



Changing Structure of Hong Kong's Securities Market

Wal Reisch

Head of Clearing - Hong Kong Exchanges and Clearing Limited

Chief Executive - Hong Kong Securities Clearing Company

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I S S A Regional Meeting

Hong Kong Securities Markets Events



1976	HKFE Established
1980	SEHK Established
1986	Merger of 4 SEs
1989	SFC Established HKSCC Established
1992	CCASS Launched
1993	AMS Launched
1995	SEHK Options Launched
1996	AMS/2 Launched

Hong Kong Securities Markets Events

1999

SCEFI Report Published

HKEx Established

2000

HKEx Listed

HKATS - Futures Trading Automated

AMS/3 Launched

SCEFI II Initiated

2001

Derivatives Trading Systems Initiatives

Clearing Systems Initiatives



Market Reforms for Hong Kong

1999/2000 Budget Speech of the Financial Secretary

- ◆ **Demutualisation and Merger of Hong Kong's Exchanges and Clearing Houses**
- ◆ **Upgrading of the Market Infrastructure**
- ◆ **Regulatory Reform**

SCEFI

- ◆ **A Steering Committee on the Enhancement of the Financial Infrastructure chaired by the Chairman of the Securities and Futures Commission**
- ◆ **To Study and Recommend the Necessary Improvements to the Financial Infrastructure of Hong Kong**
- ◆ **Key members : SFC, FSB, HKMA, HKE_x, ITBB and HK Information Technology Federation**

SCEFI Recommendations

Initiatives

Build Securities and Derivatives Network (SDNet)

Upgrade Securities Clearing to Open Architecture Ready

Achieve Single Clearing Arrangement

Enable Straight Through Processing

Consolidate Derivatives Clearing Into A Single Platform

Realise Scripless Securities Market

Objectives

Provide the Foundation for Implementation of Interactive/Message-based Interfaces and Web-enabled Access, and Eventual Consolidation of All Trading and Clearing Networks

Upgrade CCASS Architecture to Enable Message-based Interface, Gateway and Open Access

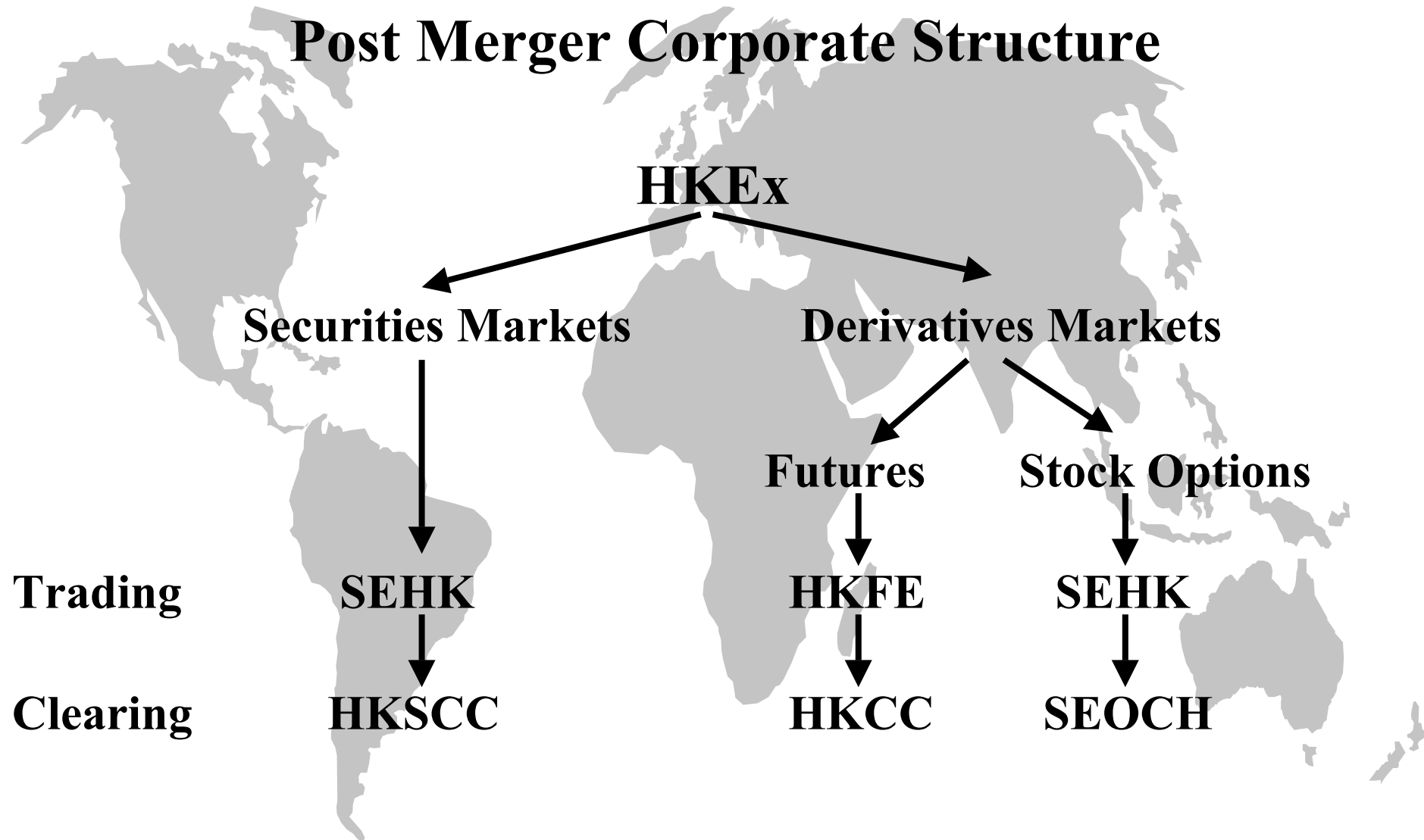
Implement Single Clearing Arrangement Building Blocks, such as Consolidated Clearing Account Structure, Unified Money Settlement, Portfolio-based Risk Management

