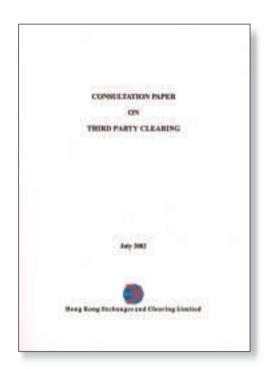
Third Party Clearing Set Aside after Market Consultation



In July 2002, HKEx issued a consultation paper to solicit comments from Stock Exchange Participants and market practitioners on the possible introduction of a Third Party Clearing (TPC) service in the securities market. When the consultation closed in August 2002, HKEx had received a total of 16 submissions – five from professional associations and 11 from CCASS (Central Clearing and Settlement System) Participants.

Submissions to Consultation Paper on Third Party Clearing

Category	Number
Bank	6
Broker	5
Broker association	4
Bank association	1
Total	16

In summary, the comments focused mainly on three areas of the proposed TPC model, admission requirements, management of risk exposure of Non-Clearing Participants (NCPs) and the detailed TPC arrangements between the General Clearing Participants (GCPs) and NCPs. While a fair number of respondents were generally positive about the TPC concept, there were many questions about the tangible benefits that would be realised, the additional risks that would be assumed by the GCPs and the price they ought to pay for such a service. There were also concerns about client confidentiality, costs and possible trading limits imposed by GCPs on NCPs.

The issues that have been raised are not the kind that are easily resolved and given the current business environment, the immediate demand for the TPC service would appear to be limited. In light of these factors and the comments that were submitted, HKEx has decided to put the introduction of TPC on hold for the time being. Nevertheless, HKEx will continue to study this subject and discuss it with market participants to stay abreast of their business needs, which may change in future. HKEx continues to welcome suggestions from the market on the introduction of TPC services.