Next Generation Post trade programme update

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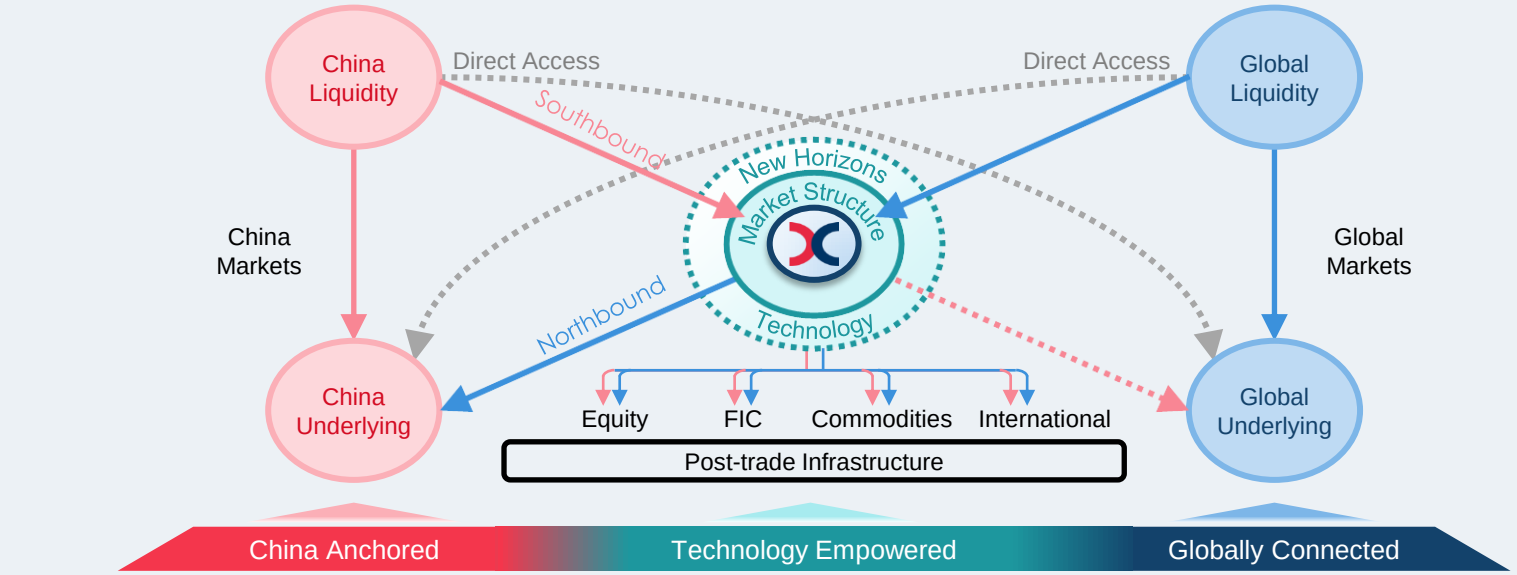
AGENDA

1. HKEX Strategic Plan and Post-Trade Strategy
2. Next Generation Post-Trade Programme Update
3. Client Connect
4. Q&A

Our 3 Year Strategic Plan

Strategic Vision

The Global Markets Leader in the Asian Time Zone – Connecting China, Connecting the World



Facilitating China's internationalisation and investment diversification

Leveraging new technology for modernisation and growth

Bringing global liquidity to China and Asia Pacific underlying

Our Post-Trade Strategy

Provide greater choice of services within our post trade operating model
Engage and collaborate with Market Participants to enhance our service offering

Modernise Core Infrastructure

1. **Transform systems infrastructure** to strengthen core operating capabilities and support digitization of trade processes
2. **Scale our core systems** to enable liquidity growth and cross-asset class support

Improve Access Model

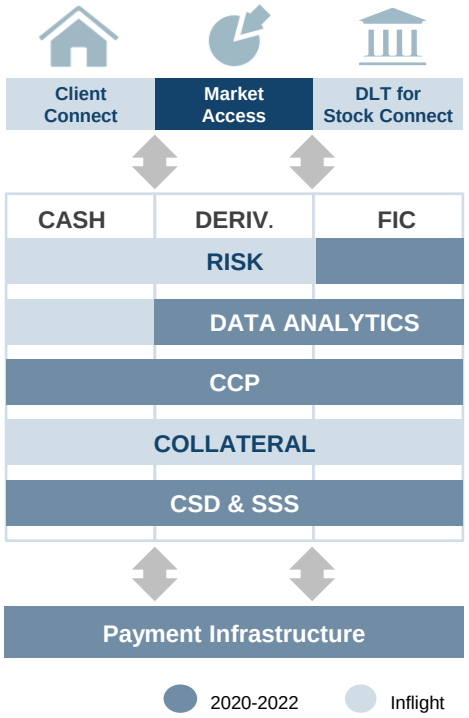
1. **Expand client access models** that enable flexibility and integration with back office services
2. **Enhanced STP connectivity** (ISO20022, DLT) across HKEX post-trade infrastructure

Enhance Capital Efficiency

1. **Rationalising risk management models**; increase accuracy, efficiency and resiliency of framework
2. **Structural membership and entity enhancements** simplify CCP entity structures to generate capital efficiencies for clients

