

**CONSULTATION PAPER**  
ON INTRODUCTION OF A  
T+2 FINALITY ARRANGEMENT  
FOR CCASS MONEY SETTLEMENT

**November 2009**



**Hong Kong Exchanges and Clearing Limited**  
**香港交易及結算所有限公司**

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# TABLE OF CONTENTS

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	<b>Page No.</b>
<b>EXECUTIVE SUMMARY</b>	<b>1</b>
<b>PART A        BACKGROUND OF CCASS MONEY                  SETTLEMENT MECHANISM</b>	<b>2</b>
<b>PART B        REASONS FOR CHANGE</b>	<b>6</b>
<b>PART C        THE PROPOSED T+2 FINALITY                  ARRANGEMENT</b>	<b>7</b>
<b>PART D        MARKET OPINIONS</b>	<b>10</b>
<b>PART E        CONSULTATION QUESTIONS</b>	<b>12</b>
<b>PART F        HOW TO RESPOND TO THIS CONSULTATION                  PAPER</b>	<b>13</b>
<b>APPENDICES</b>	
<b>APPENDIX I    THE EXISTING CCASS MONEY SETTLEMENT                  FLOW</b>	<b>15</b>
<b>APPENDIX II   KEY CHANGES INTRODUCED BY THE                  PROPOSED T+2 FINALITY ARRANGEMENT</b>	<b>17</b>
<b>APPENDIX III  THE CCASS MONEY SETTLEMENT FLOW                  UNDER THE PROPOSED T+2 FINALITY                  ARRANGEMENT</b>	<b>18</b>
<b>APPENDIX IV  PERSONAL INFORMATION COLLECTION AND                  PRIVACY POLICY STATEMENT</b>	<b>20</b>

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# EXECUTIVE SUMMARY

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This consultation paper seeks views and comments on a proposed T+2 settlement finality arrangement aiming to reduce the credit risks of Hong Kong Securities Clearing Company Limited (“HKSCC”), a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited (“HKEx”), and its Participants by finalising and completing both securities and money settlement on the same day.

At present, the Hong Kong securities market adopts a T+2 settlement period. Trades concluded on The Stock Exchange of Hong Kong Limited (“SEHK”), a wholly owned subsidiary of HKEx, (“Exchange Trades”) are settled two business days after the trade day. While securities settlement for Exchange Trades takes place in the Central Clearing And Settlement System (“CCASS”) operated by HKSCC on T+2, some related money obligations are settled via the overnight interbank bulk settlement processes operated by Hong Kong Interbank Clearing Limited (“HKICL”) in the morning of T+3. A majority of Exchange Trades by value already settle on T+2 under a process known as prepayment, as explained later in this paper. Where prepayment is not involved, the current settlement mechanism results in a one business day gap between securities and money settlement. Apart from Exchange Trades, Settlement Instruction (“SI”) transactions settled between CCASS Participants are also subject to the same settlement time gap.

The Hong Kong Monetary Authority (“HKMA”) has long advocated and now fully supports the proposed T+2 Finality arrangement. Same-day payment finality would align Hong Kong with international market practices as recommended by the Committee on Payment and Settlement Systems (“CPSS”) of the Bank for International Settlements (“BIS”) and the International Organization of Securities Commissions (“IOSCO”). The International Monetary Fund (“IMF”) has also recommended CCASS to improve its observance of the CPSS/IOSCO recommendations in this regard.

HKSCC has worked together with HKICL and proposed to add a new interbank bulk settlement run at 5:30 pm to the existing runs for CCASS payment items at 9:30 am and 2:15 pm on every business day to support the money settlement related to Exchange Trades and SIs on T+2. The proposed T+2 Finality arrangement aims to reduce the overnight settlement risk and bring finality of securities and money settlement on the same day. The new arrangement will strengthen the overall market infrastructure and reduce systemic risks. Today, HKSCC as central counterparty to Exchange Trades takes on the overnight settlement risk of its Clearing Participants and Clearing Participants and their customers take on the overnight risk regarding SIs when settling among themselves.

**Part A** of the paper contains background information about the existing CCASS money settlement mechanism. **Part B** puts forward the reasons for changing the existing mechanism. The proposed T+2 Finality arrangement is summarised in **Part C**. Initial market opinions on the proposed arrangement are set forth in **Part D**.

Any parties interested in responding to this consultation paper are invited to submit comments and views to HKEx regarding the proposed arrangement, in particular the consultation questions in **Part E**, as per instructions in **Part F**. The deadline for submission is 26 February 2010.

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# PART A: BACKGROUND OF CCASS MONEY SETTLEMENT MECHANISM

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## Overview

1. The Hong Kong securities market adopts a T+2 settlement period, which has been in place since CCASS was launched in 1992. This means that trades executed on SEHK are settled in CCASS two business days after the trade day.
2. Exchange Trades are settled in CCASS either through the Continuous Net Settlement (“CNS”) system or as Isolated Trades (“ITs”). For trades settled under the CNS system (“CNS trades”), HKSCC becomes the central counterparty to all trades through novation<sup>1</sup> and is responsible for settlement to both the buying and selling brokers<sup>2</sup>. For IT transactions, HKSCC only facilitates the settlement between the buying and selling brokers, hence counterparty risk is borne by the brokers themselves.
3. In addition to settling Exchange Trades with HKSCC in CCASS, brokers may also settle trades with their clients in CCASS. This mainly involves the use of SIs in CCASS between brokers and the custodians appointed by their institutional clients<sup>3</sup>. Settlement using SIs is directly between the delivering and receiving parties so the counterparty risk rests with them. Unlike Exchange Trades that are settled on T+2, SIs can be effected on any settlement day although most SIs are effected on T+2 to facilitate settlement of Exchange Trades. CCASS Participants can choose to settle SI on a Delivery versus Payment (“DVP”), Free of Payment (“FOP”) or Real-time Delivery versus Payment (“RDP”)<sup>4</sup> basis.
4. While CNS trades are settled on a net basis for both stock and money positions between HKSCC and brokers, all ITs and SIs are settled on a gross basis between the brokers and/or custodians concerned.

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<sup>1</sup> Novation is a legal process of substituting a new contract in place of an existing contract. The existing contract will be discharged upon novation. In the case of CCASS, HKSCC becomes the contractual counterparty for both buying and selling brokers who were previously counterparties to each other in the trade.

