

Convergence of Infrastructure of Exchanges and Impact on Local Market and the Region

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Andrew Sheng

Chairman

Securities and Futures Commission

Global Market Trends

1. **Technology driving financial market innovation & competition;**
2. **Global network - local laws;**
3. **Adoption of common standards; and**
4. **Convergence of exchanges/clearing houses.**



SCEFI - Steering Committee on the Enhancement of the Financial Infrastructure of Hong Kong

1. Mission

- ⇒ **identify risks in Hong Kong's multiple clearing systems and suggest ways of improvement;**
- ⇒ **review technology in clearing/settlement and applications to enhance efficiency and risk management;**
- ⇒ **study feasibility of integration of securities clearing with RTGS payment system; and**
- ⇒ **draw up action plan.**

SCEFI

2. Consultations with market

- ⇒ Input from User Working Group; and
- ⇒ Technology Working Group.

3. Draft Report completed in September 1999

Guiding Principles for Sustained Competitiveness

1. Transparency and **risk management** are fundamental to the health and stability of market.
2. **Straight-through processing** captures transactions at source, eliminates manual steps, and completes the processing automatically and seamlessly.

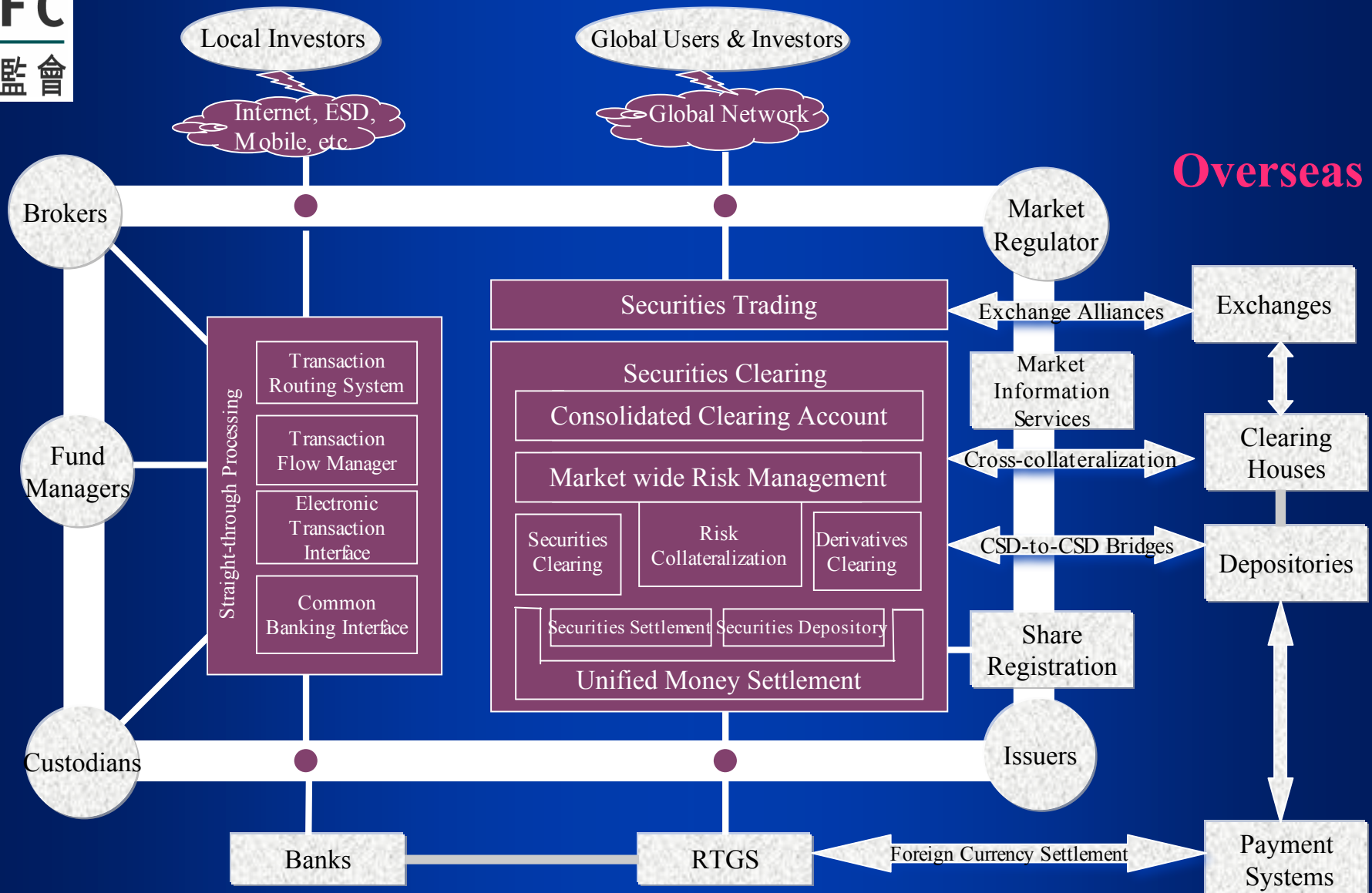
Guiding Principles for Sustained Competitiveness