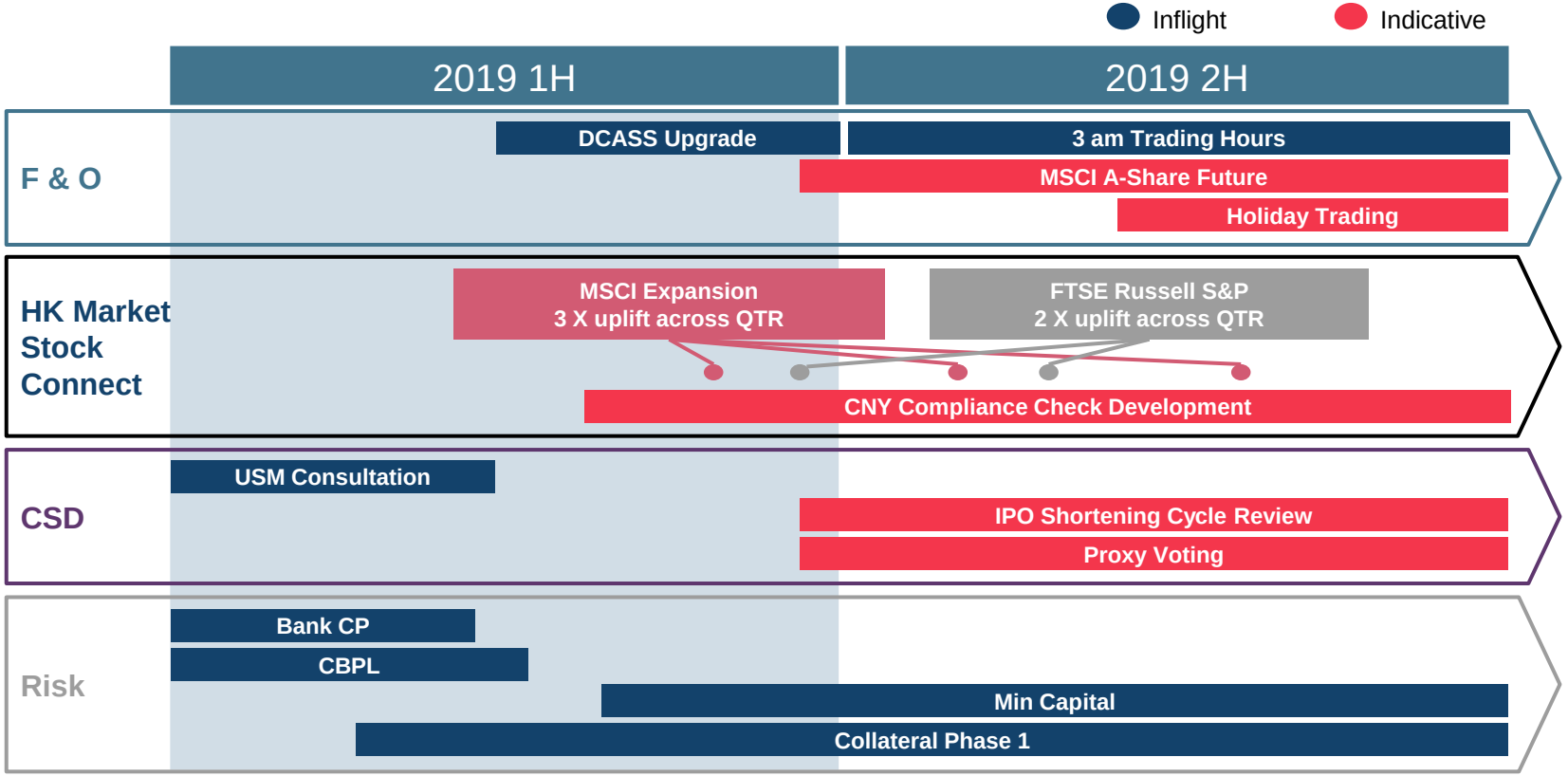
Increase Operational Resilience

1. **Automation and simplification of post-trade processes** to simplify and enhance operational control
2. **Integrated analytics and risk management** to enhance oversight