<sup>2</sup> Brokers trading on SEHK, being Exchange Participants, can choose to clear and settle their own trades in CCASS as Direct Clearing Participants or through General Clearing Participants where applicable.

<sup>3</sup> Apart from client settlement, SIs can be used for other settlement purposes between CCASS Participants (who are market intermediaries); such as for securities borrowing and lending transactions. For client settlement between market intermediaries and investors who are CCASS Investor Participants, Investor Settlement Instructions are used.

<sup>4</sup> To settle an SI on an RDP basis, CCASS will put shares on hold in the stock account of the delivering party and then send a message to request the Designated Bank of the receiving party to effect payment via the Real Time Gross Settlement System operated by HKICL. Shares will be transferred to the stock account of the receiving party only when CCASS has received confirmation from HKICL that the payment has been completed. If payment confirmation is not received within the settlement day, the shares will be released to the delivering party.

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## **Settlement in CCASS**

5. Securities settlement takes place in CCASS during the settlement day through debits and credits to the stock accounts of the Participants via online delivery and batch settlement runs between 10:00 am and 3:45 pm. Securities allocated to the stock accounts of Participants for the settlement of long CNS positions are put on hold until money settlement is confirmed, which may be T+2 where prepayment is used or otherwise on T+3.
6. Settlement monies are accumulated during the day. A money settlement instruction is generated by CCASS at the end of the day for each Participant after netting the receivables and payables due from all CNS positions settled. A separate money settlement instruction is generated for each IT and SI transaction settled on a DVP basis (for RDP details, see footnote 4).
7. At day end, files containing all CCASS money settlement instructions<sup>5</sup> are sent to HKICL for the overnight interbank bulk clearing process. Designated Banks<sup>6</sup> of CCASS Participants obtain the files containing CCASS and other banking related payment items<sup>7</sup> throughout the night through the File Transfer Service<sup>8</sup> of HKICL and process the files in their internal systems overnight.
8. On the next business day, HKICL executes a series of interbank bulk settlement runs to settle the bulk clearing items. Two runs involve CCASS payment items. One commences at 9:30 am for settlement of CCASS transactions of market intermediaries covering CNS, IT, SI, marks<sup>9</sup> and nominees-related payments. Another one commences at 2:15 pm for settlement of all transactions involving Investor Participants and the CCASS Electronic Initial Public Offerings (“EIPO”) service. The 2:15 pm run includes all paper cheques of the banks.
9. Designated Banks usually review the payment obligations and overall funding positions of their CCASS Participant clients early in the morning and perform credit assessments of those clients using credit facilities based on internal reports generated overnight. They will determine if there are any CCASS payment items that have to be rejected and if so report those items to HKICL and HKSCC before the two interbank bulk settlement runs commence at 9:30 am and 2:15 pm.

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<sup>5</sup> These money settlement instructions cover not only settlement obligations for Exchange Trades and SIs but also for Investor Settlement Instructions, marks, cash collateral, CCASS Electronic Initial Public Offerings and nominees-related transactions.

<sup>6</sup> Each CCASS Participant has to appoint a Designated Bank to effect money settlement on its behalf. Likewise, HKSCC appoints its own agent bank to effect money settlement with the Designated Banks of the Participants.

<sup>7</sup> The overnight interbank bulk clearing process of HKICL also covers other banking related items such as paper cheques and EPS Company (Hong Kong) Limited (“EPSCO”) payments.

<sup>8</sup> Alternatively, Designated Banks may choose to receive tapes and hard copy reports from HKICL at around 12:00 midnight.

<sup>9</sup> Marks are collateral collected from CCASS Participants based on daily re-pricing of open (pending and/or overdue) stock positions against the latest available market prices for the purpose of determining the current level of exposure of such open positions in money terms.

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10. As money obligations for Exchange Trades and SIs are settled in the morning of T+3, if no rejected items are reported by 9:30 am, HKICL will execute the interbank bulk settlement run across all Designated Banks' accounts in a process which is normally completed by 10:00 am. Should there be any rejected CCASS payment items, HKICL will remove the rejected items before executing the interbank bulk settlement run, which will then be rescheduled to start at 10:00 am and be completed at around 10:30 am.
  11. Upon receiving messages from HKICL about the completion of the interbank bulk settlement run, the Designated Banks will update the bank accounts of the CCASS Participants. The interbank bulk settlement run at 2:15 pm has a similar process for rejected items<sup>10</sup>.
  12. HKSCC will be advised by its agent bank on the completion of the interbank settlement, after which the relevant securities which have been put on hold in the Participants' stock accounts in CCASS will be released. Although CCASS money settlement instructions are settled at HKICL on T+3, they are nevertheless valued by Designated Banks on T+2 for their clients.
  13. If a CCASS Participant fails to meet its CNS payment obligations to HKSCC in the morning of T+3, the Participant has defaulted in its performance obligations as stipulated in the General Rules of CCASS and HKSCC has a range of measures it can take in response to such default in accordance with those Rules.
  14. The detailed flow of the existing CCASS money settlement mechanism for Exchange Trades and SIs is illustrated in **Appendix I**.

### **Efficiency of CCASS**

15. As mentioned in the Executive Summary, some CCASS Participants make cash prepayments to HKSCC during the day on T+2 in order to take delivery of the securities put on hold in their CCASS stock account. Today, about 80 per cent of Participants' CNS money obligations due to HKSCC are settled by cash prepayments during T+2. The majority are from around 70 brokers which serve institutional investors.
16. CCASS Participants may also subscribe to a CCASS service whereby they may collect CNS settlement monies from HKSCC through the Real Time Gross Settlement ("RTGS") system of HKICL on T+2<sup>11</sup> if the settlement monies of their overall CNS positions on a day are netted to an amount due from HKSCC. Currently, around 70 Participants are using this service and it covers about 30 per cent of the total CNS money obligations payable by HKSCC on an average day.

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<sup>10</sup> Rejected items are required to be reported to HKICL by 12:45 pm to allow time for the removal of rejected items before the 2:15 pm interbank bulk settlement run commences.

<sup>11</sup> Payment instructions for CNS settlement monies are sent via HKSCC's agent bank at around 2:30 pm after the completion of the third batch settlement run in CCASS.

