

ISSA Regional Meeting Asia/Pacific

Opening Remarks

Mr Kwong Ki-chi

Chief Executive of Hong Kong Exchanges and Clearing Limited

Introductory Remarks

Good morning, ladies and gentlemen, welcome to Hong Kong and this Regional Meeting of ISSA.

Our keynote speakers will today address issues that affect our industry and how they are dealing with change. This is most appropriate in today's globalised financial markets which are undergoing fundamental changes.

I will take this opportunity to outline briefly how we, in Hong Kong Exchanges and Clearing, deal with such changes.

I. The Changing Securities Markets

The factors that are reshaping our financial markets fall under two main headings - globalisation and technological advances.

Globalisation emerged during the past decade through rising equity values, a growing investor base and increasing cross-border capital flows. On the technological front, the most notable advances have been in information technology, telecommunications and the Internet. These advances increase efficiency, reduce costs and empower the individual investor.

These two factors have transformed the global financial scene, from one with separate and independent financial markets operating largely within their respective national boundaries to one with connected and inter-dependent markets serving the needs of both local and international investors and issuers. The global market has also changed from a seller's market to a buyer's market. Investors will gravitate to markets that better meet their needs. These are characterised by fair and transparent regulations and operations, as well as high market liquidity, low transaction costs, and easy access to market information.

Issuers want liquid markets with a large pool of investors and competitive compliance costs. They also need to be assured of equal treatment of all issuers.

II. Responding to Change

Hong Kong's response to the changing global market was a radical reform of its securities and futures markets. This involved the demutualisation of its stock and futures exchanges, and the merger of the exchanges and their associated clearing houses to form Hong Kong Exchanges and Clearing, or HKEX in short.

The final step was the listing of HKEX in June last year, which broadened ownership and subject us to the discipline of the market place. However, in all these changes, we have maintained the long established cardinal principle of our stock and futures exchanges.

Our cardinal principle is to act in the wider interest of the community and the investing public. If circumstances arose where there was a conflict of interest between HKEX and the community and investing public, the latter interests would prevail.

We believe that the long term interests of Hong Kong and HKEX are identical and that by following the cardinal principle we would ensure our exchange's long term prosperity.

III. HKEX Services

In addition to providing a central market place for the trading of securities and derivatives, HKEX offers a full range of pre- and post-trade investment services.

Our post-trade activities include guaranteed clearing and settlement, registrar, depository, custodian and nominee services. We provide real time market information to information vendors who process it for re-distribution to their subscribers.

We have an integrated corporate structure and technology platform, which will support straight through processing of market transactions.

Market capitalisation of the Hong Kong stock market has grown steadily over the years, only momentarily interrupted by the impact of the Asian financial crisis in 1997 and 1998. The privatisation of utilities and public services operated by the Hong Kong government will substantially increase our market capitalisation and liquidity.

Our secondary market has a good mix of retail, domestic and international institutional investors in roughly equal proportions. The Mandatory Provident Fund which commenced operations last December is expected to contribute US\$ 1.3 billion in market liquidity in its first year. The contribution is expected to exceed US\$ 6.4 billion in three years.

Shares in China incorporated enterprises, the so-called H-shares, are a significant and growing component of our equity market. We also meet China's need for new capital in other forms, including the so-called Red Chips, that is China enterprises incorporated outside the Mainland of China.

Meeting China's capital needs to finance its economic development is one of our major objectives. H-Shares and Red Chips on our Main Board and GEM represent about 29 per cent¹ of our market capitalisation and 37 per cent² of equity market turnover at the end of April this year.

Following its accession to WTO, China's needs for international capital will substantially increase, and we are well placed to help meet those needs.

IV. New Technology

On the technology front, we are committed to applying advanced technology in our market systems and have initiated three major system projects to upgrade our clearing operations. These comprise CCASS/3, the Common Risk Management System and the Single Derivatives Clearing System.

CCASS/3 is the upgrading of CCASS, the Central Clearing and Settlement System, originally introduced in 1992. We plan to modularise our system architecture, and introduce open access layer and new functions for risk management and investor participation. These upgrades will make the system more flexible, easier to use, maintain and expand.

The Common Risk Management System project will re-engineer the clearing and settlement risk management systems. It will provide significant improvements in access to participants for trade and position data and the tools for effective risk monitoring and analysis. It will also take HKEx's capacity in cross-market risk management to an even more advanced level by strengthening risk management analysis across different markets.

¹ Total market capitalisation is about HK\$ 1,292,344 million

² Total turnover is about HK\$ 237,602 million

The system will include an advanced Common Collateral Management System, which will support both the cash and derivatives markets' requirements. We expect to introduce both new systems in the middle of next year.

We have selected the SECUR derivatives clearing system from OM Technology for our Single Derivatives Clearing System, which we plan to introduce in the middle of next year. We believe that the addition of the SECUR system will move us closer to our goal of straight-through processing for all our products.

V. New Products

We are introducing a wider range of products. Last year, we started trading seven Nasdaq stocks and we have just started trading the first two Exchange Traded Funds based on the Taiwan and Korea stock indices. Other ETFs will be introduced progressively.

At the same time, we are reviewing under-performing products and considering their positioning. These products include debt securities and low-liquidity derivatives.

VI. Our Future

Inevitably, our future is bound up with China. We are working to strengthen our role as China's main international capital formation centre. We are working closely with China's regulator, China Securities Regulatory Commission, and the stock exchanges to improve cross-border co-operation.

Later this year, we plan to open a liaison office in Beijing which will help to strengthen our business network on the Mainland. It will also play an important role in our promotional and educational activities in China.

Concluding Remarks

At the beginning of my speech, I noted that our keynote speakers would be talking about some of the specific changes that are affecting our businesses.

Probably at no other time have so many changes taken place in so short a time in the securities industry. Like it or not, we have to view these changes positively, welcome them, and adapt to them. The alternative - which is no alternative - is to surrender and withdraw from the industry.

Our meeting in this forum demonstrates that we are not prepared to give up. It also gives us the opportunity to meet our contemporaries from around the world and share our experience and knowledge.

I believe this plays a crucial role in helping all of us to meet the challenges arising from change.

Thank you.