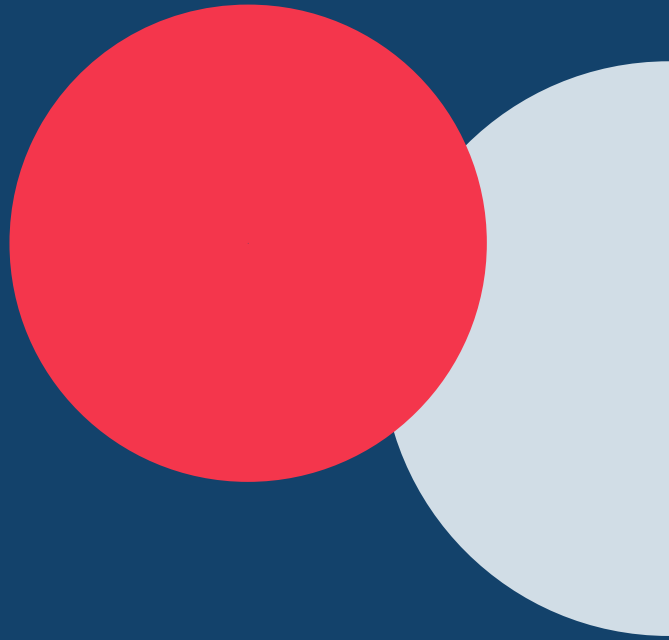
Equities & F&O 2019

Roadmap and Timeline of Key Initiatives

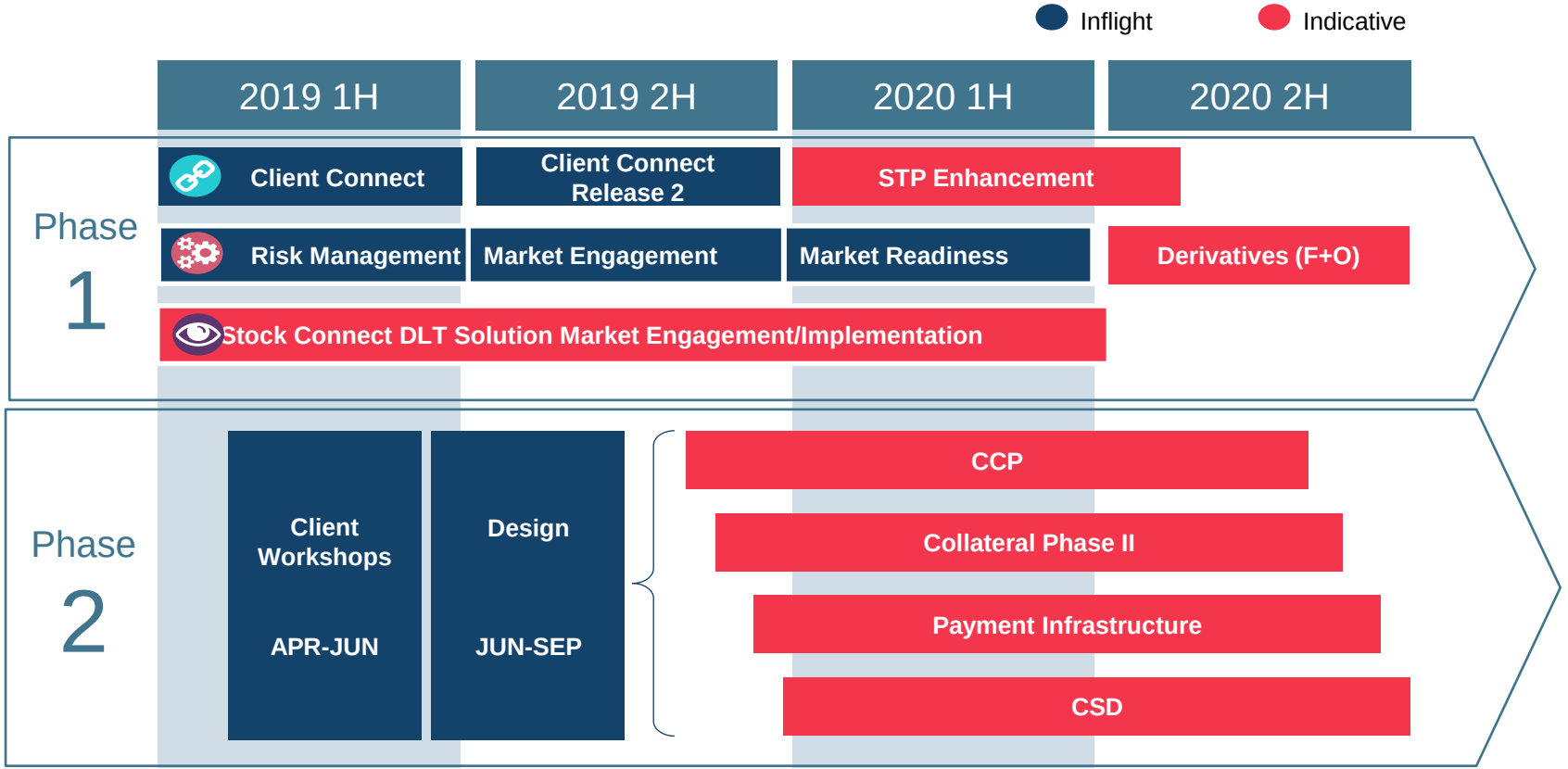


*All Indicative rollout dates and subject to change at HKEX discretion

Next Generation Post Trade Programme



Modernising Hong Kong's Post-Trade Environment



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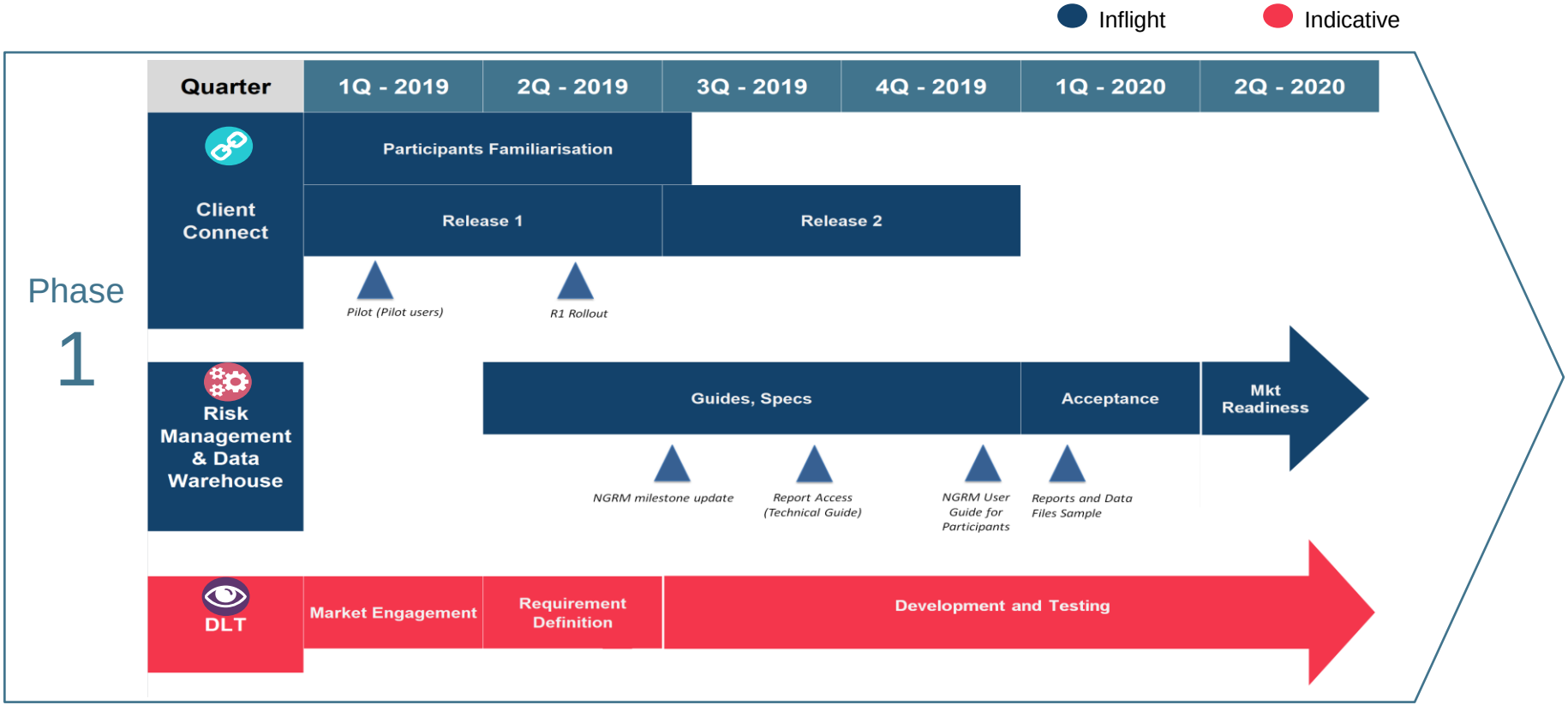
Programme Timeline – Phase One