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17. In the first nine months of 2009, CCASS on average processed about 680,000 trades<sup>12</sup> daily under the CNS system with an average total daily money obligation of \$115 billion. After netting, on average only about 60,000 CNS stock positions with money obligations of around \$14 billion were required to settle in CCASS. The high securities and fund netting efficiency of CCASS has significantly reduced the operational burden and funding needs of brokers.
  18. During the same period, there were on average 67,000 SIs valued at \$159 billion settled daily in CCASS. Of the \$159 billion average daily value of SIs, \$91 billion (57 per cent) was settled on a DVP basis, \$67 billion (42 per cent) on an FOP basis, and \$1 billion (1 per cent) on an RDP basis.
  19. Like other international financial centres, Hong Kong has an open securities market with over 40 per cent of the turnover contributed by overseas investors. While most of the major overseas securities markets like those in the United Kingdom (“UK”), the United States (“US”), Australia and Singapore adopt a T+3 settlement cycle, Hong Kong took one step further and adopted a T+2 settlement cycle at the inception of CCASS in 1992. It was not an easy decision as the settlement process involving overseas investors is complex and time-consuming due to time zone differences. In the first nine months of 2009, on average 99.8 per cent of the CNS positions were settled on T+2. This high settlement efficiency demonstrated the success of the T+2 settlement cycle and was the result of a concerted effort by all market participants working to meet the delivery deadline at 3:45 pm on T+2.

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<sup>12</sup> CCASS processed less than one IT trade per day on average in the first nine months of 2009.

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## PART B: REASONS FOR CHANGE

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20. Although CCASS has achieved very high settlement efficiency under a T+2 settlement cycle, both HKSCC and CCASS Participants are still exposed to overnight settlement risk for those transactions settled on a DVP basis due to the time gap between securities and money settlement. This settlement risk is further extended on weekends and holidays.
21. The settlement risk intensified as the Hong Kong securities market grew rapidly in recent years. While the average daily market turnover grew six times in value from \$10.2 billion in 2003 to \$71.8 billion in 2008, CNS money obligations increased by 344 per cent to \$17 billion and the value of SIs settled increased by 668 per cent to \$193 billion<sup>13</sup> for the same period.
22. The collapse of Lehman Brothers in September 2008 and the accompanying credit crisis heightened concerns of investors, market participants and regulators about settlement and counterparty risks.
23. The current money settlement arrangement in Hong Kong lags behind international best practices. As noted in the Executive Summary, the CPSS of the BIS and the Technical Committee of IOSCO have jointly recommended that “*final settlement should occur no later than the end of the settlement day*”<sup>14</sup>.
24. The Financial System Stability Assessment report on the Hong Kong Special Administrative Region written by the IMF in 2003 recommended CCASS actions to improve observance of the CPSS/IOSCO recommendations. Today, most of the major overseas securities markets, including the UK, the US, Germany, Australia and Singapore, have achieved settlement finality for both money and securities before the end of the settlement day.
25. The HKMA fully supports the proposed T+2 Finality arrangement. The move should significantly reduce the overnight credit risk arising from the settlement time gap and help prevent situations which could lead to systemic problems.

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<sup>13</sup> The gross money settlement obligations of SIs settled on a DVP basis remained at around 60 per cent or an daily average of \$115 billion for 2008.

<sup>14</sup> Refer to Recommendation 8 in the “Recommendations for Securities Settlement Systems” report issued by CPSS/IOSCO for more details. The report is available at <http://www.bis.org/publ/cpss46.htm>.



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## **PART C: THE PROPOSED T+2 FINALITY ARRANGEMENT**

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### **Proposed Arrangement Details**

26. HKSCC has been working closely with the HKMA and HKICL on the proposed T+2 Finality arrangement in relation to the settlement of Exchange Trades and SIs. Under the proposal, the existing interbank bulk settlement runs at 9:30 am and 2:15 pm for CCASS payment items will remain unchanged<sup>15</sup> and HKICL will introduce an additional interbank bulk settlement run at 5:30 pm to settle CCASS money settlement instructions arising from CNS, IT and SI transactions after the final batch settlement run in CCASS completed at around 4:00 pm.
27. To help Designated Banks manage and prepare funding for the additional interbank bulk settlement run at day end, money settlement information on settled CNS, IT and SI transactions of their CCASS Participant clients will be provided by HKSCC to Designated Banks after each of the four batch settlement runs<sup>16</sup> in CCASS throughout the settlement day on T+2. Information on SIs to be settled in the final batch settlement run will also be provided after the SI matching run at 3:15 pm<sup>17</sup>.
28. At around 4:20 pm after the completion of the final batch settlement run, money settlement instructions will be generated by CCASS and transmitted to HKICL for the interbank bulk clearing processing.
29. Designated Banks can choose to download money settlement instructions directly from CCASS at 4:20 pm through their CCASS Terminals or from HKICL at around 4:35 pm through its File Transfer Service<sup>18</sup>. Designated Banks will then process the money settlement instructions in their internal systems to determine their clients' funding positions and/or for credit assessment purposes.
30. Should a Designated Bank decide to reject any money settlement instructions of a CCASS Participant client, it will need to submit the rejected items to CCASS by 5:20 pm through the CCASS Terminal<sup>19</sup>. HKSCC will transmit the rejected items to HKICL before 5:25 pm. If a CCASS Participant fails to meet its CNS payment obligations to HKSCC on T+2, the Participant has defaulted in its performance obligations as stipulated in the General Rules of CCASS and HKSCC has a range of measures it can take in response to such default in accordance with those Rules.

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<sup>15</sup> HKSCC will further discuss with HKICL and Designated Banks to consider aligning the arrangements for reporting rejected CCASS payment items in all HKICL interbank bulk settlement runs.