3. **Finality and timely settlement** of trades is a fundamental market requirement.
4. **Compliance to international standards and adoption of best practices** (e.g., RTGS, appropriate coding schemes such as ISIN & BIC) pre-requisite for global market operational efficiency and risk management.

Guiding Principles for Sustained Competitiveness

5. **Strategic Alliances** with leading markets and financial centres is gateway for accessing global markets, window to technology and key to Hong Kong's sustained competitiveness as an international financial centre.
6. **Openness to IT innovation** and application of state-of-art technology to securities trading and settlement.

Financial Infrastructure for The Future?



Issues for all markets

1. Single clearing arrangement?

Single and integrated clearing arrangement for the securities and derivatives markets would assist:

- ⇒ portfolio-based risk management (including the widest range of cross-margining);
- ⇒ real-time and centralized position management;
- ⇒ cross-market surveillance;
- ⇒ centralized lending and collateral pool; and
- ⇒ unified money settlement.

Cost savings through STP

2. **Straight-through processing:**

Electronic order-book, trading, settlement and payment would be facilitated through STP. Hong Kong will achieve a high degree of STP after:

- ⇒ migration of futures market to electronic trading;
- ⇒ consolidation of clearing of futures and options; and
- ⇒ implementation of AMS/3 2000 for the securities market.

