Our Ref : G16/1C
G17/1C
B1/15C

5 April 2000

The Chief Executive
All authorized institutions

Dear Sir / Madam,

Automatic Order Matching and Execution System

The Hong Kong Stock Exchange will launch the new Automatic Order Matching and Execution System ("AMS/3") in the third quarter of this year. AMS/3 will allow investors to conduct securities trading activities electronically over the internet or by mobile phone. The intention is that once NASDAQ shares are quoted in Hong Kong and further alliances with other regional exchanges are entered into, investors in Hong Kong will be able to buy and sell Hong Kong and global securities on-line through the internet.

Experience in other countries has shown that the introduction of on-line trading for securities has resulted in phenomenal increase in trading volume. According to a report published by the Korea Securities Dealers Association in December 1999, value of on-line securities trading increased 252 times in the period between January 1998 and November 1999. The impact of the launch of AMS/3 on the Hong Kong securities market cannot therefore be underestimated.

Authorized institutions with exempt dealer status ("exempt AIs") should assess carefully the implications of AMS/3 for their securities dealing systems. If these institutions intend to provide on-line securities trading facilities to their customers upon the launch of AMS/3, they should ensure that their internal systems, including computer, operating, payments and custodial systems, are adequate to cope with the new electronic trading environment and the potential increase in trading volume. In particular, they should ensure that their computer systems are adequately secure, could conduct real time verification of customers' identification, credit limits and stock balances.

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To enable the HKMA to have a better understanding of exempt AIs' preparation for the introduction of AMS/3, these institutions are requested to complete the attached questionnaire and return it to us by 28 April 2000.

Please feel free to contact Mr. S.C. Lam at 28781542 or Mr Danny Leung at 28788202 if you have any questions relating to this letter or the questionnaire.

Yours faithfully,

Y K Choi
Executive Director
Banking Supervision

Encl.

Questionnaire on On-line Securities Dealing

Name of institution: ________________________________

Name/Title of contacting person: ______________________

Telephone number: ______________

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Please tick on the box as appropriate

1. Does your institution intend to provide on-line securities trading services to customers upon the introduction of AMS/3?

   ☐ Already providing on-line securities trading

   ☐ Yes

   ☐ No (Please ignore the rest of the questionnaire)

2. What is your institution′s estimated percentage of growth in securities dealing business in terms of the average number of customer orders processed in one trading day after the launch of AMS/3 compared with the existing volume?

   ____________%

3. What is your assessment of the capacity of the institution′s existing systems (including computer systems and back office support) to cope with on-line trading in AMS/3 environment?

   ☐ Adequate

   ☐ Not adequate

4. If your answer to question 3 is “not adequate", does your institution have plans to enhance the existing systems to cope with on-line trading in AMS/3 environment?

☐ Yes

☐ No

If yes, please briefly describe the areas of enhancement (covering computer, operating, payments and custodial systems) and the targeted implementation schedule.

If no, please explain the justifications for not having plans to enhance the existing system.

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Please return to:

Hong Kong Monetary Authority
Banking Supervision Department
30/F, 3 Garden Road
Hong Kong
Attention: Mr. S. C. Lam (Fax No: 2878 7275)