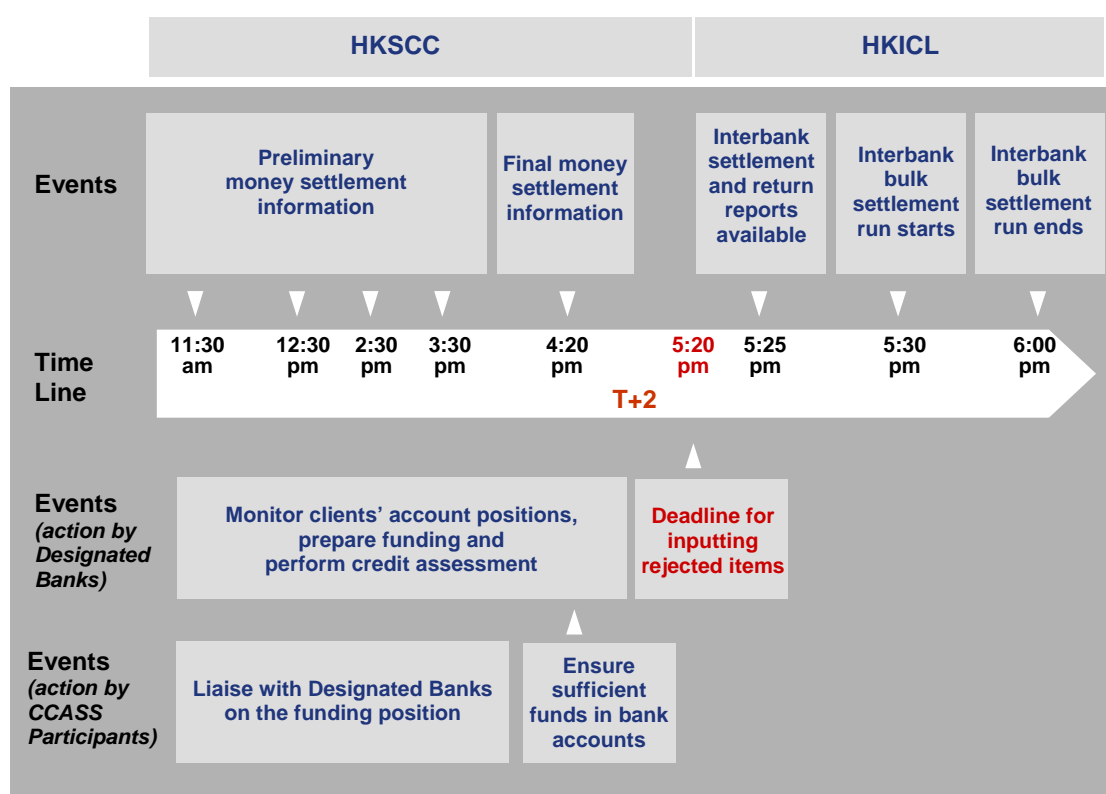
<sup>16</sup> The four batch settlement runs commence at 10:30 am, 12:00 noon, 2:00 pm and 3:45 pm respectively.

<sup>17</sup> On average, around 90 per cent of SIs are settled by the third batch settlement run. The information on settled, matched and to-be-matched SIs after the 3:15 pm matching run will help Designated Banks project their funding needs before the final batch settlement run commences.

<sup>18</sup> Designated Banks may also collect tapes and hard copy reports from HKICL at around 5:00 pm. However, they may not have sufficient time to submit rejected items if they only rely on the tapes and hard copy reports.

<sup>19</sup> At present, Designated Banks are required to report any rejected items to both HKSCC and HKICL before the commencement of the interbank bulk settlement runs for CCASS items. Under the proposed arrangement, the process will be streamlined and rejected items for the new interbank bulk settlement run must be reported to HKSCC but not HKICL.

31. HKICL will execute a new interbank bulk settlement run at 5:30 pm after excluding the rejected items (if any) from the batch. The new run is similar to the one currently executed at 9:30 am on T+3 and is expected to be completed by 6:00 pm.
32. HKICL will send messages to inform Designated Banks of the completion of the settlement run at around 6:00 pm. The banks can then update the bank accounts of their CCASS Participant clients. HKSCC will also receive confirmation from its agent bank upon the completion of settlement and then release the CNS allocated securities previously put on hold in Participants' stock accounts.
33. The detailed operational flow under the proposed T+2 Finality arrangement is illustrated in **Appendix II**. Below is a summary of the information flow and actions to be taken by Designated Banks and CCASS Participants under the proposed T+2 Finality arrangement:



34. HKSCC maintains contingency plans for all CCASS operations and services and the same practice will apply to the proposed T+2 Finality arrangement. In the unlikely case that money settlement instructions cannot be settled in the new interbank bulk settlement run (e.g. due to system or link failure), the relevant instructions will be batched with other items for settlement in the following interbank bulk settlement run at 9:30 am in the morning of T+3.

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## **Operational Changes Required from Market Participants**

35. The key changes to the CCASS money settlement mechanism introduced by the proposed T+2 Finality arrangement are summarised in **Appendix III**.
36. Compared to the existing overnight interbank bulk settlement arrangement, Designated Banks will only have one hour to process money settlement instructions and complete credit assessment for their CCASS Participant clients to ensure that any rejected payments will be reported to HKSCC by 5:20 pm. This requires highly automated processes and HKEx will ensure that Designated Banks will be given sufficient time to assess the impact of T+2 Finality on their operations and upgrade their systems if necessary before implementation of any new arrangement. Besides technical upgrades, Designated Banks may also need to expedite their intra-bank and RTGS money transfer processes for Participants to ensure timely updating of the funding positions of Participants' accounts by 4:20 pm on T+2.
37. At present, although the funding positions of Designated Banks for CCASS money settlement are determined at the end of T+2 when their clients' funding positions are also available to them, actual interbank settlement only takes place in the morning of T+3. Under the proposed T+2 Finality arrangement, Designated Banks will need to arrange sufficient funds for the interbank bulk settlement run by 5:30 pm on T+2. To facilitate Designated Banks' funding preparation, CCASS will provide new intra-day money settlement information reports<sup>20</sup> on Participants throughout the settlement day. In any case, Designated Banks will have to liaise closely with the Participants and provide the information they need to arrange sufficient funding in time for interbank settlement at HKICL.
38. Designated Banks may need to advise their CCASS Participant clients earlier in case there is any unexpected change in a Participant's money position due to events such as the return of one of its client's cheques deposited on the previous day. Designated Banks may also need to revise their service levels for the Participants to meet the new processing timeline e.g. earlier cut off time for cheque deposits<sup>21</sup>. Accordingly, Participants may need to adjust their operations slightly to ensure they have sufficient funds ready in their bank accounts for day end settlement. For instance, Participants which rely on credit facilities extended by their Designated Banks based on the deposit of client cheques may have to ask their clients to deliver cheques for bank deposit earlier in the day.