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Next Generation Risk Management

HKSCC Initial Margin Framework – Drivers for Change

1 Safer Clearing House

- Improves safety, integrity and efficiency of HK securities market
- Enhances robustness and resilience of Central Clearing counter Party (CCP) and markets

2 Risk-based approach

- Initial Margin (IM) and Default Fund (DF) better reflect the portfolio risk of each CP
- Higher IM requirement for portfolios with higher risk
- Reinforces the “defaulter-pays” principle

3 Participant Capital Efficiency

- Higher capital efficiency for CPs due to lower risk-based margin requirements → essential for maintaining Hong Kong’s competitiveness in global financial market

4 International best practices

- Consistent with global and peer CCPs best practices
- Positive feedback from market consultation
- Adhere to the evolving international standards

Next Generation Risk Management

Accurate, efficient, robust risk management framework to allow clients to optimise their balance sheets

Margining And Risk Management Tools

- Enhanced portfolio margining framework for cross-asset optimisation
- Automated risk and data analytics tools for clients
- Sets HKEX at forefront of international best practice for risk management

Key Structural CCP Enhancements

- Rationalisation of legal entities, membership agreements and rulebook
- Consolidation of default funds increase capital efficiencies and support asset class growth
- Upgrade collateral services for clients to optimise inventory

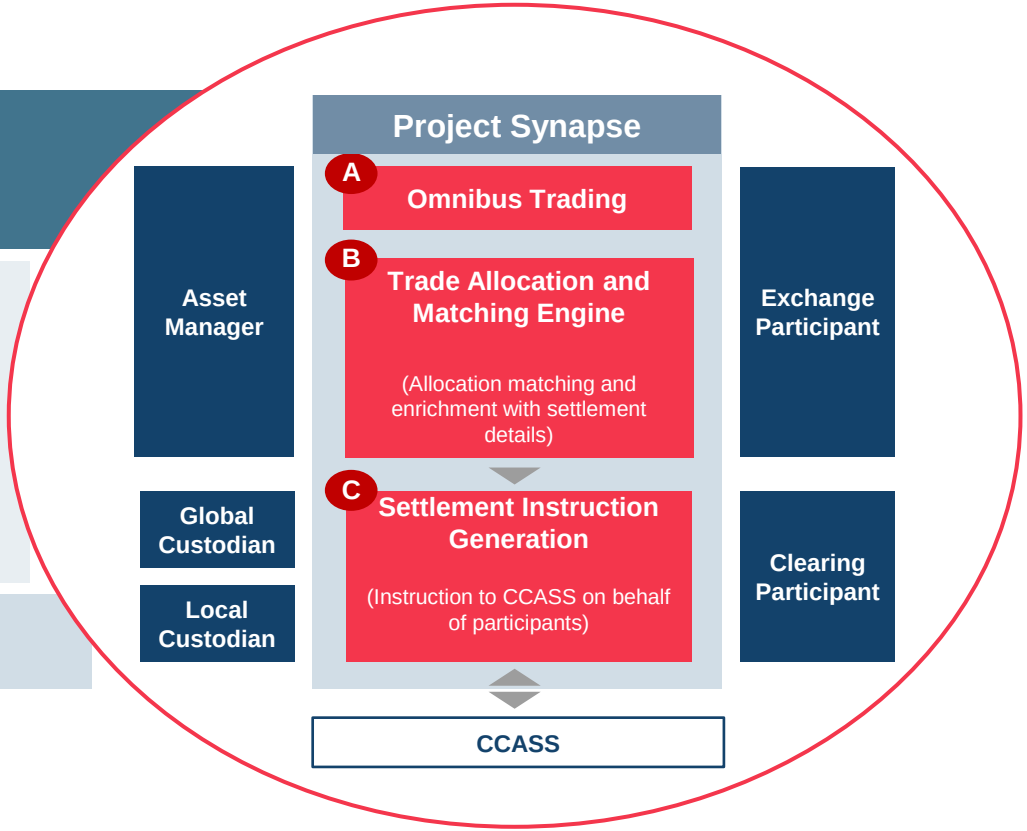
A single risk engine and simplified CCP entity structure generate capital efficiencies for clients

Stock Connect DLT Solution for Northbound
Value Added Service

Leverage DLT Technology to Resolve Current Stock Connect Operational Constraints and Risks

- **On-going market engagement with interested Participants**
- **Minimize Participants technology investment**
- **New technology to support common market standards**
- **Market best practice**

Supported by top Asset Managers, Global and Local Custodians, Market Participants.



