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

China Liquidity
Direct Access
Southbound

Global Liquidity
Direct Access
Northbound

China Markets

China Underlying

Global Markets

New Horizons
Market Structure
Technology

Equity
FIC
Commodities
International

Post-trade Infrastructure

China Anchored
Facilitating China’s internationalisation and investment diversification

Technology Empowered
Leveraging new technology for modernisation and growth

Globally Connected
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

Payment Infrastructure

Client Connect | Market Access | DLT for Stock Connect

CASH | DERIV. | FIC
RISK | DATA ANALYTICS
CCP | COLLATERAL
CSD & SSS

2020-2022 | Inflight
Equities & F&O 2019
Roadmap and Timeline of Key Initiatives

2019 1H
- DCASS Upgrade

2019 2H
- 3 am Trading Hours
- MSCI A-Share Future
- Holiday Trading

F & O
- MSCI Expansion
  - 3 X uplift across QTR
- FTSE Russell S&P
  - 2 X uplift across QTR
- CNY Compliance Check Development

HK Market Stock Connect
- USM Consultation
- IPO Shortening Cycle Review
- Proxy Voting

CSD
- Bank CP
- CBPL
- Min Capital
- Collateral Phase 1

Risk

*All Indicative rollout dates and subject to change at HKEX discretion*
Next Generation
Post Trade
Programme
Modernising Hong Kong’s Post-Trade Environment

*All indicative rollout dates and subject to change at HKEX discretion*
Programme Timeline – Phase One

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

Project Synapse

A: Omnibus Trading
   (Allocation matching and enrichment with settlement details)

B: Trade Allocation and Matching Engine
   (Instruction to CCASS on behalf of participants)

C: Settlement Instruction Generation

Asset Manager

Global Custodian

Local Custodian

Exchange Participant

Clearing Participant

CCASS
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

*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 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
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?**
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### For Further Information

#### Documentation

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Documents will be made available at following link [https://www.hkex.com.hk/Services/Next-Generation-Post-Trade-Programme/Overview?sc_lang=en](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.

*All Indicative rollout dates and subject to change at HKEX discretion*
Next Generation Risk Management

Risk Management Engine Access – New IT setup

Participants
- Participant Gateway
- CCASS 3 Terminal (browser)
- NGRM GUI (browser)
- Report Access Platform

HKEX SDNet
- CCASS
- NGRM
- Report Access Platform

SDNET WAN

Existing Setup

NGRM Setup (NEW)
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## Client Connect— Scope Of Release 1 (Cont’d)

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