sufficient transaction limit to authorise the ISI.

A checker can only authorise ISIs with "pending for affirm" status. If he authorises an ISI within his transaction limit, the ISI will be affirmed. However, if he tries to authorise an ISI exceeding his transaction limit, an error message will be read out and the authorisation will not be accepted.

Maker-checker facility and transaction limit checking functions are only available to Corporate Investor Participants who use screen phones. To implement the changes, Corporate Investor Participants need to re-assign user access level and transaction limit of current users by completing the "User Profile List" and submit it to Hongkong Clearing's Operations Control Department at 7/F, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong. A list of functions available for each user access level and notes on filling in the "User Profile List" have been sent to all Corporate Investor Participants for reference.

LATEST LIST OF DESIGNATED BANKS FOR INVESTOR ACCOUNT SERVICE

The payment methods available for settlement of Investor Settlement Instructions (ISI) are:

(i) Direct Debit Instruction (DDI) / Direct Credit Instruction (DCI)

This method applies to money settlements between Hongkong Clearing and Investor Participants e.g. DDI for rights issues, DCI for dividend collection.

(ii) Free of Payment (FOP)

Under FOP, Investor Participants and their brokers/custodians arrange payment between themselves outside CCASS.

(iii) Electronic Payment Instruction (EPI)

This method is used if a transaction is to be settled on a Delivery versus Payment (DVP) basis. DVP means shares are transferred in CCASS during the day while cash payments are made overnight through the payment system of Hong Kong Interbank Clearing Limited.

(iv) CHATS Payment Instruction (CPI)

Clearing House Automated Transfer System (CHATS) payment is used if a transaction is to be settled on a Realtime Delivery versus Payment (RDP) basis. RDP means the transfer of both shares and money in a securities transaction is done simultaneously on the settlement day.

Investor Participants must agree upon a payment method with their brokers/custodians in advance, so that the brokers/custodians can input the exact details of the ISI into CCASS for affirmation by Investor Participants.

There are currently 24 CCASS-designated banks, which provide money settlement service for Investor Participants, and 18 of these banks support Realtime Delivery versus Payment (RDP) settlement. Following is the latest list of designated banks:

1. Asia Commercial Bank Ltd.*
2. Bank of America (Asia) Ltd.*
3. Bank of Communications*
4. Chekiang First Bank Ltd.*
5. CITIC Ka Wah Bank Ltd. *
6. Dah Sing Bank Ltd.
7. Dao Heng Bank Ltd.
8. First Pacific Bank Ltd.*
9. Generale Belgian Bank*
10. Hang Seng Bank Ltd
11. International Bank of Asia Ltd.*
12. Jian Sing Bank Ltd.
13. Liu Chong Hing Bank Ltd.*
14. Overseas Trust Bank Ltd.
15. Shanghai Commercial Bank Ltd.*
16. Standard Chartered Bank*
17. The Bank of East Asia Ltd.*
18. The Development Bank of Singapore Ltd. *
19. The Hongkong and Shanghai Banking Corporation Ltd.
20. The Hongkong Chinese Bank Ltd.*
21. Union Bank of Hong Kong Ltd.*
22. United Chinese Bank Ltd.*
23. Wing Hang Bank Ltd.*
24. Wing Lung Bank Ltd.*

* These banks provide, in addition to DDI, DCI and EPI services, CHATS payment service.

Other banks may also provide the service later as Hongkong Clearing has not set a quota for the banks, or a deadline for the service.

Stock custody fee payable by Investor Participants

Hongkong Clearing does not charge Investor Participants stock deposit fee for the deposit of stocks into Investor Participants' Accounts in CCASS.

Physical share certificates registered in the name of an Investor Participant or HKSCC Nominees Limited are acceptable to Hongkong Clearing for deposit into CCASS. Stocks deposited by Investor Participants into their Stock Accounts will be put "on-hold" first. Upon successful re-registration, the status of the deposited shares will be changed to "available". Investor Participants can then use such available credit stock balances for book-entry stock settlement inside CCASS. Investor Participants can also transfer their credit stock balances to

Intermediary Participants' (such as brokers or custodians) Stock Accounts.

