



DIVISION OF
INVESTMENT MANAGEMENT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

ACT ICA-40
SECTION _____
RULE 17f-5(c)(2)(iii)
PUBLIC
AVAILABILITY 7/13/95

July 13, 1995

Ms. Susane Chan, General Counsel
Mr. Suren D. Gangai, Principal Legal Adviser
Hongkong Securities Clearing Company Limited
12/F Chinachem Exchange Square
1 Hoi Wan Street
Quarry Bay, Hongkong

Dear Ms. Chan and Mr. Gangai:

Thank you for your letter of May 10, 1995 regarding the proposed changes to the operations of Hongkong Securities Clearing Company Limited ("Hongkong Clearing"). You state that Hongkong Clearing will terminate the Depository Contract now in place with Hongkong and Shanghai Bank Corporation Limited ("Hongkong Bank") and implement its own "in-house" depository operations.

Based on the information contained in your letter and the appendices, particularly your representation that Hongkong Clearing's in-house depository operations will provide the same functions and similar operational procedures as those services previously provided by Hongkong Bank, it does not appear that any amendment is necessary to our no-action response to Hongkong Clearing under Rule 17f-5(c)(2)(iii) of the Investment Company Act of 1940. 1/

If we can be of any additional assistance in this matter, please contact me at (202) 942-0660.

Sincerely,

John V. O'Hanlon
Special Counsel

1/ Hong Kong Securities Clearing Company Limited (pub. avail. Sept. 8, 1992).

HONGKONG CLEARING

香港結算



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

10 May 1995

Mr Thomas Harman
Chief Counsel
Investment Management Division
US Securities & Exchange Commission
450 Fifth Street, N.W.
Washington DC 20549
U.S.A.

Dear Mr Harman,

Re: Eligible Foreign Custodian and Hongkong Clearing's CCASS Central Depository

I refer to our letter of the 5th March 1992 and supplemental letters of 29th May, 24th June, 29th June, 23rd July, 28th July and 7th September 1992 and the supporting materials requesting your assurance that Hongkong Securities Clearing Company Limited (Hongkong Clearing) qualifies as an eligible foreign custodian pursuant to sub-paragraph (c)(2)(iii) of Rule 17f-5 under the Investment Company Act of 1940 and the subsequent grant of the "no action letter" dated 8th September 1992 (your ref No. 92-170-cc) (File No. 132-3), and write to inform you that Hongkong Clearing is in the process of developing its own "in-house" depository operations with the view to terminating the Depository Contract now in place with Hongkong and Shanghai Banking Corporation Limited (the "Hongkong Bank") as detailed in my said letters.

You may recall that Hongkong Clearing had for a period of three years appointed Hongkong Bank to operate the CCASS Central Depository on behalf of Hongkong Clearing, which appointment is due to expire on the 1st June 1995.

Because Hongkong Clearing proposes to commence direct in-house operations of the CCASS Central Depository from January 1996, the Depository Contract with Hongkong Bank has been extended for a period of six months until 31st December 1995 with an option to extend for further six months until June 1996.

Enclosed as **Appendix A** is an overview of the current operations and the proposed in-house depository operations, while **Appendix B** provides a detailed description of the proposed operations of the in-house depository.

In order to ensure a smooth transition and transfer of operations from Hongkong Bank to Hongkong Clearing and to avoid any loss of continuity, we would be obliged if you would advise us of any formalities we have to comply with to ensure that Hongkong Clearing's status as an eligible foreign custodian is continued and that the "no action letter" of the 8th



Page 2

Mr Thomas Harman

10 May 1995

Eligible Foreign Custodian and Hongkong Clearing's CCASS Central Depository

September 1992 will continue to apply to the in-house operations from January 1996.

I have enclosed herewith, for information, a copy of our latest Interim Report.

Should you require any further information please do not hesitate to contact either of the undersigned.

Yours sincerely,

Suzane Chan (Ms)
General Counsel
Legal & Secretarial Services Department

Suren D Gangai
Principal Legal Adviser
Chief Executive Office

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CURRENT AND PROPOSED IN-HOUSE DEPOSITORY OPERATIONS OVERVIEW

Current Depository Operation - Hongkong Bank being the operator

An overview of the current operations

To fulfil its duties and functions, Hongkong Clearing retained Hongkong Bank as its agent for the operation of the CCASS Depository, the central depository. To meet its contractual obligations Hongkong Bank established a specific organizational unit to provide depository and nominee services for CCASS. At present, there are approximately 150 staff assigned to the unit. However, the peak record was around 180 staff when the volume of depository activities reached the level of nearly 9,000 transactions per day recently.

The depository and nominee services computer system (CDS) employed by Hongkong Bank is a modification of their custodian and nominee system. The scope of functions covers vault inventory management, defective securities database maintenance and tracking, the keeping of audit trails on deposit and withdrawal activities and corporate events actioning.

To facilitate accurate and timely communication with CCASS, an electronic link with back-up arrangement has been established between Hongkong Clearing and Hongkong Bank for files transmission purposes.

For the purpose of confidentiality, CCASS participants' information is only disclosed to Hongkong Bank on a need-to-know basis.

Location of the CCASS Depository

The CCASS Depository and the Common Nominee Services operation unit is situated at Basement Level 1 and 2, 1 Queen's Road Central, Hong Kong at the main office of Hongkong Bank. A vault constructed within the confines of the existing vault at Basement Level 2 is used for safe-keeping of share certificates for CCASS. Counter services are provided at Basement Level 1. Total floor area including the vault occupied by the operation unit is around 17,000 square feet.

Back-up premises and facilities for the CCASS Depository and Nominee operations are provided by Hongkong Bank. If, for whatever reason, the usual premises and facilities become unavailable, such back-up premises and facilities will be made available by Hongkong Bank for use by participants.