For Further Information

NEXTGEN UPDATE

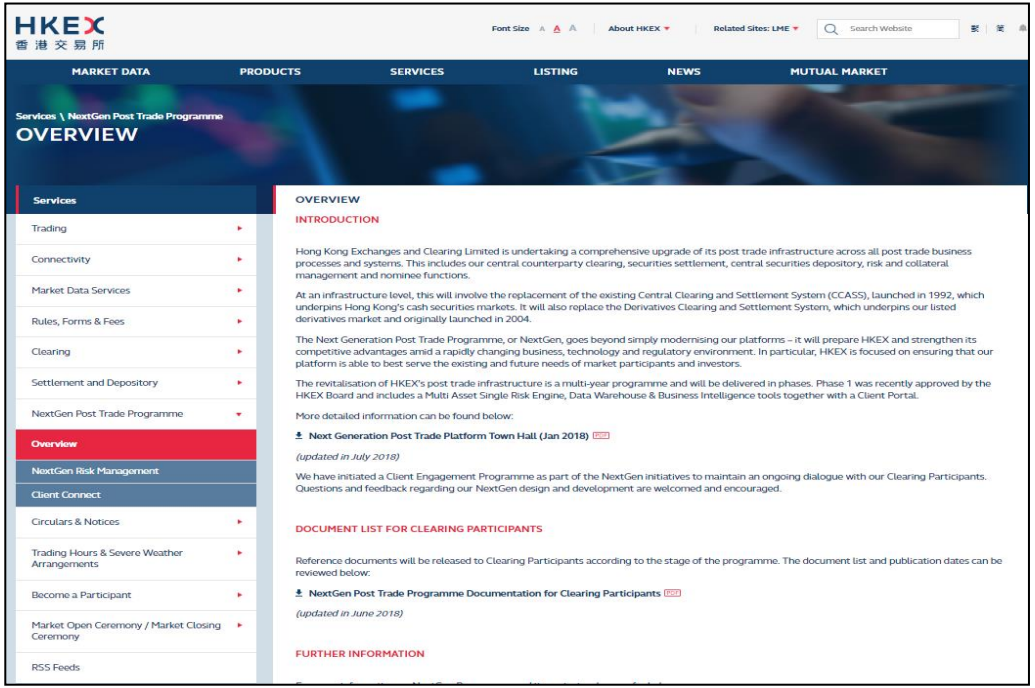
1) NextGen Post Trade Programme notification alert

2) Submit online enquiry on NextGen Post Trade Programme

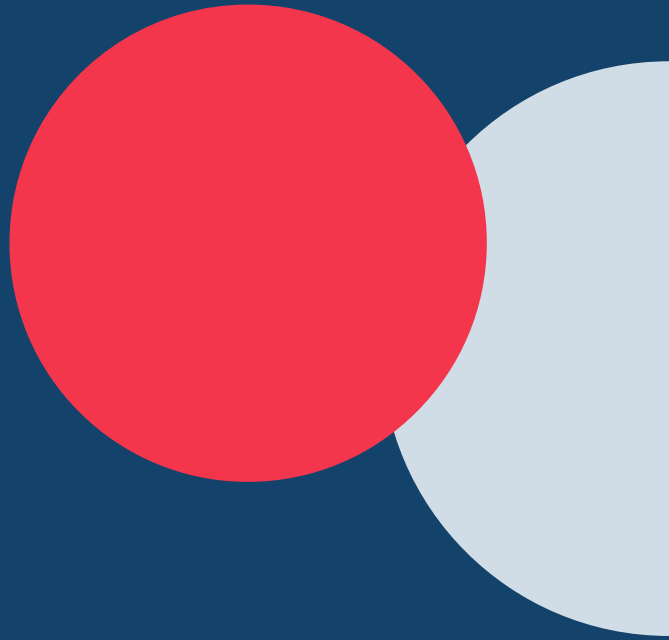
3) Contact NG Post-Trade Business Development Team

Website: https://www.hkex.com.hk/Services/Next-Generation-Post-Trade-Programme/Overview?sc_lang=en

Email: NG_PostTrade@hkex.com.hk

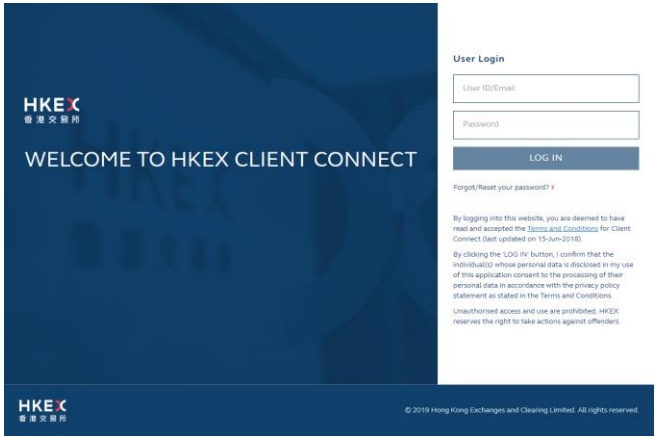


Client Connect



Client Connect

Aggregate client access through a secure, integrated portal



- **Digitise** majority of paper-based services
- Access service from **anywhere** at **anytime**
- **No** physical signatures and company chops
- **Full audit trail** of the service request process
- **STP** of existing processes

