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 are supportive of the initiative to implement a T + 2 Finality arrangement. This is to improve the competitiveness of the HK financial infrastructure and to mitigate payment risk in the equity market.
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? From the proposed T + 2 Finality arrangement, we anticipate the following challenges to market participants and would like HKSCC to further consider other alternatives / options to mitigate the relevant operational risks. 1. Insufficient time window for credit decisions – the proposed operating arrangement gives designated banks a less than 1 hour processing time (from 4:20pm or 4:35pm to 5:20pm) for the complicated credit risk assessment of concerned broker participants. This does not only increase the risk of designated banks but as a whole affects the HK financial market stability as Banks are required to make unnecessary rush credit decisions. Operationally the 60 minutes timeframe does not give Banks sufficient time for in-house system data extraction, processing and communication / turnaround. We strongly request for a minimum of 2 hours / 120 minutes turnaround time. 2. Technical constraints of external environment – nowadays many international brokers are funding their cash position through overseas foreign exchange. The settlement of these deals nowadays will reach banks in the evening from 6pm to 8pm. The proposed time-window will likely exclude these activities which will affect the quality of credit decision and also cause problem to international players.

3. Potential problem for Share Financing – nowadays local brokers arrange share financing with their designated banks using the CCASS settlement batches. If the settlement of these transactions (in many cases the brokers will receive CCASS allocation in the final batch) are happening within the 3:45pm settlement batch, banks have to update their in-house system for calculation of positions / credit exposures. The in-house system interfaces and updating will take time and again this has to be completed within the allowed time window. 60 minutes is very tight.
4. Recycling of CCASS money back to the inter-bank market – the settlement of CCASS money under the proposed arrangement will be after 5:30pm. The inter-bank activities at this point of time are thin and banks may not be able to recycle the money back to the market effectively. In particular when there is mega IPO deals, the money settlement of placement activities through could be huge (in some typical cases it reached USD4 billion for one counter). Any hiccup will cause huge disruption to the stability of the HKD money market.
5. Lead time for the changes – given the limited processing time window for various systems data exchange to facilitate prompt credit decision, there will be a lot of system changes and enhancements. We estimated that a minimum of 9 months are required for system changes and testing. We also suggest HKSCC to release it's host to host communication protocol to market participants for feasibility studies.
6. Contingency arrangement – given the short processing time-window, even though 2 hours can be allowed it is still very tight (nowadays all data processing for a Bank's in-house systems is overnight which is more than 12 hours, say from 8pm to next day 9:30am), we would like HKSCC to consider emergency arrangement where a bank have to declare contingency in certain unforeseen situation that the bank encounter in-house processing delays in making credit decisions and cannot meet the decision timeline to commit payments. Will such situation triggers the fall back to current operating arrangement or there are other recommendations. The final market consensus may require the review / revision of existing designated bank agreements.

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? 1. A high level estimation is a minimum of 9 months, of course the longer the better. 2. This may vary from Bank to Bank as the change to system infrastructures are different and considerations for enhancement prioritization are different.
Question 4:	Do you have any other comments in relation to the introduction of a T+2 Finality arrangement for CCASS money settlement? 1. The proposed change to the CCASS money settlement arrangement will affect the operations of brokers and all CCASS participants. This will also have impact to global investors and global custodians. We are not sure whether the global players would be giving their comments individually. To ensure that we hear voices from all players, we suggest HKSCC to engage professional bodies like ISOCO or Global Custodian panel. 2. The new money settlement arrangement may affect the processing commitment of all CCASS participants. We suggest HKSCC to review all CCASS participant rules / agreements / documentations to ensure adequate cover of legal / documentation risk.

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