Services provided by Hongkong Bank

Deposit

Hongkong Bank undertakes to provide, on each business day, facilities for the deposit of securities into the CCASS Depository by or on behalf of participants. The services include :

- sight checking deposit vouchers, share certificates and the transfer deeds to make sure that they are in good order before the participants' CCASS stock accounts are credited with the number of shares deposited, via CCASS terminals installed at the counters, and then followed with detail checking;
- capturing certificate numbers into the CDS system for defective securities tracking;
- sending the majority of the shares deposited by participants to registrars for immediate registration into the name of HKSCC Nominees Ltd (HKSCC Nominees). Some certificates are kept under "street name" (SN) to cater for withdrawal requests until book-close (the record date for entitlements).

Withdrawal

Hongkong Bank is obliged to provide, on each business day, facilities for the withdrawal of securities from the CCASS Depository by or on behalf of participants. To carry out its duties, Hongkong Bank:

- inspects withdrawal vouchers submitted by CCASS participants for appropriate authorization, delivers share certificates to participants at the counters and debits participants' stock accounts in CCASS via CCASS terminals. Telephone withdrawal pre-advice service is available to participants to reduce the turnaround time required for physical withdrawal of securities;
- causes an endorsement to be made on the transfer deed of the share certificates so withdrawn if the withdrawal is made for trade settlement purposes as required by the Hong Kong Inland Revenue Department.

Safe-keeping of securities

Hongkong Bank maintains two vaults for safe-keeping of share certificates for CCASS.

The main vault keeps the majority of share certificates, which are denominated as jumbo certificates for storage purposes and registered in the name of HKSCC Nominees.

The working vault contains scrip in board lots and odd lots for fulfilling day-to-day withdrawal requirements. Some of the scrip are kept in SN.

Nominee services

Hongkong Bank is also appointed by Hongkong Clearing to assist in the provision of nominee services to participants in respect of securities held in CCASS.

Hongkong Clearing, with the support from Hongkong Bank, monitors all corporate actions or activities affecting securities kept in CCASS and informs participants of all such actions and activities which require participants to take action in order to participate in them.

The duties and functions provided by Hongkong Bank in nominee services include:

- . **Announcement/communication**

To bring the relevant matters to the attention of the participants concerned or to arrange for the distribution of copies of relevant corporate communications to participants;

- . **Voting**

To send advice to participants, to obtain instructions from them and to vote on their behalf;

- . **Entitlements/actions (not requiring the exercise of discretion), such as dividend payments, issues of bonus shares**

To calculate the entitlements accrued to participants, to collect the entitlements and to distribute them to participants;

- . **Entitlements/actions (requiring the exercise of discretion), such as rights issues, take-overs offers**

To send advice to participants, to collect instructions from them and to take action on behalf; and

- . **Unclaimed entitlements**

To process claims made by participants on unclaimed benefits by inspecting relevant documents.

Observations regarding the current operations

- . Considerable management effort is expended by Hongkong Clearing and Hongkong Bank in coordinating the two systems, such as

- . reconciling and synchronizing the CDS records with CCASS records;

- developing enhancements to Hongkong Bank's operational procedures and systems to cater for new business requirements. Negotiations and possibly duplicative enhancement costs are normally required;
- assuring that Hongkong Clearing's policies are carried out on a timely basis according to the working procedures of the CCASS Depository which are governed by established procedural manuals.
- There are certain limitations and constraints in Hongkong Bank's system, in particular
 - the current depository and nominee services systems are a modified version of the Hongkong Bank's original custodian and nominee services systems which were developed some time ago. For many functions, supplementary manual operations are required, for example, to handle new and special corporate activities.
 - the size and transmission schedule of the interface files with CCASS are constrained by Hongkong Bank's computer operation and system capacity.
- Certain resource inefficiencies exist in the utilization of the CCASS's system, in particular
 - some of the CCASS job flows at day-end are dependent upon the interface files transmitted from Hongkong Bank; CCASS's day-end batch processing schedule is thus prolonged due to the different, and not easily reconciled, operational cycles.

The proposed in-house CCASS Depository Operation

An overview of the proposed in-house depository operations (new model)

The new model is a modification of the current model designed to provide the same functions and similar operational procedures along with an expanded scope of functions and improved integration of operations. A detail description of the operational features of the new model is set out in Appendix B.

Apart from operating the CCASS Depository at a ^①new location, the ^②volume of CCASS Depository activities, i.e., deposit and withdrawal transactions, is expected to fall over time because participants have now built up substantial holdings of stock inventory in CCASS. At the end of December 1993, share quantity under CCASS custody accounted for approximately 28% of the total shares issued by listed companies. With the introduction of direct stock admission into CCASS (of initial public offerings) in early 1994 and other policies, total stock under CCASS custody has continued to increase. As a result, the volume of the CCASS Depository transactions in the future is reasonably expected to be smaller than the current one.

Based on operational experience, however, it is envisaged that the volume of nominee services operations will grow significantly, at least in the same proportion as the increase in number of new stocks admitted into CCASS.

The new model will be operated by one operational unit using one computer system and set of procedures. It is expected that many of the constraints found in the current model would be resolved. The design of the new model also takes into consideration the operational experience gained and the lessons learned from situations encountered in the past three years.

Enhancement

In respect of depository services, major enhancements are incorporated into the new model, namely:

- . improvement of the internal control by the introduction of magnetic card transaction overriding mechanism at the counters and installation of bar code scanning system for tracking certificate details;
- . improvement of the inventory management system by capturing the following information
 - . the amount of shares sent for registration into the name of HKSCC Nominees or being kept in vault in SN;
 - . details of new certificates returned from registrars;
 - . optimal board lot level requirement; and
 - . online tracking of defective securities.
- . mechanisation of the withdrawal pre-advice services.

In respect of nominee services, the major enhancement under the new model is the mechanisation of the communication with participants by making use of the CCASS terminals to despatch to participants information and advice of corporate events and to receive instructions from participants on corporate activities which require them to take action.