Streamlining 60+ paper forms into

43

e-Services

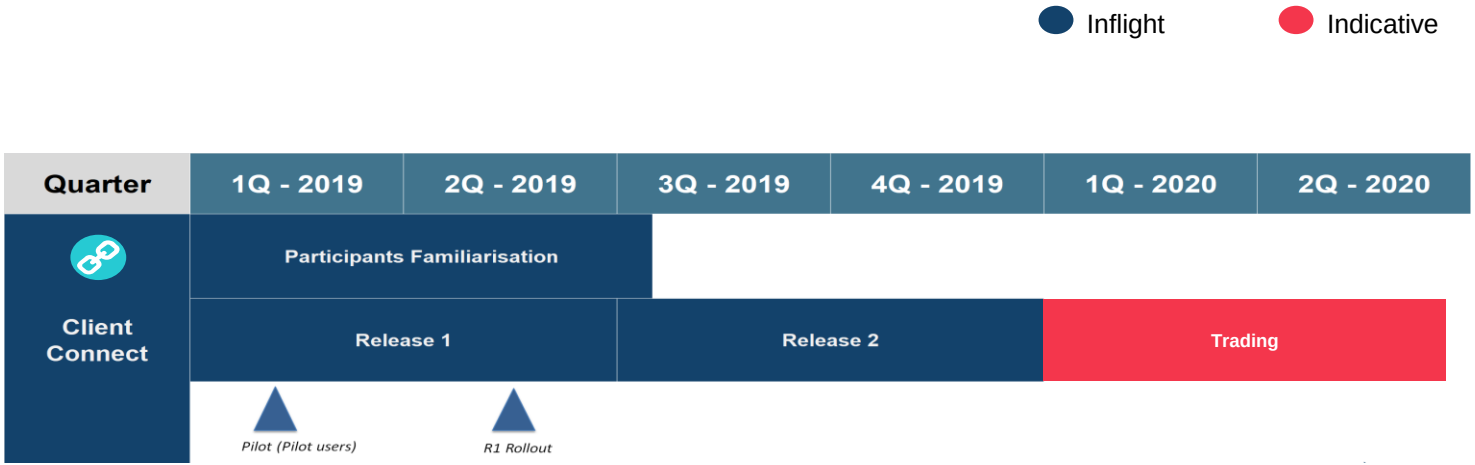
including SPSA Maintenance, ETF Creation / Redemption

Expected to reduce operational work by

> 30%

https://connect.hkex.com.hk

Client Connect – Timeline



Rolling out in phases, with continuous delivery as functionality is ready

**All Indicative rollout dates and subject to change at HKEX discretion*

Client Connect – Key Dates

Key Dates

Pilot launch – 14th May 2019

Client Connect Day – 15th, 16th , 20th May 2019 in Connect Hall
Introduction and tutorials – Don't miss out and Sign up!

On-boarding

Complete and return the 'Client Connect Delegated Administrator Rights Application / Maintenance Form'

- HKEX Website > NextGen Post Trade Programme > Client Connect
- Client Connect Delegated Administrator Rights Application Form

Client Connect – Contact

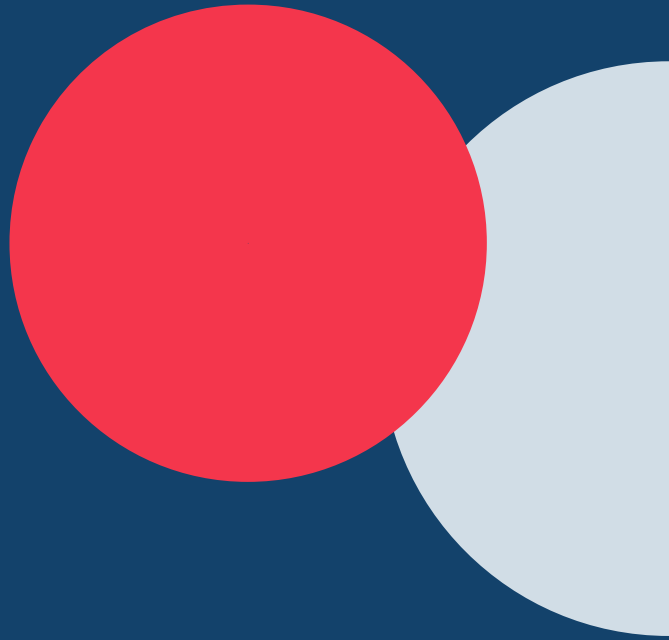
Client Connect operations enquiries:

Clearing Infrastructure, Products and Services Department
Hotline: 2979 7111 / 2979 7222
Email: ClearingPS@hkex.com.hk

Client Connect information:

Email: ClientConnect@hkex.com.hk
Website: https://www.hkex.com.hk/Services/Next-Generation-Post-Trade-Programme/Client-Connect?sc_lang=en

Q & A



Thank you for your support

Survey

1. How often do you want to have the NG Town Hall ?
   - Ad hoc, depends on NG Project milestone
   - Every 6 months
   - Every 12 months
   - 12 months or more

2. Which topics interested you most?
   - HKEX's Strategic Plan
   - Next Generation Risk Management
   - Client Connect
   - Stock Connect DLT

3. Which topics do you wish to be included in the next NG Town Hall?

Appendix

For Further Information

Documentation

2019 1H	2019 2H	2020 1H
NextGen Post Trade Programme • Townhall Presentation Material (May) • NextGen FAQ (To be updated in June) • NextGen Programme Documentation (To be updated in June) NG Phase 1 • VaR Risk Parameter file and Stress Testing Risk Parameter file Guide (June) Client Connect • Familiarization Guidelines (May) • User Manual (May) • FAQ (May)	NG Phase 1 • NG Phase 1 Connectivity Guide (GUI and Report) • Report Access (Technical Guide) • NGRM User Guide for Participants Market Engagement • NGRM Town hall • Workshops on stress testing model • Workshops on Margin Simulator	NG Phase 1 • Report and Data Files Sample

Documents will be made available at following link https://www.hkex.com.hk/Services/Next-Generation-Post-Trade-Programme/Overview?sc_lang=en and will be announced to all subscribers as notification alert

