

Part A General Information of the Respondent

All fields are mandatory, except the fields with an asterisk (*) if you are an individual respondent.

Name/ Company Name* : J.P. Morgan Broking (Hong Kong) Limited

Contact Person* :

Title* :

Phone Number :

E-mail Address :

If you **do not wish** to disclose the above information to the public, please check the box here:

I do not wish to disclose the information above.

Part B Consultation Questions

Please indicate your preference by providing comments as appropriate. Where there is insufficient space, please attach additional pages as necessary.

Question 1: **Do you support the implementation of the proposed T+2 Finality arrangement? If not, what are the reasons?**

We support the implementation of the proposed T+2 Finality arrangement.

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?**

We do not envisage any problems or concerns for our Company to operate under the proposed T+2 Finality arrangement.

However, we would like to understand how securities buy in timeline will be impacted by this proposal.

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?**

We do not envisage any problems or concerns for our Company to prepare for the implementation of the proposed T+2 Finality arrangement. The preparation requirement is very minimal. A heads up of 4 to 6 weeks prior to the implementation will be sufficient.

Question 4: **Do you have any other comments in relation to the introduction of a T+2 Finality arrangement for CCASS money settlement?**

Firstly, we appreciate the effort of HKEx to reduce the credit risk of Hong Kong Securities Clearing Corporation Limited.

While HKSCC's proposal represent a significant improvement on the current process and clearly reduces the settlement exposure window from overnight to a few hours, it still lacks a sufficiently linked and controlled process to designate it as DVP.

Under the proposals, settlement exposure will exist where the seller of securities releases title before receiving cleared funds, for a period of two to seven hours. Book entry transfer of title to the buyer's account occurs during one of 4 daily batches (10:30 am, 12:00 noon, 2:00 pm and 3:45 pm) with entire process completed by 4:00 pm. (Book entry transfer of securities to the buyer is accompanied by title transfer to the clearinghouse for on-exchange trades and to the buyer directly for OTC trades.) Seller would not receive funds until 5:30 pm. Prior to this book entry transfer, HKSCC does not check for the sufficiency of funds in the buyer's account. In the event there are insufficient funds in the buyer's account [at settlement], CCASS would be required to reverse title transfer such that the title would move from the clearinghouse back to the seller.

To further reduce settlement exposure, on the securities side, we would suggest that the underlying securities in the account of the seller (or his custodian) be "blocked" so instructions to release title should not happen before there is confirmation that the settlement bank has the cash and will be transferring it to the seller.

We note that the International Monetary Fund has recommended that CCASS observe the CPSS/IOSCO Recommendations.

We note that Recommendation 7 of the CPSS/IOSCO Technical Committee – Recommendations for Securities Settlement Systems is as follows:-

"7. Delivery Versus Payment ("DVP")
CSDs should eliminate principal risk by linking securities transfers to funds transfers in a way that achieves DVP."

The Recommendation is expanded as follows:-

“What is essential is that the Technical Legal and contractual framework ensures that each transfer of securities is final if and only if the corresponding transfer of funds is final. DVP can and should be achieved for issuance and redemption of securities as well as for transactions in secondary markets. As noted in the International Settlement Paper when a CSD does not itself provide cash accounts for settlements, it can block the underlying securities in the account of the seller or the custodian. Securities are delivered to buyer if only the CSD receives confirmation of settlement of the cash leg. In such arrangements, blocked securities must not be subject to claim by third party.”

We would welcome HKEx exploring how an electronically linked or fully synchronised settlement which is final and irrevocable could be achieved.

Our clients would benefit as true DVP, would remove the need for credit approval for settlement risk or a daily settlement limit.

True DVP has advantages of reducing exposure to securities settlement risk and would enhance attractiveness of the Hong Kong securities market.

We are happy to participate in exploring same.

- End -