Location

Since most CCASS participants are located in the Central and Admiralty districts of Hong Kong, the in-house CCASS Depository is to be located at Vicwood Plaza in Central. Based on the expectations of the demands on the future operations, the total floor area required for depository operations and vault space will be approximately 17,000 square feet.

Manpower

To operate the CCASS Depository under the new model, an additional headcount of 103 staff would be required, 86 of which would be to service the day-to-day

operations, the remaining would be supporting staff from other departments currently servicing CCASS and the current operations. Some of the required staff are in place due to Hongkong Clearing's original need to supervise and administrate the agency relationship with Hongkong Bank, and to provide nominee services to supplement those not covered by Hongkong Bank. Consequently, most of the senior managers of Hongkong Clearing's depository operations have been in place for several years. Except of some systems support staff, most of the staff to be recruited are for clerical positions.

System development

To facilitate the new model, a new software system is being developed by Andersen Consulting according to Hongkong Clearing's requirements. Andersen Consulting was the contractor for the development of the original CCASS software. The additional software for depository functions will be fully integrated with the existing CCASS software, database and network.

Backup Facilities

The CCASS system has fully redundant off-site hardware, software, database structure and data archives. In addition, the existing customer services centre for HKSCC Registrars Ltd, which includes teller windows, necessary CCASS terminals and strong room, will be reserved if off-site backup operation of the vault and counters becomes necessary.

Legal

Given there are few modifications in the operations under the new model, Hongkong Clearing's Legal Department will seek reconfirmation that Hongkong Clearing's Authorized Depository status conferred by the SEC and similar designations by overseas authorities, such as SEC in the U.S.A. and SFA in the U.K., is not affected. Each of these institutions will be contacted to confirm the designation status.

Risk implications and related matters

Market risk, credit risk and defective securities risk

Given that Hongkong Clearing's liability for defective securities and settlement of trades remains the same under the new model, Hongkong Clearing will not have additional exposure in the areas of market risk, credit risk and defective securities risk.

Operational risks and measures taken

Physical risk

This relates to losses arising from physical storage of share certificates in the vault and in transit, losses of certificates by theft or physical damage of share certificates.

To address this risk, proper internal control procedures, such as appointment of a security company to oversee transportation of certificates to and from registrars, full segregation of duties, physical access control and provision of timely management reports, will be in place. In addition, a vault 5,000 square feet in size, with a 2" thick door and 4" thick walls, with fire and burglar resistant materials up to the ceiling and inside panels of security steel fencing is under construction for the storage of share certificates. The vault will be clad in secure materials on six sides, such cladding meets the Australian Standard (which is equivalent to or exceeding insurance underwriters' criteria and which is also equivalent to the UL Class 2 Burglary Standard). Hongkong Clearing has engaged Guardforce Limited, a leading security services firm to manufacture and install the vault at Hongkong Clearing's premises. Regular and surprise physical stock counts will be carried out and checked against the underlying records for correctness. Potential risk exposure will be covered by physical all risk insurance cover.

Clerical errors and negligence

Hongkong Clearing may suffer loss due to clerical errors or negligence in the course of operating the depository and nominee services. Segregation of duties and maker-checker procedures will be established to minimize possible errors that might be made during daily operations.

To cover for the potential risk exposure arising from clerical errors or negligence, the existing Comprehensive Crime Insurance policy, which presently covers the current operations, will be re-assessed to ensure that Hongkong Clearing is sufficiently insured.

Merits of the new model

The merits of operating the whole range of depository and nominee services by Hongkong Clearing are as follows:

- the service standard provided to CCASS participants can be further raised by means of direct management and control;
- the extra effort spent on coordinating, synchronizing and reconciling records generated by two systems can be saved;
- a more effective use of CCASS system resources because the dependency on interface

files transmitted from Hongkong Bank can be eliminated;

modification of operating procedures and system enhancements can be adopted to cater for market demand.

internal policies can be carried out freely without the constraints and involvement of a third party.

staff resources can be allocated more efficiently by avoiding duplication of functions between organizations, cross training and development of staff for contingency and back-up purposes.

DESCRIPTION OF THE OPERATION OF THE IN-HOUSE DEPOSITORY OPERATION

Depository Services

Counter section

a. Deposit

- . Slight check deposit voucher and certificates before inputting the transaction.
- . Check voucher details against machine validation (by supervisor). Supervisor can validate transactions by magnetic card. Having initialled the voucher, a copy is given to the participant's courier.

b. Withdrawal

- . Participants input withdrawal instructions via their CCASS terminals.
- . Vault Section to extract withdrawal instructions from CCASS terminals and extract certificates.
- . Upon receipt of certificates from Vault Section, check that the certificate details conform with the attached system printout.
- . Retrieve withdrawal instructions details and authorize the transaction upon despatch of certificates to the authorized representative after his identity has been checked.
- . Keep not-yet-collected certificates in vault at day-end. Obtain the certificates from the vault next morning to await collection.

c. Further processing of stock deposits

- . Check details of certificates and transfer documents to make sure that they (a) agree with the details on the deposit voucher; and (b) are in good order.
- . Retrieve transaction via terminal to input certificate details, i.e., certificate numbers and denomination. Some job steps will become redundant with the bar code scanning system in operation.
- . In general, for operational convenience, a deposit transaction, which may involve numerous certificates, has to go through registration. However, the system will cater for the case when part of the shares deposited for one transaction need to be kept as SN shares while the rest have to be registered into CN name.
- . For those share certificates which are in the process of registration, the system will be able to record the date and the denominations of new shares returned following registration. Such information will be used

for compiling the estimated board lot level requirement for inventory management purpose.