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<sup>20</sup> At present, Designated Banks only receive a report with money settlement instruction information from CCASS at around 8:30 am on T+3. Under the proposal, settlement information for CNS trades and ITs are available at the beginning of T+2, and with a settlement efficiency of 99.8 per cent, it should not be difficult for Designated Banks to estimate the funding need for Exchange Trades. For SIs, around 90 per cent by value are usually settled up to the third batch settlement run in CCASS, which is normally completed at around 2:30 pm. By the end of the SI matching run at around 3:15 pm, most Participants should have a good idea of any outstanding SIs to be settled at the final batch settlement run commencing at 3:45 pm.

<sup>21</sup> Currently, banks have different business hours for accepting their client cheque deposits, with some accepting cheques for same day deposit as late as 5:00 pm.

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## **PART D: MARKET OPINIONS**

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39. HKEx has conducted an informal consultation to solicit views from key market groups such as CCASS Participants and Designated Banks regarding the proposed T+2 Finality arrangement. They are generally supportive of the proposal. Summaries of their views and comments are set forth below.

### **CCASS Participants**

40. As the finality of CCASS money settlement for CNS, IT and SI transactions will move forward from 10:00 am on T+3 to 6:00 pm on T+2, the settlement counterparty risk exposure will be significantly reduced from overnight to intra-day.
41. Many CCASS Participants currently make use of overdraft facilities from Designated Banks to make cash prepayments to HKSCC in order to take delivery of on-hold securities on T+2. Some overdrafts are drawn on expected incoming funds such as CNS, IT and SI payments which should be received in the morning of T+3. Under the proposed arrangement, CCASS Participants will receive such CCASS payments in the evening of T+2 instead of the morning of T+3 to repay the overdrafts. Therefore, the duration of the funding provided by Designated Banks to the CCASS Participants will be shortened.
42. Today, CCASS Participants with net money receivable positions for CNS, IT and SI transactions usually can only make use of the funds after completion of money settlement in the morning of T+3. Although payments are valued back to T+2, many CCASS Participants use current accounts for CCASS money settlement and may not earn interest on T+2. Going forward, CCASS Participants may be able to make use of the funds received on T+2 as Designated Banks will have the opportunity to offer better service to support Participants' funding operations, such as accepting late client instructions and/or allowing placement of advance instructions prior to receipt of funds.
43. The implementation of the proposed arrangement should have minimal impact on the back office systems and operations of CCASS Participants although some may need to change their banking arrangements slightly to ensure that client cheques and other funds are deposited into their bank accounts on time.

### **Designated Banks**

44. Designated Banks will need to support an additional CCASS payment confirmation process in the evening of T+2. Apart from enhancing their systems and adjusting their business operations to serve their CCASS Participant clients, robust contingency arrangements and emergency support for Participants will be required to handle any unexpected events (such as system problems) encountered during the various processes. Designated Banks will have to thoroughly assess the implications and changes required to their existing business practices.

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45. Currently, the liquidity of the Hong Kong dollar interbank market is quite thin close to the end of the day. Under the proposed arrangement, Designated Banks will have to ensure sufficient funds to support the additional interbank bulk settlement run at 5:30 pm and they will have until 6:30 pm<sup>22</sup> to manage any funding surplus or deficit after the settlement. Initially, it may take some time for Designated Banks to adapt to the liquidity conditions created by the additional interbank bulk settlement run, which may affect their treasury operations in managing the funding positions in their settlement accounts with HKMA near day end.
  46. Today, Designated Banks commit funds to Participants on T+2 while actual interbank settlement only takes place in the morning of T+3. In future, interbank settlement will take place on the same day soon after the funds are committed on T+2. Apart from settling earlier among the banks, there should not be any impact on the credit facilities that are extended by Designated Banks to Participants today, including those based on expected incoming funds such as uncleared client cheques.

### **Investors**

47. Similar to CCASS Participants, investors will benefit from the reduction of the overnight risk exposure they face as a counterparty in a transaction where settlement is not yet final, in particular on SIs since completion of settlement will be confirmed one business day earlier.
48. As money settlement will only be completed by 6:00 pm, there may be little room for CCASS Participants to pass on the funds received to their ultimate clients on the same day since there are only limited banking services available after 6:00 pm in the evening.
49. The proposed arrangement should have little or no impact on those buyers who pay their brokers for trade settlement much earlier than 4:00 pm on T+2. However, those investors who currently remit funds or deposit cheques into their brokers' accounts late on T+2 may be required to do so at an earlier time so that their brokers will be able to meet the 5:30 pm payment deadline under the proposed arrangement.

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<sup>22</sup> HKICL operates the RTGS system for interbank payments until 6:30 pm. Customer transactions can be conducted up to 6:00 pm. From 6:00 pm to 6:30 pm, only inter-bank transactions are permitted.

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## **PART E: CONSULTATION QUESTIONS**

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50. HKEx welcomes any interested parties to comment on the proposed T+2 Finality arrangement by replying to the questions below. Where possible, please provide justification with your responses.

Question 1:

- Do you support the implementation of the proposed T+2 Finality arrangement? If not, what are the reasons?

Question 2:

- Do you envisage any problems or concerns for you or your company to operate under the proposed T+2 Finality arrangement? If yes, what are the problems and how can the arrangement be refined to help address your problems?

Question 3:

- What is the estimated lead time required by you or your company to prepare for the implementation of the proposed T+2 Finality arrangement? What are the major preparations required?

Question 4:

- Do you have any other comments in relation to the introduction of a T+2 Finality arrangement for CCASS money settlement?

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## **PART F: HOW TO RESPOND TO THIS CONSULTATION PAPER**

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51. We invite interested parties to submit written comments on this paper no later than 26 February 2010.
52. Persons wishing to submit comments should, where applicable, provide details of any organisation which they represent. Responses should, if possible, be made by completing and returning the questionnaire which is available at: [http://www.hkex.com.hk/consul/paper/cp200911q\\_e.doc](http://www.hkex.com.hk/consul/paper/cp200911q_e.doc) by one of the following methods:

By mail or hand delivery to Corporate Communications Department  
Hong Kong Exchanges and Clearing Limited  
12th Floor, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

**Re: Consultation Paper on  
Introduction of a T+2 finality arrangement  
for CCASS money settlement**

By fax to (852) 2524-0149

By e-mail to [response@hkex.com.hk](mailto:response@hkex.com.hk)

Please mark in the subject line:  
**“Re: Consultation Paper on  
Introduction of a T+2 Finality arrangement  
for CCASS money settlement”**

Our submission enquiry number is (852) 2840-3844.