In addition, in order to facilitate portfolio transfers of stocks from Intermediary Participants' Stock Accounts to an Investor Participant's Stock Account, no stock settlement fee will be charged on Investor Settlement Instruction transactions-without-trade-value-data-input within the first ten settlement days from the date of opening of an Investor Account.

A Stock Custody Fee is chargeable to Investor Participants for the safekeeping of certificates in CCASS. The fee rate is \$0.012 per board or odd lot, subject to a minimum fee of \$20 per month and a maximum fee of \$3,000 per month, per Investor Account.

Example

In the month of August, Ms Lee, an Investor Participant, deposited the following stocks into her Stock Account.

Date	Stocks deposited	Deposit Fee	Custody Fee
4 Aug	Ms Lee effected portfolio transfers of stocks from the Stock Account of her broker, Broker A, to her Stock Account: 20,000 shares (10 board lots) of China Telecom 1,500 shares (15 board lots) of Hang Seng Bank 18,000 shares (18 board lots) of HK & China Gas	Nil	
12 Aug	Ms Lee deposited the following physical certificates into her Stock Account through the CCASS Depository: 4,000 shares (10 board lots) of HK Telecom 6,000 shares (15 board lots) of HSBC Holdings	Nil	
31 Aug			Month-end stock balance * 10 board lots of China Telecom 15 board lots of Hang Seng Bank 18 board lots of HK & China Gas 10 board lots of HK Telecom 15 board lots of HSBC Holdings = 68 board lots Stock custody fee payable in August $\$0.012 \times 68 \text{ board lots} = \0.816 (as \$0.816 is less than \$20 minimum fee, the fee payable is \$20 for August) =\$20

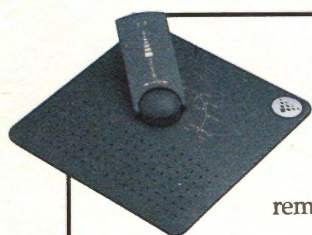
*"On-hold" stocks in the Stock Accounts of Investor Participants at the end of the month are also counted in their month-end stock balances.

“ TWO CIRCULARS ISSUED TO INVESTOR PARTICIPANTS ”

Hongkong Clearing's Customer Services Department sent circulars to Corporate Investor Participants on 31 August 1998 informing them of the new services in the form of Investor Settlement Instruction (ISI) counterparty list, maker-checker function and transaction limit for ISI affirmation.

Eleven calls were received by the CCASS Phone Operations Hotline enquiring about the application and functions of these new services. Investor Participants also asked how to fill in the user profile form and whether it was compulsory to submit the ISI counterparty list. Up till 15 September 1998, Hongkong Clearing has received three request forms for ISI counterparty list input.

The Company's Nominees Services Department sent a circular on 1 September 1998 regarding dividend entitlement of HSBC Holdings PLC (stock codes 5 & 150). The circular was sent only to those Investor Participants with shareholdings on snapshot date on 19 August 1998. Hongkong Clearing received 15 calls from Investor Participants to enquire about the election period, payable date and calculation details as stipulated in the circular.



Gold Coins for Gold Award Winners

Hongkong Clearing wishes to remind Investor Participants it is offering awards to those who recommend friends to open Investor Accounts.

An Investor Participant who has made a successful recommendation will win a silver award in the form of an elegantly designed radio.

Each of the top three Investor Participants with the largest number of successful recommendations by 31 October 1998 (Hongkong Clearing will count the application forms

received on or before this date) will win a gold award in the form of an 1 oz. 999.9 fine Gold Maple Leaf coin.

Please fill in the form below (photocopies of the form are also acceptable), give it to your friend who wishes to open an Investor Account on your recommendation, and ask him or her to attach it to the application form.

For enquiries, please call Corporate Communications Department, at 2597 0877.



[Please attach this form to the application form]

To: Corporate Communications Department, Hongkong Clearing

Name of Investor Participant: _____

Contact Telephone No.: _____

I recommend _____
(name of applicant)

to open an Investor Account.