Bad-titled certificates will be detected during online processing at the time of deposit. On the following working day, check report to inspect if any previous day's deposits involve bad-titled certificates. In addition, call over procedures will be applied (i.e., one person reads aloud and another person checks report) in respect of deposit transactions to ensure correctness of data input.

d. Rectification of errors

Input a void transaction to reverse an erroneous transaction if the mistake is spotted on the same day (before online function is cut off).
Input an adjustment transaction to increase/decrease a participant's share quantity if the mistake is spotted after the transaction day (after online function is cut off). In addition to the present information, the details must include:

- . date on which the original transaction was input. If applicable, the system will adjust the participant's entitlement quantity.
- . whether the original transaction was a deposit transaction. If so, the participant's cumulative deposit quantity will be adjusted accordingly.
- . details of reason for adjustment.

Transfer section

a. Certificates to be sent to registrars

Prepare for corporate events such as benefit entitlement, stock conversion and corporate action.

- . newly deposited certificates received from Counter Section
- . warrants to be converted, rights to be taken up and open offer to be accepted (based on participants' electronic conversion requests that have been consolidated by Nominee Section).
- . stocks subject to corporate action, e.g., consolidation, splitting, compulsory offer (based on instruction from Nominee Section).

Prepare transfer multi-set (to which copies of the deposit vouchers are attached) or conversion multi-set. A copy each of the multi-set is given to the registrar and Vault Section. The Transfer Section keeps two copies for further processing. The denomination required is obtained from Vault Section.

Send certificates to registrars by next day. Exceptions are (a) stocks on second ex-all date or last subscription day are sent for registration on same day; and (b) stocks handled by inactive registrars are sent for registration once a week.

. File transfer receipts in collection date order.

b. Certificates returned from registrars

- . Check transfer receipt file on a daily basis.
- . Collect from registrars on due date (except for inactive registrars which will be visited once a week).
- . Check the returned certificates against details on transfer/conversion multi-set, fill in the new certificate numbers on the multi-set.
- . Update details of new certificate to system by manual input. Obtain a system printout to verify correctness of input.
- . Pass the certificates, a copy of the transfer/conversion multi-set and system printout to Vault Section.

c. Processing Withdrawal

- . Cause HKSCC Nominee Ltd's chop (seal) on transfer documentation on behalf of selling brokers, if applicable.
- . Retrieve transaction via terminal to input or scan certificate details, i.e., certificate numbers and denomination. Obtain system printout.
- . After second check, pass certificates to Counter Section. The printout with certificate details is attached.

Vault section

a. Deposited shares to be directly filed

- . Receive deposited certificates from Counter Section. Copies of deposit vouchers and system printout of certificate details are attached.
- . After checking, file certificates to main vault or working vault.

b. Deposited shares to go through registration

- . Receive new certificates from Transfer Section. A copy of the relevant transfer multi-set (on which the certificate numbers are entered) and a system printout are attached.
- . After checking, file certificates to main vault or working vault.

c. Withdrawal

- . Based on withdrawal instructions extracted from the system, extract certificates from working vault and, if insufficient, from main vault. Keep record of stock movements between the two vaults.
- . For CN shares, complete transferor's part on transfer documentation and arrange to cause transferor's signature (machine or manual).

d. Corporate events

- . For stock conversions and corporate actions, extract relevant stock from vaults and pass to Transfer Section for registration arrangement.
- . File a copy of the conversion multi-set for reconciliation.
- . Receive new certificates from Transfer Section. A copy of the relevant conversion multi-set (on which the certificate numbers are entered) and a system printout are attached.
- . After checking, file certificates to main vault or working vault.
- . Review the denomination of certificates and decide whether jumbolized lot or board lot should be requested from registrars.
- . Update newly received bad title certificates information to system. Bad-titled certificates are detected during the day end batch processing. On the following working day, check report to determine whether any previous deposits involve bad-titled certificates.

Common nominee services

General Procedures for Corporate Events

- a. Make diary entries of announcements from newspapers into the Corporate Announcement worksheet and check with records from Stock Exchange of Hong Kong Limited.
- b. Input the details of Corporate Announcement into the host computer, to enable the system to calculate participants' entitlements.
- c. Check the Outstanding Corporate Announcement Report against worksheets to ensure that records are matched.
- d. If it is a corporate event requiring participants' action (e.g., entitlement election, rights, cash offer, corporate voting), prepare, through the CCASS terminals, an electronic advice detailing the corporate event and, if applicable, the available options. Participants can then elect for entitlement, request for stock conversion or specify voting instructions through CCASS terminals. Declaration is also made through the terminals.
- e. The system then calculates each participant's entitlement and then posts preliminary receivable items to the participant's entitlement statement.
- f. Thereafter, any adjustment to the shareholdings, if applicable, that immediately affect the participant's entitlement and adjustment entries are posted by system to the participant's entitlement statement automatically.
- g. For rights take-up, warrant conversion, open offer, co-ordination is necessary with

the Transfer Section to lodge the provisional allotment letters or share or warrant certificates for registration/conversion before last registration day.

- h. Holdings and entitlements are confirmed with registrar:
 - . On the first book-close day, send proforma to registrar.
 - . On day before the payable day, confirm by telephone.
- i. Upon receipt of entitlements, check the amount stated in cheque and the amount of scrip entitlement against the entitlement confirmation from registrar.
- j. Users confirm that an entitlement has been received; thereafter:
 - . the system posts the respective entitlement to the participant's entitlement account.
 - . the system then informs participants of the entitlements through automatically generated broadcast messages.
- k. The system provides on-line enquiry functions for the current stock balances of every stock, each including breakdowns of holdings, in vault and in transfer.

Other features

a. Benefit entitlement

- . the system handles cash dividends with currency option - distribution of money in currencies other than HK\$.
- . the system allows Hongkong Clearing the option to collect dividend collection fee or not.
- . Any adjustment to shareholdings and elected options can be processed on the payable day.
- . Entitlement options requested by participants are consolidated for reply to registrar.

b. Handling rights

- . Upon receiving electronic instructions from participants who want to subscribe for the shares, the system debits the rights holdings of the account of the participant and debit the subscription money from participant's money ledger.
- . Excess rights can be taken up by participants without parent holding.
- . the system refunds to participants the part of the subscription money for which the excess rights application is not successful and credits participant's account with the successfully subscribed shares.

c. Warrant conversion and takeover offer

Electronic warrant conversion advices are generated by the system one month before last conversion date.

dividend, credits the participant's stock account and debit Hongkong Clearing's unclaimed entitlement account.

