SOUTH CHINA MORNING POST

28 OCT 1987

Ronald Li's company also on the list

43 barred from futures market

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By STAFF REPORTERS

FUTURES exchange chairman Wilfrid Newton yesterday announced that 43 firms had been temporarily suspended from trading. One of the firms is partly-owned by Mr Ronald Li, chairman of the Stock Exchange of Hongkong.

Two dealers with Chine Kit Ltd, one of the 43 firms involved, confirmed that Mr Li – forced to resign on Sunday as vice-chairman of the futures exchange – was "a boss of Chine Kit" but declined to say what stake he held in the firm.

The dealers said Chine Kit held two broker licences in the Hang Seng Index futures market.

Mr Newton announced that moves were afoot to beef up capital requirements of firms trading on the exchange. "We're working on those at the moment, but essentially we are looking for these firms to be better financed," he said.

"The new requirements would also have to be phased in over a reasonable period of time."

Mr Newton said that a net number of 43 firms had been suspended yesterday for failing to meet margin calls. The figure had been larger but several firms initially barred from trading had since been reinstated.

The Hongkong Futures Exchange has nearly 150 full members and an additional 100 trading members. The full members are licensed to trade in commodities as well as index futures.

MEMBERS SUSPENDED

Bonsar Ltd; Cheung's Commodity Traders Ltd; Chine Kit Ltd; Chou Wai-man (trading as Chung Fat Investment Co); Cheung Kwan-hui (trading as Right Time Commodity Co); Creacity Co Ltd; Chan Hoi-shu (trading as Unicorn Securities and Co); Chow Sang Sang Commodities Ltd; Elic Ltd.

Fineking Ltd; Fundamental Commodities Company Ltd; Fung Chun-yuen (trading as Winsome Futures Co); FEB Commodities Ltd; Forex Commodities Ltd; Golden North Investment Ltd; Henyep NCZ Ltd; Hope Young Commodity Co Ltd; Joyee Investment (Hongkong) Ltd; Kobayashi (Hongkong) Ltd; Kingly Commodities Co Ltd.

Lau Sing-chung (trading as Shun Lee Co); Lee, Danny (trading as Danny Futures Co); Lee Sin-chai (trading as Lee Sin Chai (Commodities Futures) and Co); Lee Kwok-wing (trading as Solid Futures Co); Lee, Nancy Angela (trading as A One Futures Co); Mansion House Commodities Ltd; Manishing Investment Ltd; Malahon Commodities Futures Ltd; Nishida (Hongkong) Co Ltd.

Okachi International Co Ltd; Onapal Ltd; Polosum Trading Ltd; Pui Jun-kuen, Raymond (trading as Pak Lok Commodities Co); Pak Shing Commodities Co Ltd; Talent Profit Ltd; Tsang Hao-yuk, Gladys (trading as Viva Commodities Co).

Weltril Co Ltd; Wing Hung Kee Commodities Ltd; Wise Gain Co Ltd; Wintakly Commodity Ltd; Wing Fat Index Co Ltd; Whittal Commodities Co Ltd; and Ying Tse-yen (trading as Shun Loong Commodities Co).

Most of the firms which were suspended appear to have been small traders dealing only in Hang Seng Index futures contracts.

Mr Newton said the market had shown positive signs. "There was decent buying and selling and it would appear that the market has safely been re-established."

Although the October Hang Seng Futures Index contract lost 75 points in the first 15 minutes, it rebounded strongly to close 310 points up at 2,285. The number of net open positions held by brokers for October was 6,471.

The total amount of open positions for October, November and December amounted to 33,938.

The futures exchange also raised the limit to 300 points from 150 points within which it will allow stock index contracts to fluctuate.

Mr Newton said he believed that the additional $2 billion which had been extended to the Hongkong Futures Guarantee Corporation would be well in excess of its probable requirements.

The funds now made the Guarantee Corporation possibly the most capitalised fund for a futures exchange in the world.

"I can't say exactly how much has been drawn down from the Guarantee Corporation but it is nowhere near rumours of $6 billion. We probably haven't even drawn the full amount of the initial $2 billion," he said.

Application of the second $2 billion credit facility would be the same as with the first $2 billion.

The Guarantee Corporation would not bail out firms which found they had to default. Their positions would be taken over by the clearing house, which would settle these debtor's accounts.

The clearing house would then sell the defaulting firm's holding. The firm would have to repay the Guarantee Corporation before it could be reinstated on the futures exchange.

Mr Newton said that each firm's situation would be individually evaluated. It was likely some firms had only been experiencing temporary cash flow shortages. Others, however, could be bankrupt and their licences were likely to be withdrawn.

There have also been delays in getting cheques cleared by banks and this has led in some cases to a premature suspension when the money was not paid on time, with the suspension having to be reversed later.

This problem of settlement is thought to have been one of the factors behind an unofficial meeting by 43 futures exchange members held early yesterday morning.

One of the dealers with Chine Kit said the firm, like many other futures brokers, was a victim of government measures which protected the interest of sellers of index

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More funds injected

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in the [redacted] effort to stave off collapse.

By 11.12 am yesterday, the Hang Seng Index had dropped through the 2,000 level in a renewed bout of panic selling, but the intervention of the big players quickly became evident.

The index finished the day up 154 points at 2,396.

Last night Secretary for Monetary Affairs David Nendick expressed some satisfaction with the outcome of the day's trading.

"I think that we can say at this stage that it has been a good day," he said.

The Financial Secretary, Mr Jacobs, said the extra $2 billion credit to support the futures exchange would be used to supplement the earlier package if necessary.

"Although the existing package has covered the impact of yesterday's unprecedented fall in the Hang Seng index, and a balance remains, prudence dictates that a substantial operational margin should be put in place, to ensure the continuing function of the markets in the face of volatile world conditions," he said.

Mr Nendick also revealed yesterday that brokers who had contributed to the $500 million for the Guarantee Corp had agreed not to place into the market until after January 1 the shares they held as arbitrage against their futures positions.

"If they were to unload them at this stage – or in a market as of yesterday – this would have had a very marked effect on the prices in the exchange, and it was therefore obviously sensible that we should enter into such an agreement with them.

"Had we not got such assurances there might have been a temptation for them perhaps to trade out their position in the futures market and then unload their position in the stock market," he said.