

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?

Yes. The implementation of the proposed T+2 Finality arrangement will increase settlement efficiency and reduce the risk exposure of HKSCC and the CCASS Participants. However, we have additional comments as stated in our reply to question 4 below.

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?

As far as we are aware, we do not envisage any major problems for our company to operate under the proposed T+2 Finality arrangement.

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?

As we do not anticipate any major change to our system or operation procedures for the implementation of the proposed T+2 Finality arrangement, the lead time required by our company is minimal.

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

From the Designated Banks' point of view, they are not only required to enhance their system and adjust their business operations to serve their CCASS Participants clients, the HKICL may even need to squeeze the whole cheque clearing cycle as some of the CCASS Participants may make use of the uncleared cheques to settle their CCASS obligations. It is no use for investors to deposit cheques into their brokers' accounts a few hours earlier on T+2 as those cheques will only be cleared on the following day under the current system. Alternatively, Designated Banks may have to grant intraday OD lines to their CCASS Participants clients to facilitate their money settlement to CCASS. Obviously, it is subject to the banks' assessment of the credit risk of individual clients. Nevertheless, this will increase the overall credit exposure of banks to the securities industry as a whole.

From the CCASS Participants point of view, depending on their financial positions, some will find the introduction of the Finality arrangement having little or no impact on their operations should they have sufficient bank lines. For those participants who are less financially sound, they may need to seek alternative arrangements (e.g. obtain additional bank lines) in order meet their money settlement obligations failing which they may be forced to reduce their transaction volumes and eventually driven out of business.

Another alternative is to request end clients to pay good funds to settle their transactions on T+2 or even earlier. This necessitates the concerted effort of all CCASS Participants to make this a norm. However, this may not work for those institutional or other clients who settle on a delivery against payment basis on T+2. Hence, it is difficult to reach a unanimous agreement and the settlement arrangement with clients is still a business decision of individual Participants.

Overall, we consider the introduction of the T+2 Finality arrangements for CCASS money settlement to be detrimental to the survival of smaller brokers with limited banks lines. It will also increase the credit exposure of banks to the securities industry.

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