Control services

- . Perform stock reconciliation on a daily basis.
- . Perform physical stock count on a periodic basis. A full count of each stock will be performed once a year on a rotation basis.
- . Check all corporate announcements input by the Common Nominee Section to ensure correctness.
- . Microfilm documents for all sections and destroy the original documents afterwards.

JUN 24 '92 03:40PM CHASE CUSTODIAN 852 810 7805

P.1

The Chase Manhattan Bank, N.A.
One Exchange Square, 40/F.,
Central, Hong Kong
Tel: 841-4321
Telex: 83830 CHASM HX



CHASE

PBI Securities (HK) Ltd
Fax 5256828

Attention: The Manager,
Securities Settlement Dept.

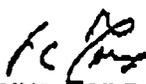
23 June 1992

Dear Sir,

As the CCASS implementation is around the corner, we want your awareness that due to Hong Kong Securities Clearing Co Ltd is still waiting a "no action letter" be granted by the US Securities and Exchange Commission in respect of the rule 17f5 of the Investment Company Act of 1940 which hinders our participation and settlement activities inside CCASS, we will stick to the current practice - settle all the trades physically outside CCASS until further notice.

Thank you for your kindly attention.

For further clarification, please feel free to contact the undersigned on 8414726 or Johnny Mak on 8414213.


Danny Tong
Assistant Manager
Custodian Services Dept.

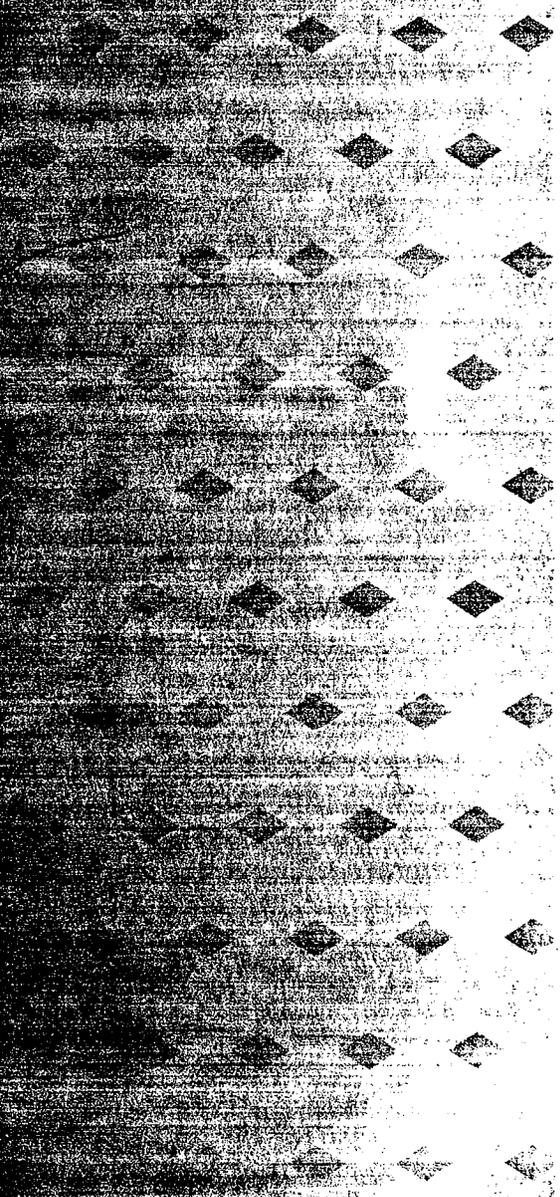
香港中央結算有限公司

HONG KONG CLEARING

中央結算



INTERIM REPORT 94-95 中期報告



CORPORATE INFORMATION

as at 22 February 1995

Board of Directors

CHAN Cho Chak, John
C.B.E., L.V.O., J.P.
(Chairman)
The Stock Exchange of Hong Kong Limited

LAM Haw Shun, Dennis
(First Deputy Chairman)
The Stock Exchange of Hong Kong Limited

CHAN Yuk Shee
(Deputy Chairman)
Appointed by the Financial Secretary

WILSON Ian Ramsay
(Deputy Chairman)
Standard Chartered Bank

AU Siu Kee, Alexander, J.P.
Hang Seng Bank Limited

CHAN Tat Cheong, Joe
The Stock Exchange of Hong Kong Limited

CHOW Man Yiu, Paul
The Stock Exchange of Hong Kong Limited

EBSWORTH William Robert
Appointed by the Financial Secretary

HECKINGER Richard Andrew
Hong Kong Securities Clearing Company Limited

HO Pak Cho, Denis Morgie
Appointed by the Financial Secretary

HUI Chiu Chung, Stephen
The Stock Exchange of Hong Kong Limited

KWONG Che Keung, Gordon
The Stock Exchange of Hong Kong Limited

LAI Kwok Kuen, Daniel
The Stock Exchange of Hong Kong Limited

LECKIE Stuart Hamilton, J.P.
Appointed by the Financial Secretary

LEE Jor Hung, Dennis
The Stock Exchange of Hong Kong Limited

LI Kai Cheong, Samson
The Bank of East Asia, Limited

ROBERTS Michael David
The Stock Exchange of Hong Kong Limited

TROOP Steven Geoffrey
The Hongkong and Shanghai Banking Corporation Limited

WITTS Richard Arthur
The Stock Exchange of Hong Kong Limited

YAP A. Donald, J.P.
Appointed by the Financial Secretary

YUE Wai Keung
The Stock Exchange of Hong Kong Limited

ZHOU Zhenxing
Bank of China

Chief Executive

HECKINGER Richard Andrew

Company Secretary

LAM Big Chee, Eva

Registered Office

12/F., Chinachem Exchange Square
1 Hoi Wan Street
Quarry Bay
Hong Kong

Auditors

KPMG Peat Marwick

INTERIM REPORT

I am pleased to present the interim report of Hong Kong Securities Clearing Company Limited for the first six months of the financial year, 1 July 1994 to 30 June 1995.