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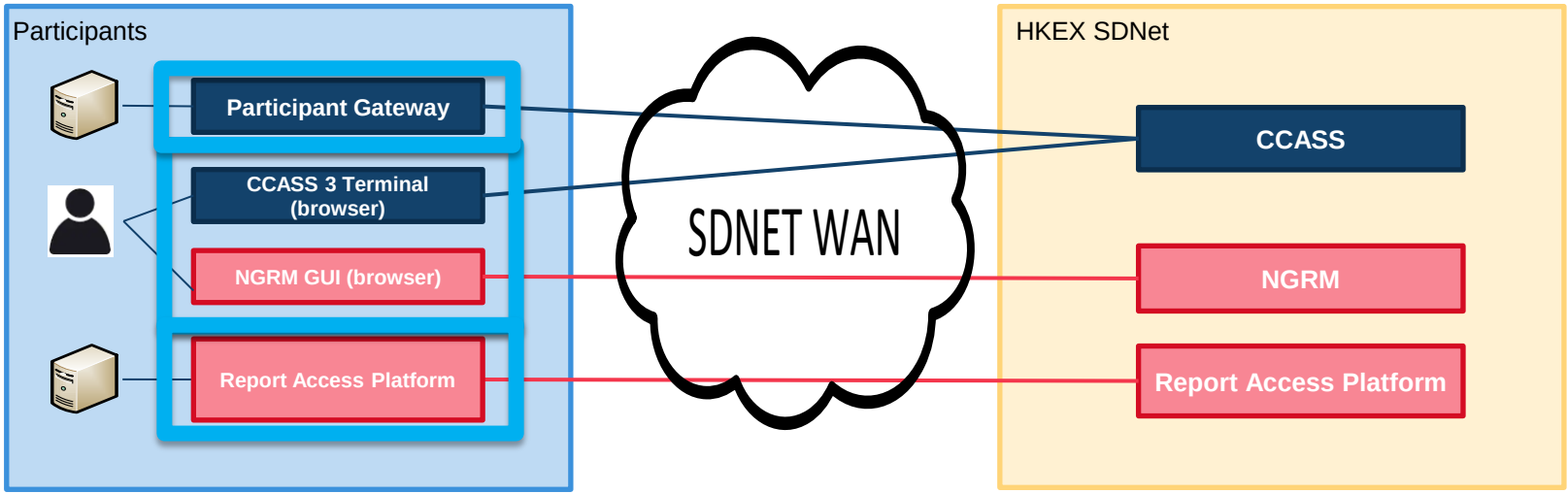
Next Generation Risk Management

Risk Management Engine Access – New IT setup



Existing Setup

NGRM Setup (NEW)

Client Connect- Scope Of Release 1

Category	Clearing House	eService	Existing forms
Settlement and Depository	HKSCC	Application to HKSCC for Exemption of Buy-in	Application Form for Exemption of Buy-in
			Application Form for Exemption of Buy-in (China Connect Securities)
		Early Buy-in Request to HKSCC	Early Buy-in Request Form
		Request for Special Buy-In	Buy-in Reporting Slip
			Request Letter for Exemption of Special Buy-in
		Buy-in Request to HKSCC for CCASS Isolated Trades only	Buy-in Request Form (for CCASS Isolated Trades only)
			Withdrawal of Buy-in Request Form (for CCASS Isolated Trades only)
Participantship Management	HKSCC	Stock Segregated Account - Without Statement Maintenance Request to HKSCC	Stock Segregated Account Maintenance Form – Without Statement
	HKCC /SEOCH	DCASS Account Maintenance Request to HKCC/SEOCH	DCASS Account Maintenance Form (HKCC)
			Maintenance of OBEP Individual Client Account Form
		Selected Currency Designation Request to HKCC/SEOCH	Selected Currency Designation Form
		CCMS Collateral Account Designation for Marks, Margin and Concentration Collateral Collection by SEOCH	CCMS Collateral Account Designation Form for Marks, Margin and Concentration Collateral Collection by SEOCH

Client Connect– Scope Of Release 1 (Cont'd)

Category	Clearing House	eService	Existing forms
Participantship Management (Cont')	HKSCC /HKCC /SEOCH	Change of Company Name	Change of Company Name Form
		Change of Company Particulars and Contact Persons	Change of Account Information Form
			Change of CCMS / DCASS Contact Persons Form
		Smartcard Maintenance for User and DA	User Profile for Delegated Administrator (DA)
			Smartcard Request Form for CCASS/CCMS User
			Report Loss of Smartcard
		Order Smartcard Reader(s)	Order Form for Smartcard Reader(s)
Technical setup	HKCC /SEOCH	Request to HKCC/SEOCH for accessing DCASS OAPI Testing Environment	Request Form for accessing DCASS OAPI Testing Environment
		DCASS Production / Testing Line Application and/or Change of Bandwidth Notification to HKCC/SEOCH	DCASS Central/Network Gateway/Testing Line Application and/or Change of SDNet Bandwidth Notification Form
	HKSCC /HKCC /SEOCH	CCASS/CCMS SDNet Line Service Notification	CCASS/CCMS SDNet Line Service Notification Form for HKSCC/HKCC/SEOCH Participants/HKSCC Designated Banks
Event	Common	Activity Enrolment	N/A
File Transmission	HKSCC	Submission and Download	N/A