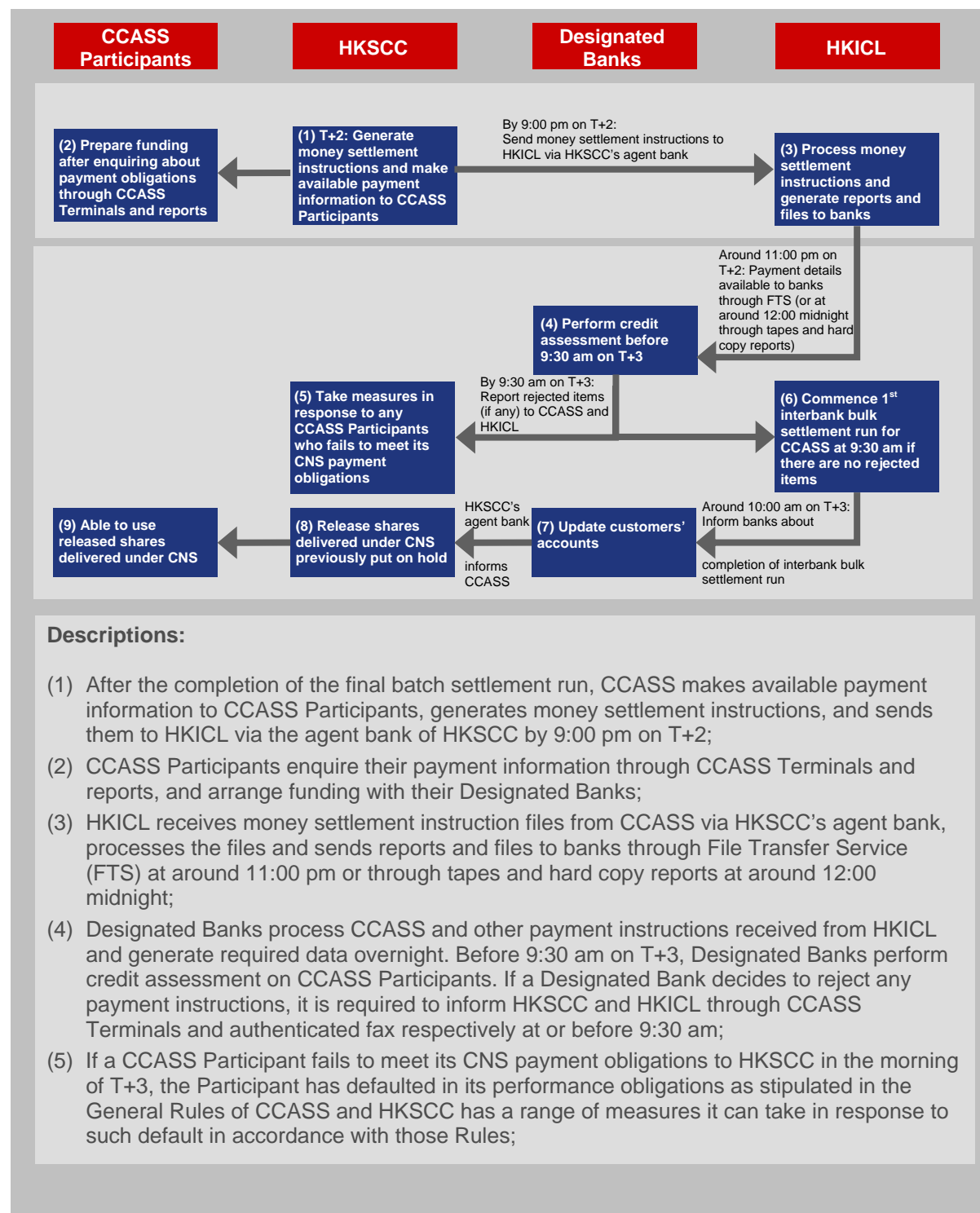
53. HKEx may request that certain personal data (e.g. name, identity card number, telephone number, address, email address) be provided with the consultation response for administrative purposes. In this connection, please read the Personal Information Collection Statement and Privacy Policy Statement in the **Appendix IV**. Failure to provide the personal data requested may render the response ineligible for consideration. Any response together with the name of the respondent may be published, in whole or in part, in document form, on the HKEx website or by other means. In general, HKEx will publish the name of the respondent only and will not publish his/her other personal data unless specifically required to do so under any applicable law or regulation. If the respondent does not wish his/her name to be published or his/her opinion to be published, please state so when responding to this paper. It is the policy of HKEx to post all consultation conclusions and responses on the HKEx website for seven years, unless HKEx deems it necessary to keep them posted for a longer period of time.

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54. Following consideration of market responses, HKEx will issue consultation conclusions based on the comments received.



# APPENDIX I: THE EXISTING CCASS MONEY SETTLEMENT FLOW

The diagram below illustrates the existing CCASS money settlement flow.



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**Descriptions (continued):**