Financial

The company reported an unaudited surplus, after providing for tax, of \$67 million for the six months ended 31 December 1994, compared with \$94 million for the same period in 1993.

On 1 July, an additional discount on settlement charges was introduced, increasing the discount on settlement charges to 30 per cent. At the same time, some other fee saving advantages for participants were also introduced.

Revenue, after discounts, amounted to \$183 million, compared with \$224 million last year. Expenses, including amortisation of development expenditure and depreciation, amounted to \$104 million, compared with \$103 million for the same period last year. Premises expenses, depreciation and amortisation increased substantially because of the acquisition of a new mainframe computer and the installation of the new computer production centre in 1994. These increases were offset by decreases in legal and professional fees, interest expense and depository expenses.

Stock admission and participation

At the end of the period under review, 760 listed securities had been admitted for clearing and settlement in CCASS, compared with 681 on 31 December 1993. There were 562 participants (544 in 1993) comprising 496 stockbrokers, 63 custodians and three stock pledgees.

Following amendments to its Listing Rules, the Stock Exchange made it a requirement, with effect from 1 December, for new listings of equity securities including derivatives, to have been granted admission to CCASS on their first dealing date.

Operations

The period under review saw a reduction in Stock Exchange trading turnover, compared both with the same period last year and the first six months of 1994.

During the six month pe
trades. An average of 31,
shares with a market valu
period, an average of 10,
at \$10.4 billion were sett

Daily average trade nettin
settlement efficiency of co
settlement due day, rising

The company continued
the period under review.

In September, the comp
facilities had previously b
centre followed the inst
CCASS operations. The

New disciplinary procedu
responsibilities of particip
action against a participat

The company adopted it
previously been regulat

New settlement priori
transactions. Under the
and higher capital liquid
priority. The new criteri

By the end of the period
distributed overnight. Th
the previous financial ye
settlement and depository
historical reports.

INTERIM REPORT

rities Clearing Company
1994 to 30 June 1995.

for tax, of \$67 million for
billion for the same period

roduced, increasing the
ne, some other fee saving

ed with \$224 million last
nditure and depreciation,
he same period last year.
bstar because of the
on a new computer
decreases in legal and

ation
een admitted for clearing
er 1993. There were 562
ustodians and three stock

ge made it a requirement,
ties including derivatives,
ing date.

ading turnover, compared
of 1994.

During the six month period, CCASS handled 99.25 per cent of all Stock Exchange trades. An average of 31,079 Stock Exchange trades involving more than 851 million shares with a market value of \$3.5 billion, were processed daily in CCASS. In the same period, an average of 10,098 settlement instructions, involving 1.3 billion shares valued at \$10.4 billion were settled daily in CCASS.

Daily average trade netting efficiency for the period was 73.99 per cent and daily average settlement efficiency of continuous net settlement stock positions was 94.53 per cent on settlement due day, rising to 99.72 per cent on the next settlement day.

The company continued to expand its operational capacity and scope of services during the period under review.

In September, the company established its own computer back up centre. Back up facilities had previously been provided by a contractor. The opening of the new back up centre followed the installation of a new upgraded mainframe computer to service CCASS operations. The original computer became the back up computer.

New disciplinary procedures came into effect in July, which more clearly defined the responsibilities of participants, and the circumstances which would warrant disciplinary action against a participant.

The company adopted its own detailed rules for isolated trade settlement, which had previously been regulated by the Stock Exchange Rules.

New settlement priority criteria were introduced for settlement instruction transactions. Under the new criteria, participants will benefit from better cash flow and higher capital liquidity as higher value transactions will have higher settlement priority. The new criteria will also help improve overall settlement efficiency.

By the end of the period under review, 254 participants had arranged to receive reports distributed overnight. The overnight report distribution system was introduced during the previous financial year. It allows participants to perform critical tasks, such as settlement and depository activities, at the start of a business day, rather than collect historical reports.

INTERIM REPORT

On 31 December 1994, the company's subsidiary, HKSCC Registrars Limited was the Hong Kong share registrar for 15 China incorporated companies and two Hong Kong issuers of covered warrants.

The CCASS Depository

At the end of the period under review, almost 133.2 billion shares (1993 - 92 billion) were in the custody of the Depository, representing 31.98 per cent (1993 - 27.48 per cent) of the issued shares of listed companies whose securities had been admitted to CCASS. The market value of the shares was \$464.3 billion (1993 - \$584.1 billion) representing 21.46 per cent of the market capitalisation of these companies (1993 - 19.26 per cent).

During the first half of the financial year, the Depository handled an average of 1,511 deposit and withdrawal transactions daily (1993 - 3,906), involving 65,731 share certificates (1993 - 227,387).

The Depository is currently being operated satisfactorily by a contractor. The company has announced that it will establish its own depository which is expected to become operational in 1996.

Outlook

Since the Company's revenue is largely related to market turnover which is always difficult to predict, it is not possible to make accurate projections. Nevertheless, Hong Kong's economy remains strong and is forecast to continue to grow.

Hongkong Clearing will remain responsive to the needs of CCASS users and continue to seek ways of reducing the risk and cost of securities clearing and settlement.