Client Connect– Proposed Scope Of Release 2

Category	Clearing House	eService	Existing forms
Settlement and Depository	HKSCC	Authorization to HKSCC from the short clearing participant for debiting their stock entitlement account	Authorization Letter from the short clearing participant for debiting their stock entitlement account
		Dividend Bonus Claim Submission to HKSCC	Dividend/Bonus Claim Letter
		Corporate Communication Request to HKSCC	Corporate Communications Mailing Address Label Data File transmitted from HKSCC to share registrars
		Application to HKSCC for Withdrawal Fee Concession	Application for Withdrawal Fee Concession (Condition 1) - Sample Application Letters
			Application for Withdrawal Fee Concession (Condition 2) - Sample Application Letters
		Application to HKSCC for Scrip Fee Concession	Application for Scrip Fee Concession - Sample Application Letter from Transferee
			Application for Scrip Fee Concession - Sample Application Letter from Transferor
			Application for Scrip Fee Concession - Sample Application Letter from Client
		Transfer Instruction (CMU) to HKSCC	Transfer Instruction Form - Exchange Fund Notes, Government Bonds, Specified Instruments or CMU Instruments - Receive "Delivery Versus Payment" Instruction
			Transfer Instruction Form - Exchange Fund Notes, Government Bonds, Specified Instruments or CMU Instruments - Receive "Free of Payment" Instruction
			Transfer Instruction Form - Exchange Fund Notes, Government Bonds, Specified Instruments or CMU Instruments - Deliver "Delivery Versus Payment" Instruction
			Transfer Instruction Form - Exchange Fund Notes, Government Bonds, Specified Instruments or CMU Instruments - Deliver "Free of Payment" Instruction
			Transfer Instruction Cancellation Form - Exchange Fund Notes, Government Bonds, Specified Instruments or CMU Instruments - Cancel Receive "Delivery Versus Payment" Instruction
			Transfer Instruction Cancellation Form - Exchange Fund Notes, Government Bonds, Specified Instruments or CMU Instruments - Cancel Receive "Free of Payment" Instruction

Client Connect– Proposed Scope Of Release 2 (Cont'd)

Category	Clearing House	eService	Existing forms
Settlement and Depository (Cont'd)	HKSCC	Foreign Securities Withdrawal Instruction to HKSCC	Foreign Securities Withdrawal Form
		Cross-border Transfer Instruction (Foreign Securities) to HKSCC	Cross-border Transfer Instruction Form: Foreign Securities - "Deliver Free of Payment" Instruction
			Cross-border Transfer Instruction Form: Foreign Securities - "Receive Free of Payment" Instruction
			Cross-border Transfer Instruction Form: Foreign Securities - Cancel "Receive Free of Payment" Instruction
		Transfer Instruction to HKSCC (for delisted stock)	Per written application
		ETP Book-entry Deposit Request to HKSCC/HKCAS (for PD/PD Agent); ETP Unit/Share Creation Confirmation to HKSCC/HKCAS (for Registrar)	Book-entry Deposit and Credit Authorisation Form
			Unit Creation Confirmation Letter
		ETP Book-entry Withdrawal Request to HKSCC/HKCAS (for PD/PD Agent)	Book-entry Withdrawal and Debit Authorisation Form
			Debit Confirmation Form and Cancellation of Units Instruction Letter
		ETP Daily Reconciliation to HKSCC/HKCAS (with Registrar)	ETP - Letter of Daily Reconciliation (with Registrar)
Participantship Management	HKSCC	Stock Account Mapping Maintenance to HKSCC for the Use of Shanghai and Shenzhen Stock Connect	Stock Account Mapping Maintenance Form for the Use of Shanghai and Shenzhen Stock Connect
		Standing Instruction to HKSCC for Settlement of Intra-day Marks, Intra-day Margin and Intra-day Mainland Settlement Deposit by CPI	Standing Instruction for Settlement of Intra-day Marks, Intra-day Margin and Intra-day Mainland Settlement Deposit by CHATS Payment Instruction (CPI)
	HKCC /SEOCH	DCASS User Account Maintenance Request to HKCC/SEOCH	DCASS User Account Maintenance Form
			Application Form for DCASS/CCMS Terminal
		Notification to HKCC of Execution of physical Delivery Agent Agreement	Notification of Execution of Physical Delivery Agent for Physically Settled Metal Futures Contract - HKCC
		Depository Account Notice to HKCC	Depository Account Maintenance Notice for Physically Settled Metal Futures Contract - HKCC
		Notification to HKCC of Termination of Physical Delivery Agent Agreement	Notification of Termination of Physical Delivery Agent for Physically Settled Metal Futures Contract - HKCC

Client Connect – Proposed Scope Of Release 2 (Cont'd)

Category	Clearing House	eService	Existing forms
Participantship Management (Cont')	SEHK /HKSCC	CCEP/CCCP Application for the Use of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect	Registration for the Use of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect
			Confirmation of Readiness for the Use of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect
			Undertaking for the Use of Shanghai-Hong Kong Stock Connect
			Undertaking for the Use of Shenzhen-Hong Kong Stock Connect
		Special Segregated Account and Designated Executing Broker Maintenance Request to HKSCC	Special Segregated Account and Designated Executing Broker Maintenance Form
	HKSCC /HKCC /SEOCH	Smartcard Maintenance for user (PG or Special Request) *	Smartcard User Profile List
		Request for Retrieving DCASS/CCMS/CCASS Reports and Data Files	Report Reprint Request Form
			Request for Retrieving DCASS/CCMS Reports and Data Files Form
Technical setup	HKCC /SEOCH	DCASS/OAPI Connectivity Test Confirmation Request to HKCC / SEOCH	DCASS Server and/or DCASS OAPI Connectivity Test Confirmation
		DCASS OAPI Certification Test Application/Confirmation Request to HKCC/SEOCH	DCASS OAPI Certification Test Application/Confirmation Form
		DCASS OAPI Program Readiness Declaration Request to HKCC/SEOCH	DCASS OAPI Program Readiness Declaration Form
	HKSCC	PG Acquisition Confirmation Reply to HKSCC	PG Acquisition Confirmation Reply and Explanatory Notes

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