

Joseph Yam: A new euro clearing system for Hong Kong

Remarks by Mr Joseph Yam, Chief Executive of the Hong Kong Monetary Authority, at the signing ceremony for the appointment of Standard Chartered Bank as settlement institution for the euro clearing system in Hong Kong, Hong Kong, 3 July 2002.

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We live in a financial world where boundaries and barriers are progressively collapsing, whether as the result of conscious policy decisions in favour of liberalisation or because of the new vistas opened up by the onward march of information technology.

Thus, restrictions on providing or using services across geographic or political borders are on the decline. Particular transactional services, such as quoting, dealing, confirming, settling, delivering, paying and safe-keeping, are increasingly footloose, in the sense that many of them can be readily accessed from remote locations. Moreover, the development of interfaces between systems in different parts of the world provides scope for continuous 24-hour real-time trading.

At the same time, the regulatory framework is tending towards standardisation around the world, thereby reducing the potential for regulatory arbitrage between jurisdictions.

As a result of these various developments, the marketplace in which we can operate is potentially ever larger, but at the same time the potential number of competitors is ever growing.

Against this background, financial centres must be nimble, competitive, efficient and safe, and alert to the changing world, if they are to thrive. One of the essentials is that they must offer an effective and robust financial infrastructure. Such is our aim in Hong Kong.

But this does not mean throwing money into each and every idea which comes along - there's no point in constructing highways if no-one wants to drive down them. There must be a reasonable business case. On the other hand, no venture no gain. The opening up of a footpath may lead to the emergence of heavy traffic. Thus we have been selective in the initiatives which we support and, although not every project may have been an unqualified success, examples such as our HKD RTGS system which we pioneered in the mid-90s; the CMU which provides such an excellent settlement and custody service for debt securities and which is being linked up with a growing number of overseas counterparties; and the relatively recent USD clearing system; all of these present a strong track record.

We are here today to mark another milestone in this infrastructural development - in the field of clearing and payments. Our USD clearing system, introduced in 2000, has demonstrated that a niche exists for services of this type in this part of the world. USD RTGS turnover has grown to about 3,000 transactions a day with a value of some US\$6 billion; and over 1,000 USD cheques are being processed daily. Enquiries and discussions with banks suggested to us that there was also a business case for a roughly parallel service in euro. And so it is my pleasure to welcome you to this ceremony today, formally to witness the appointment of Standard Chartered Bank as the Settlement Institution for the new euro clearing system.

This system will enable a wide range of financial transactions in euro to be settled on a real-time basis here in Hong Kong. Not only should this be useful to those involved with trade and remittances in euro, but it should also facilitate financial institutions to manage international liquidity and investment portfolios in Hong Kong. The system will encompass not only the best, internationally agreed, principles of payment system design but also state-of-the-art technology. It will provide RTGS settlement for euro denominated fund transfers; a linkage with the US dollar payment system to provide real-time PVP settlement for EUR/USD transactions; and linkages with the CMU to provide DvP settlement for euro-denominated debt securities, in readiness for the potential development of that market. We expect to see all these features implemented by the second quarter of 2003. For the moment there will be no cheque clearing capability, but this is something which could be added later if there was sufficient demand.

As in the case of the US dollar clearing, we have adopted a private sector solution, with a commercial bank as the Settlement Institution. This is not only consistent with the tradition in Hong Kong, but is also in line with international practice and with the recommendations of the Bank for International Settlements. As part of the agreement between the HKMA and Standard Chartered Bank, the latter

will in turn appoint Hong Kong Interbank Clearing Ltd, the current operator of the Hong Kong dollar and US dollar payment systems, to develop and operate the euro system. The role of the HKMA will be to oversee the design and implementation, and to ensure that the system meets the highest international standards.

And so, Hong Kong will shortly have a pioneering facility for the efficient and secure conduct of euro transactions in Asian time, as a further significant piece of our financial infrastructure. The benefits to both local business and international customers, in both trade and finance, should be considerable. I take this opportunity to thank and congratulate those who have worked hard to bring the project to its present advanced stage in so short a time, and especially to thank Standard Chartered Bank for the enthusiasm and professionalism which they have brought to the exercise. I wish every success to all who will be involved in translating the design into reality.