John Chan Cho Chak

Chairman

22 February 1995

INCOME

Stock clearing and settlement
Depository, custody and non
Registration and transfer fee
Share registration services fee
Service bureau fees
Other revenues (net)
Bank and other interest income

Fee discounts to participants

EXPENDITURE

Staff expenses
Premises expenses
Promotion, publications and
Maintenance and network
Legal and professional fees
General administrative expenses
Financial expenses
Depository expenses (Note
Share registration services fee
Depreciation, amortisation
on disposal of fixed assets
Deficit on Guarantee Fund

Less : Depository development

SURPLUS BEFORE TAX

TAXATION (Notes 1&2)

SURPLUS AFTER TAX

Retained surplus at beginning
Retained surplus at end of period

Note 1: The 1993 comparative amounting to HK\$6,5

Note 2: Taxation consists of Hong Kong profits for the period, arising during the period

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

Unaudited
for the six months ended 31 December 1994

Expressed in Hong Kong dollars

| | 1994 | 1993 |
|---|----------|----------|
| | \$'000 | \$'000 |
| INCOME | | |
| Stock clearing and settlement fees | 160,294 | 216,370 |
| Depository, custody and nominee services fees | 27,833 | 18,612 |
| Registration and transfer fees on nominee services (net) | 31,718 | 9,212 |
| Share registration services fees | 2,266 | 2,775 |
| Service bureau fees | 108 | 163 |
| Other revenues (net) | 1,013 | 827 |
| Bank and other interest income | 3,609 | 717 |
| | 226,841 | 248,676 |
| Fee discounts to participants | (43,679) | (24,445) |
| | 183,162 | 224,231 |
| EXPENDITURE | | |
| Staff expenses | 37,429 | 37,882 |
| Premises expenses | 13,488 | 6,852 |
| Promotion, publications and training | 1,103 | 1,184 |
| Maintenance and network expenses | 7,248 | 6,810 |
| Legal and professional fees | 487 | 2,628 |
| General administrative expenses | 3,998 | 3,343 |
| Financial expenses | 218 | 3,513 |
| Depository expenses (Note 1) | 13,618 | 19,809 |
| Share registration services expenses | 171 | 2,116 |
| Depreciation, amortisation and loss/(profit) on disposal of fixed assets | 29,510 | 19,298 |
| Deficit on Guarantee Fund | - | 51 |
| | 107,270 | 103,486 |
| Less : Depository development expenditure capitalised | (3,459) | - |
| | 103,811 | 103,486 |
| SURPLUS BEFORE TAXATION | 79,351 | 120,745 |
| TAXATION (Notes 1&2) | (12,437) | (27,050) |
| SURPLUS AFTER TAXATION | 66,914 | 93,695 |
| Retained surplus at beginning of period | 46,359 | 27,697 |
| Retained surplus at end of period | 113,273 | 121,392 |

Note 1: The 1993 comparative figures have taken into account adjustments of overprovision of depository expenses amounting to HK\$6,542,000, and the consequential increase in tax provision of HK\$1,145,000.

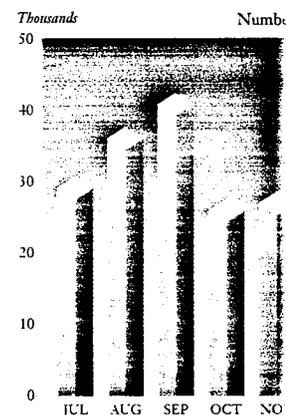
Note 2: Taxation consists of Hong Kong Profits Tax provided at 16.5% (1993: 17.5%) on the estimated assessable profits for the period, and deferred taxation calculated at 16.5% (1993: 17.5%) on the timing differences arising during the period.

OPERATING STATEMENT
OF GUARANTEE FUND ESTABLISHED UNDER
CCASS GENERAL RULE 2501

Unaudited
for the six months ended 31 December 1994

OP

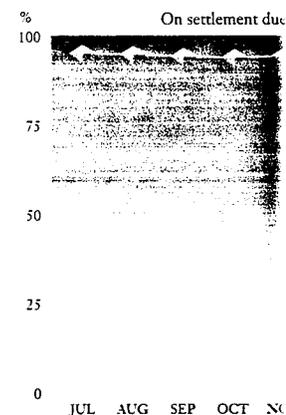
| | <i>Expressed in Hong Kong dollars</i> | |
|--|---------------------------------------|--------------|
| | 1994 | 1993 |
| | \$'000 | \$'000 |
| INCOME | | |
| Interest income on broker participants' contributions | 2,361 | 1,505 |
| Interest income on contribution from Hong Kong Securities Clearing Company Limited | 810 | - |
| | <u>3,171</u> | <u>1,505</u> |
| EXPENDITURE | | |
| Interest to broker participants | 493 | 222 |
| Insurance | 1,449 | 1,489 |
| Arrangement fee for standby loan facility | - | 62 |
| | <u>1,942</u> | <u>1,773</u> |
| OPERATING SURPLUS/(DEFICIT) | 1,229 | (268) |
| Deficit transferred to the Company's Consolidated Income and Expenditure Account | - | 51 |
| SURPLUS/(DEFICIT) FOR THE PERIOD | 1,229 | (217) |
| Retained surplus at beginning of period | 207 | 217 |
| Retained surplus at end of period | <u>1,436</u> | <u>-</u> |



Funds netting under CN

| | <i>Money obligations arising from novated contracts (\$ billion)</i> |
|-----------|--|
| July | 6.0 |
| August | 7.5 |
| September | 8.2 |
| October | 5.5 |
| November | 5.5 |
| December | 5.0 |

Funds netting efficiency is the ratio of novated contracts are reduced to a participant after netting money obligations.