Scripless securities market

3. Scripless securities market:

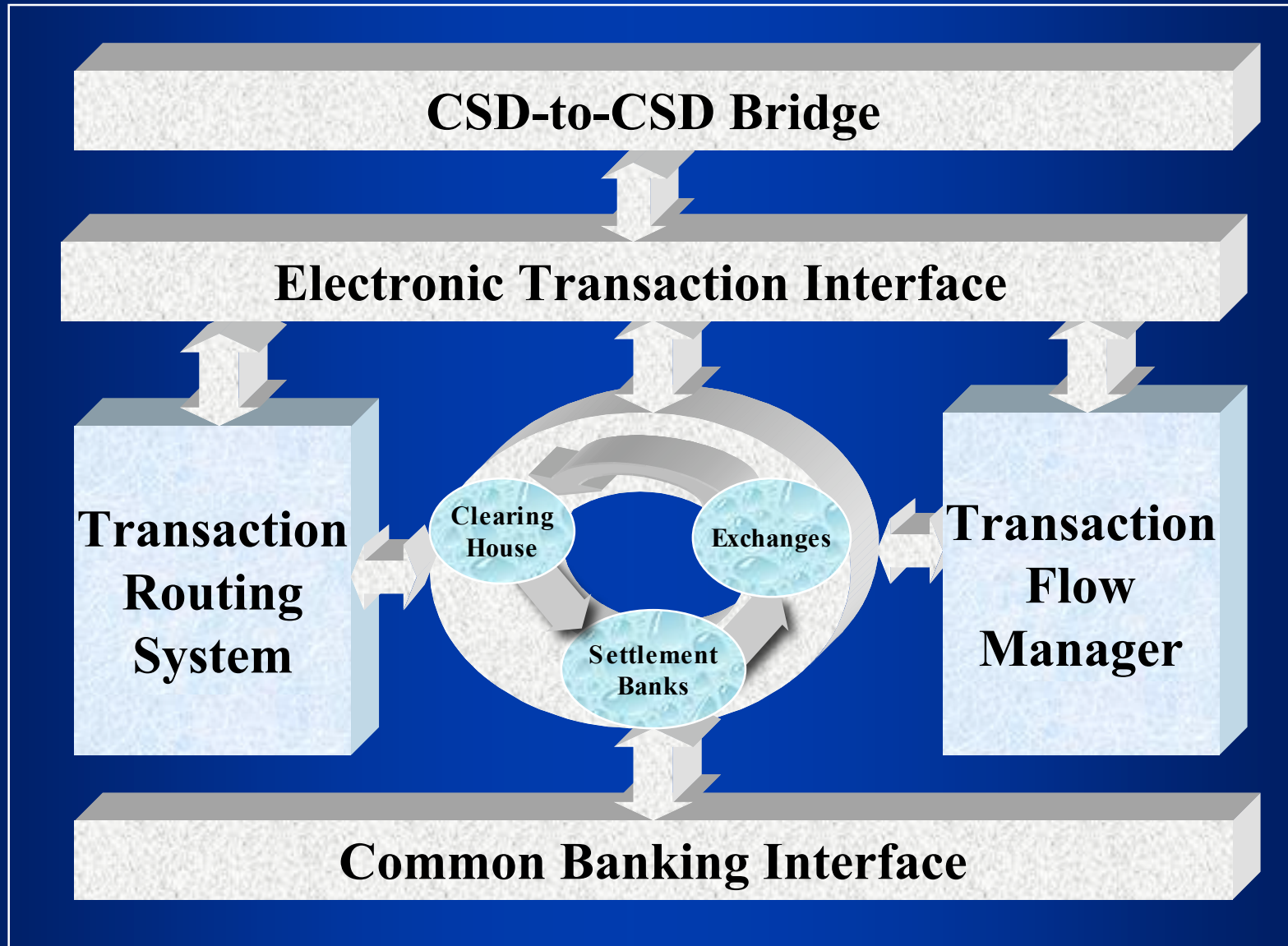
STP requires Scripless securities and resolution on issues such as:

- ⇒ CSD linkage to registrars;
- ⇒ electronic and instantaneous registration;
- ⇒ extent of direct participation in CSD;
- ⇒ incentives to move to scripless environment; and
- ⇒ dematerialization.

Building the Global-based Financial Infrastructure

4. **Building a robust technology structure:** As an international financial centre, the infrastructure should allow the following:
- ⇒ provide integrated platform for risk management and STP for all markets/products;
 - ⇒ support unified, cost efficient, open and round-the-clock access for markets in Hong Kong and overseas;
 - ⇒ allow interoperability between and among different local and overseas systems; and
 - ⇒ highly robust in its availability and reliability.

Local-Global Financial Infrastructure



Regulatory Issues

Key regulatory issues under review include:

- ⇒ **determination of legal/contractual relationships between counterparties arising from STP, scripless market environment; and**
- ⇒ **enactment of Electronic Transaction Bill to provide legal standing and protection of electronic documents in facilitation of STP and scripless market.**

Enhancement of Local & Regional Markets

- ⇒ **Financial markets are networks with clusters and hubs;**
- ⇒ **Networks have positive and negative externality, such as the transmission of shocks;**
- ⇒ **Regional and global markets gain, when each centre strengthens its own financial infrastructure, with operational, risk management, legal and regulatory standards and practices that are universal best practice.**