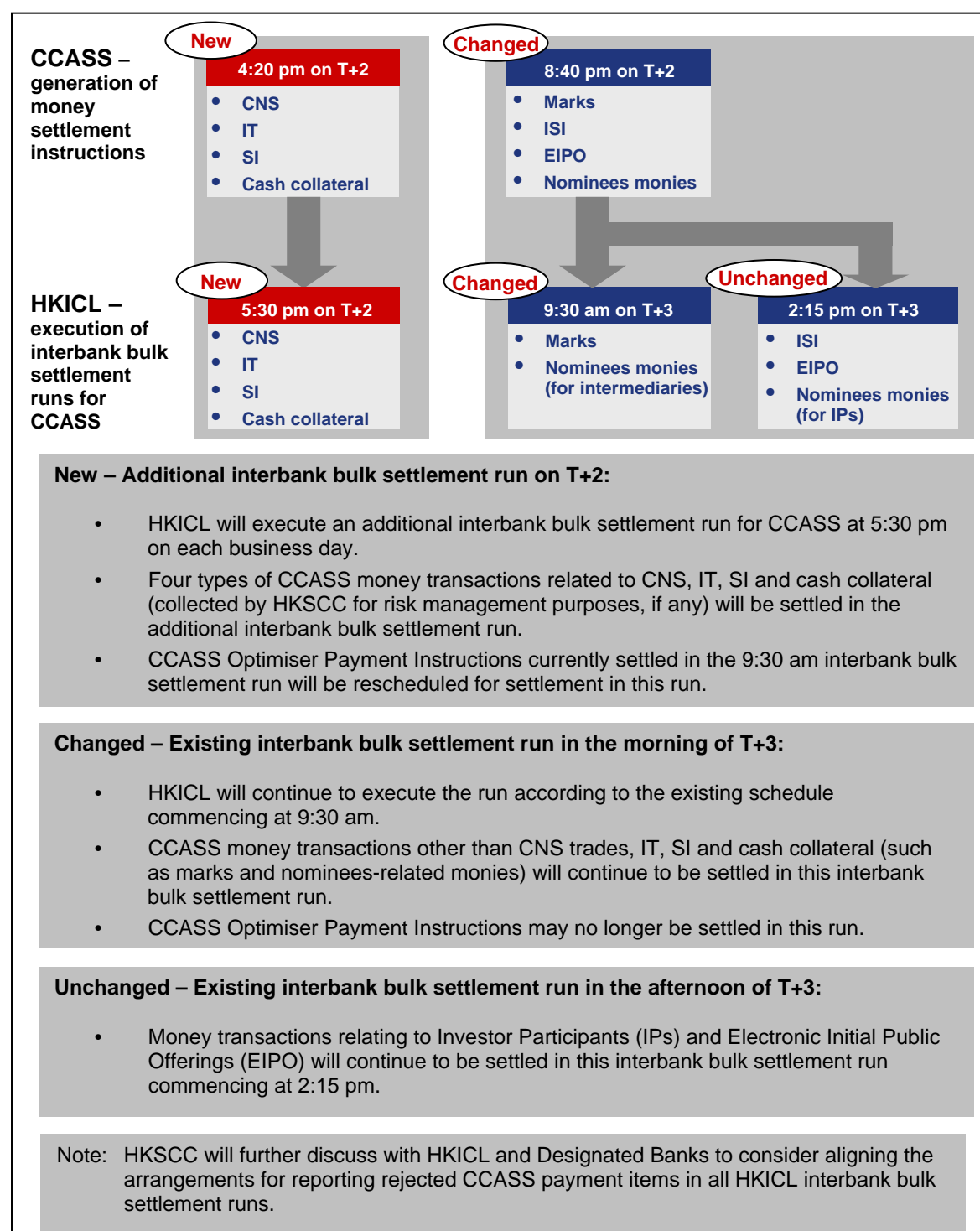
- (6) If there are no rejected payment instructions, HKICL commences the first interbank bulk settlement run for CCASS at 9:30 am. CCASS Optimiser Payment Instructions are also settled in the same settlement run. After completion of the settlement run, HKICL sends messages to inform Designated Banks. If there are any rejected payment instructions, the settlement run will be deferred to commence at 10:00 am;
- (7) Based on the messages received from HKICL, Designated Banks update the account balances of CCASS Participants and inform them accordingly. The agent bank of HKSCC also updates the account balances of HKSCC and notifies HKSCC;
- (8) HKSCC releases shares delivered under CNS previously put on hold;
- (9) CCASS Participants can make use of the released shares delivered under CNS.

**Note:**

- (a) The 2<sup>nd</sup> interbank bulk settlement run for CCASS starts at 2:15 pm; banks are required to report rejected items to HKICL and CCASS respectively by 12:45 pm and 2:30 pm.