INDEX

OPERATIONS HIGHLIGHTS

for the six months ended 31 December 1994

Expressed in Hong Kong dollars

1994 1993
\$'000 \$'000

2,361 1,505

810 -

3,171 1,505

493 222

1,449 1,489

- 62

1,942 1,773

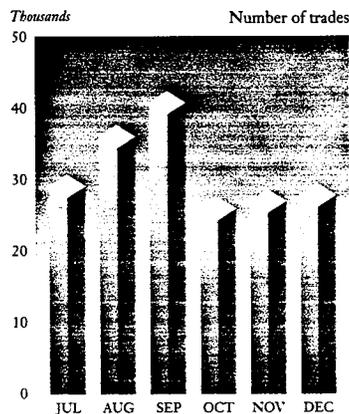
1,229 (268)

- 51

1,229 (217)

207 217

1,436 -



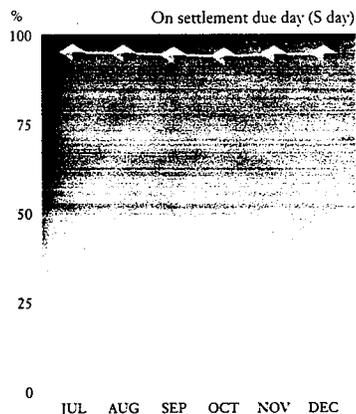
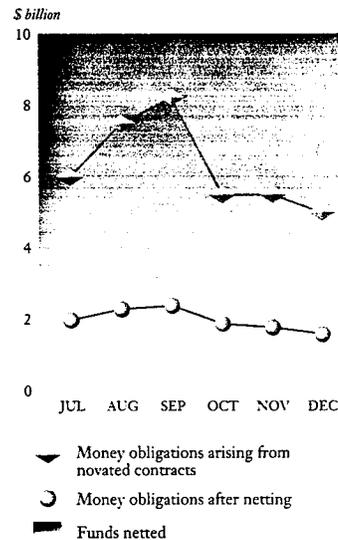
Average daily Stock Exchange trades processed in CCASS (including CNS trades, isolated trades and cross trades)

| | Number of trades | % of total number of Stock Exchange trades | Number of shares involved (billion) | Value of trades (\$ billion) |
|-----------|------------------|--|-------------------------------------|------------------------------|
| July | 29,033 | 98.79 | 0.8 | 3.3 |
| August | 35,940 | 99.12 | 0.9 | 4.1 |
| September | 40,664 | 99.47 | 1.0 | 4.6 |
| October | 25,818 | 99.31 | 0.8 | 3.1 |
| November | 26,891 | 99.34 | 0.8 | 3.0 |
| December | 27,686 | 99.49 | 0.8 | 2.8 |

Funds netting under CNS (daily average figures)

| | Money obligations arising from novated contracts (\$ billion) | Money obligations after netting (\$ billion) | Funds netting efficiency (%) |
|-----------|---|--|------------------------------|
| July | 6.0 | 2.0 | 65.77 |
| August | 7.5 | 2.3 | 69.04 |
| September | 8.2 | 2.4 | 70.80 |
| October | 5.5 | 1.9 | 64.61 |
| November | 5.5 | 1.8 | 66.16 |
| December | 5.0 | 1.6 | 66.28 |

Funds netting efficiency is the rate money obligations arising from novated contracts are reduced to a final money position for each broker participant after netting money obligations of same stock and cross stock.

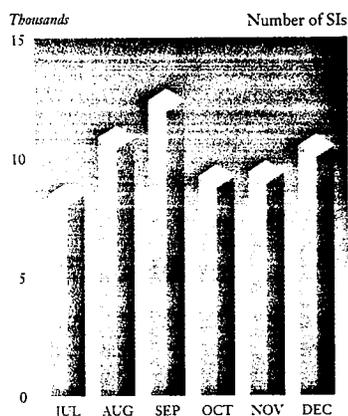


Average daily settlement efficiency of CNS stock positions

| | Settlement efficiency (%) | |
|-----------|---------------------------|---------|
| | S day | S+1 day |
| July | 95.04 | 99.72 |
| August | 94.74 | 99.74 |
| September | 94.30 | 99.75 |
| October | 94.04 | 99.68 |
| November | 94.49 | 99.76 |
| December | 94.53 | 99.69 |

OPERATIONS HIGHLIGHTS

for the six months ended 31 December 1994

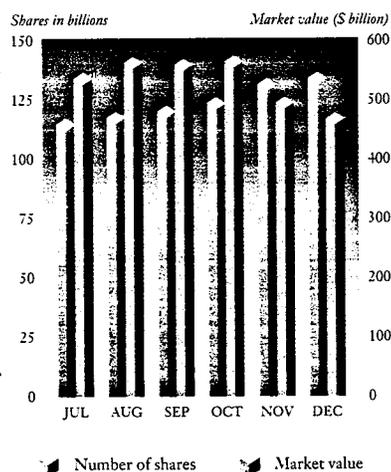


Average daily settlement instructions (SIs) settled in CCASS (both delivering and receiving SIs are counted)

| | Number of SIs | SIs by shares (billion) | SIs by value (\$ billion) |
|-----------|---------------|-------------------------|---------------------------|
| July | 8,427 | 1.2 | 8.9 |
| August | 10,816 | 1.4 | 11.3 |
| September | 12,361 | 1.6 | 12.2 |
| October | 9,169 | 1.2 | 9.6 |
| November | 9,339 | 1.3 | 8.5 |
| December | 10,453 | 1.4 | 12.1 |

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

| | Number of shares (billion) | % of issued shares of admitted securities | Market value (\$ billion) | % of market capitalisation of admitted securities |
|-----------|----------------------------|---|---------------------------|---|
| July | 114.0 | 29.04 | 531.9 | 21.18 |
| August | 116.6 | 29.27 | 558.3 | 21.28 |
| September | 119.3 | 29.48 | 555.3 | 21.68 |
| October | 122.7 | 29.83 | 560.6 | 21.79 |
| November | 130.5 | 30.56 | 491.2 | 21.60 |
| December | 133.2 | 31.98 | 464.3 | 21.46 |



董事會

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(第一副主席)
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由財政司委任

華禮信
(副主席)
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由財政司委任

何敬鏘
香港中央結算有限公

何柏初
由財政司委任

許照中
香港聯合交易所有限

鄺志強
香港聯合交易所有限

賴國權
香港聯合交易所有限