Implement the Straight Through Processing Building Blocks, such as TFM, TRS, CBI

Provide A Single Clearing Platform for Derivatives Products

Convert Hong Kong To A Scripless Securities Market

Post Merger Corporate Structure



Post Merger Systems Infrastructure



Derivatives Trading Integration (2001)

Derivatives Clearing Integration (2002)

Target Clearing Infrastructure

Product Specific Clearing Processing

- ◆ CCASS for Securities
- ◆ SDCS for Derivatives

Common Risk Management System

- ◆ Integrated Risk Profiles
- ◆ Cross Product Assessment
- ◆ Cross Participants Analysis
- ◆ Real-Time Monitoring

Target Clearing Infrastructure

Common Collateral Management System

- ◆ **Common Collateral Pool**
 - Multi-Currency Cash
 - Non-Cash Securities

- ◆ **Consolidated Pay and Collect**

CCASS Upgrade Project (CCASS/3) Features

Technical Architecture Upgrade

- ◆ Database Segmentation
- ◆ Middle-Tier
- ◆ User Access Options
 - Browser
 - API
 - SWIFT (GSTPA)
- ◆ Message Based Data Flow
- ◆ ISO 15022 Compliance
- ◆ New CCASS Network (FinNet)

CCASS Upgrade Project (CCASS/3) Features

Functional Architecture Upgrade

- ◆ **Multi-Market Structure**
- ◆ **Variable Settlement Cycles (T+x)**
- ◆ **Extended Trading Hours**

Single Derivatives Clearing System (SDCS)

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- ◆ **Integrated Clearing System for Futures and Stock Options**
 - ◆ **A Seamless Trading and Clearing Derivatives Platform**
 - **OM SECUR – Clearing**
 - **OM Click - Trading**

Future Initiatives

- ◆ **SCEFI II Objectives**
 - Improved STP
 - Scripless Securities Market
- ◆ **Market Links**
 - Derivatives : Sydney Futures Exchange
 - Securities : GEM
- ◆ **Brokers' Electronic Support Services**
- ◆ **Extended Real-Time Processing**
- ◆ **Third Party Clearing**
- ◆ **Further Clearing Integration**

Regulatory Reform

- ◆ **Modernise the Regulatory Framework on Par with Prevailing International Standards**
- ◆ **Securities and Futures Bill**

Hong Kong Securities Clearing Features

- ◆ **HKSCC is the Central Counter Party**
- ◆ **Novation**
- ◆ **Guarantee**
- ◆ **Continuous Net Settlement**
- ◆ **T+2 Settlement**
- ◆ **Optional Gross DVP Settlement**
- ◆ **Buy-In Provisions**

HKEx Securities Market Participants

	<u>Trading</u>	<u>Clearing</u>
Investors	N/A	8,500
Participants	502	568

HKEx Securities Market Statistics

(2001 daily averages)

Market Turnover

HKD9.1 billion

100,500 Trades

Netting Efficiency

85%

Settlement Efficiency

99.46 (T+2)

99.95 (T+3)

Buy-In

HKD4.8 million

10 Securities

8 Brokers

Guarantee Fund

HKD800million

ISSA Recommendations 2000 Checklist

Recommendations

- 1. Responsible to users and other stakeholders;
Effective low cost processing and equitably
priced services**
- 2. Interactive network access; having peak
capacity and sufficient standby recovery
capabilities**
- 3. Adherence to ISIN & ISO standards for
securities message and facilitation of straight
through processing**

Compliance

HKEx Roles

Yes

In progress.

ISSA Recommendations 2000 Checklist

Recommendations

4. Clear Rules assuring investor protection and sound policies on corporate governance, transfer of economic benefits and shareholder rights

5. Mitigation of securities system risk

Real-time delivery versus payment

T+1 settlement cycle

Stock lending facilities

Scripless Settlement

Mandatory trade matching

Compliance

Yes

Yes

**Capable after
CCASS/3**

Yes

**Immobilisation. Will
Move to Scripless Market**

Yes

ISSA Recommendations 2000 Checklist

Recommendations

6. Convergence of securities systems within countries and across borders

7. Laws and regulations governing foreign investors


8. Laws and regulations governing the segregation of client assets from the principal assets of custodians

Compliance

In Progress

Yes

Yes



**HK rated No.1 for
Settlement Efficiency
by GSCS Benchmark
Review 2001**