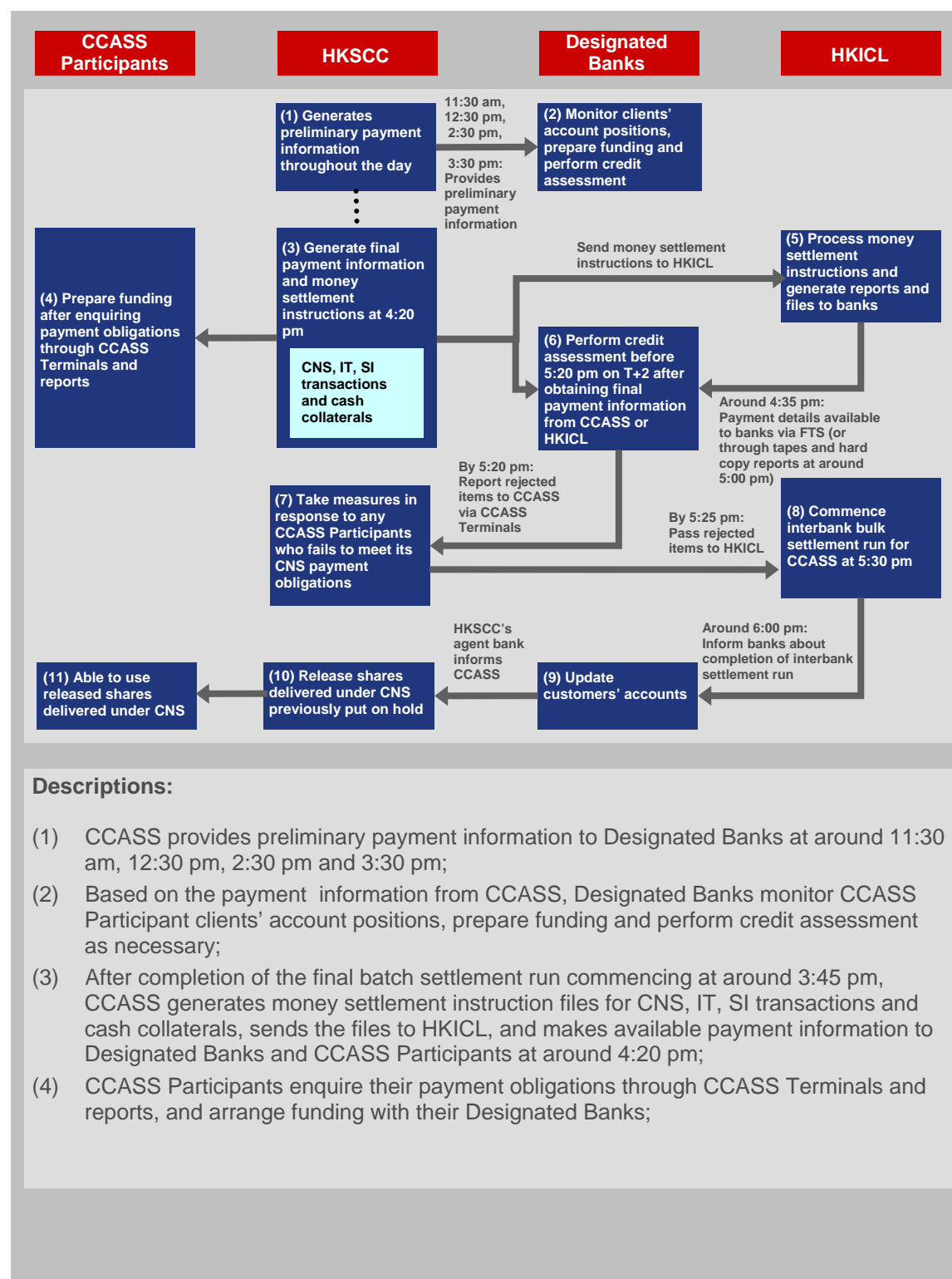
## APPENDIX II: KEY CHANGES INTRODUCED BY THE PROPOSED T+2 FINALITY ARRANGEMENT

A new interbank bulk settlement run will be introduced at 5:30 pm to process CNS, IT and SI settlement monies and cash collateral while the two existing interbank bulk settlement runs commencing at 9:30 am and 2:15 pm will continue to operate for the remaining transactions. The diagram below summarises the key changes introduced by the proposed T+2 Finality arrangement.



## APPENDIX III: THE CCASS MONEY SETTLEMENT FLOW UNDER THE PROPOSED T+2 FINALITY ARRANGEMENT

The diagram below illustrates the money settlement flow on T+2 under the proposed arrangement.



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**Descriptions (continued):**

- (5) HKICL processes money settlement instructions received from CCASS and generates reports and files to banks at around 4:35 pm through File Transfer Service (FTS) (Tapes and hard copy reports will also be available at around 5:00 pm);
- (6) Designated Banks receive payment details from HKSCC or HKICL, process the data internally and perform credit assessment on CCASS Participants before 5:20 pm. If a Designated Bank decides to reject any CCASS payment instructions, it has to inform HKSCC through its CCASS Terminal at or before 5:20 pm;
- (7) CCASS passes on rejected item (if any) to HKICL, and generates Settlement Report and Return Report (if there are rejected items) to Designated Banks at 5:25 pm via CCASS Terminals. If a CCASS Participant fails to meet its CNS payment obligations to HKSCC on T+2, the Participant has defaulted in its performance obligations as stipulated in the General Rules of CCASS and HKSCC has a range of measures it can take in response to such default in accordance with those Rules;
- (8) HKICL takes out rejected payment items (if any) and commences the interbank bulk settlement run for CCASS at 5:30 pm. CCASS Optimiser Payment Instructions are also settled in the same settlement run. After completion of the settlement run, HKICL sends messages to inform Designated Banks at around 6:00 pm;
- (9) Based on the messages received from HKICL, Designated Banks update the account balances of CCASS Participants and inform them accordingly. Designated Banks may place out the received funds before the RTGS window closes at 6:30 pm. The agent bank of HKSCC also updates the account balances of HKSCC and notifies HKSCC;
- (10) HKSCC releases shares delivered under CNS previously put on hold;
- (11) CCASS Participants can make use of the released shares delivered under CNS.

Note:

- a) The existing interbank bulk settlement runs for CCASS which start respectively at 9:30 am and 2:15 pm will continue to operate.

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## **APPENDIX IV: PERSONAL INFORMATION COLLECTION AND PRIVACY POLICY STATEMENT**

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### **Provision of Personal Data**

1. Your supply of Personal Data to HKEx is on a voluntary basis. “Personal Data” in these statements has the same meaning as “personal data” in the Personal Data (Privacy) Ordinance, Cap 486, which may include your name, identity card number, mailing address, telephone number, email address, login name and/or your opinion.

### **Personal Information Collection Statement**

2. This Personal Information Collection Statement is made in accordance with the guidelines issued by the Privacy Commissioner for Personal Data. It sets out the purposes for which your Personal Data will be used after collection, what you are agreeing to in respect of HKEx’s use, transfer and retention of your Personal Data, and your rights to request access to and correction of your Personal Data.

### **Purpose of Collection**

3. HKEx may use your Personal Data provided in connection with this Consultation Paper for purposes relating to this consultation and for one or more of the following purposes:
  - administration, processing and publication of the consultation paper and any responses received;
  - performing or discharging HKEx’s functions and those of its subsidiaries under the relevant laws, rules and regulations;
  - research and statistical analysis; and
  - any other purposes permitted or required by law or regulation.

### **Transfer of Personal Data**

4. Your Personal Data may be disclosed or transferred by HKEx to its subsidiaries and/or regulator(s) for any of the above stated purposes.

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5. To ensure that the consultation is conducted in a fair, open and transparent manner, any response together with your name may be published on an “as is” basis, in whole or in part, in document form, on the HKEx website or by other means. In general, HKEx will publish your name only and will not publish your other Personal Data unless specifically required to do so under any applicable law or regulation. If you do not wish your name to be published or your opinion to be published, please state so when responding to this paper.

### **Access to and Correction of Data**

6. You have the right to request access to and/or correction of your Personal Data in accordance with the provisions of the Personal Data (Privacy) Ordinance. HKEx has the right to charge a reasonable fee for processing any data access request. Any such request for access to and/or correction of your Personal Data should be addressed to the Personal Data Privacy Officer of HKEx in writing by either of the following means:

By mail to: Personal Data Privacy Officer  
Hong Kong Exchanges and Clearing Limited  
12<sup>th</sup> Floor, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

By email to: [pdpo@hkex.com.hk](mailto:pdpo@hkex.com.hk)

### **Retention of Personal Data**

7. Your Personal Data will be retained for such period as may be necessary for the carrying out of the above-stated purposes.

### **Privacy Policy Statement**

8. HKEx is firmly committed to preserving your privacy in relation to Personal Data supplied to HKEx on a voluntary basis. Personal Data may include names, identity card numbers, telephone numbers, mailing addresses, email addresses, login names, opinion, etc, which may be used for the stated purposes when your Personal Data are collected. The Personal Data will not be used for any other purposes without your consent unless such use is permitted or required by law or regulation.
9. HKEx has security measures in place to protect against the loss, misuse and alteration of Personal Data supplied to HKEx. HKEx will strive to maintain Personal Data as accurately as reasonably possible and Personal Data will be retained for such period as may be necessary for the stated purposes and for the proper discharge of the functions of HKEx and those of its subsidiaries.

