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By post and by email:

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Mr. Derrick Fung
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199 Des Voeux Road Central
Hong Kong

Consultation Paper on Introduction of a T+2 Finality Arrangement for CCASS Money Settlement

Dear Derrick

Thank you for presenting the revised T+2 Finality model to our members on 12 April 2010 following our submission to the Hong Kong Exchanges and Clearing Limited (HKEx) dated 26 February 2010. We are grateful to receive (a) the documents prepared by the HKEx subsequent to our meeting with HKEx, Hong Kong Interbank Clearing Limited (HKICL), Hong Kong Monetary Authority (HKMA) on 3 February 2010 and (b) a table detailing the contingency arrangements for T+2 Finality – Scenario Analysis after the meeting of HKEx, HKICL, HKMA with the three Chairman Banks of HKAB: Standard Chartered Bank (Hong Kong), Bank of China (Hong Kong) and HSBC on 7 May 2010 (7 May Meeting).

For the reasons given in our earlier correspondence, a window of 1 hour and 40 minutes to process and finalize money settlement instructions, would be tight but achievable under normal circumstances. Following the discussion of the contingency arrangement at 7 May Meeting, we had circulated the discussion materials to our members and obtained their below feedbacks for your consideration:

1. (i) Regarding the contingency arrangements, our members, after reviewing in-house applications processing limitations and considered potential implications to other currencies RTGS processing time window, suggested to accommodate HKD Real Time Gross Settlement Systems cut-off

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extension up to 8 p.m. As such, we suggest advancing the deadline for problem fixing and decision for contingency to 5:30 p.m.

- (ii) In relation to the table on the contingency arrangements for T+2 Finality – Scenario Analysis received after the aforementioned meeting on 7 May 2010, Scenario 4.2, System Failure – In case a designated bank encountering problems in performing credit assessment or returning rejected items to HKEx, we suggest HKEx to consider allowing the specific designated bank to request for (a) deferring the deadline for returning rejected items to HKEx or (b) deferring the settlement of its related CCASS transactions to T+3.
2. We understand HKEx and HKMA's consideration for the typhoon / black rainstorm arrangement under the T+2 Finality model, i.e. in consideration of physical cheque clearing constraint, when typhoon / black rainstorm signal is hoisted after 9:30 a.m. but at or before 3 p.m., the evening interbank settlement run for CCASS would not be processed. However, we would suggest HKEx and HKMA to keep in view of the international investors credit risk concern and consider other feasible arrangement to improve the situation.
 3. As regards the banks / CCASS interface options, we would prefer Participant Gateway of Hong Kong Securities Clearing Company Limited (HKSCC) and File Transfer Service of HKICL.
 4. We have no further comment on the proposed CCASS Functions / Report in relation to T+2 Finality and the proposed report layouts: "DDI/DCI/EPI Listing for Designated Bank" and "Rejected DDI/DCI/EPI Confirmation for Designated Bank".
 5. As stated in our previous reply dated 26 February 2010, we are concerned about the legal implications by passing direct clearing from HKSCC to clearing member banks, e.g. obligations for any clearing issues, discrepancy or loss, that would affect the credit risks borne by the banks. Therefore, we would suggest HKEx to provide updates on the approach, schedule, financial obligations borne by major parties and other related issues and reflect these in the appropriate rules and documentation involving HKSCC and Designated Banks.
 6. We note that the T+2 Finality model would be expected to be launched in 2011 Q2/Q3. We should be grateful to discuss with HKEx, HKICL and HKMA on the phased implementation of T+2 Finality model, e.g. whether selected market participants or banks would participate in the phased launch.



We hope you would find our comments useful. HKAB would be pleased to meet with you and discuss further about the details of the implementation of the T+2 Finality model.

Regards

Secretary