

Submitted via Qualtrics

(Anonymous)

Company / Organisation view

Consultation Question 1(a):

Do you support the proposed arrangements on trade amendment under the T+1 settlement cycle across the Cash Market trade lifecycle?

Please give reasons for your views.

Yes, comments (optional) as follows

We support the proposed arrangements for the T+1 settlement cycle across the Cash Market trade lifecycle. However, the compressed timelines introduce a number of operational and risk management challenges that we believe warrant further attention from HKEX. Our detailed comments are set out under the following sub-headings.

A. Trade Amendment

The removal of the T+1 trade amendment window, with the cut-off compressed to T-day 17:00 HKT, materially reduces the time available to resolve trade breaks. Under the current T+2 regime, market participants benefit from a T+1 morning amendment window that provides a critical buffer for correcting errors and reconciling positions.

Key concerns include:

- Increased risk of booking errors, unmatched trades, and settlement failures, particularly for flows that span multiple time zones where the compressed window falls outside normal business hours for counterparties in EMEA and the Americas.
- Reduced flexibility for stock loan recalls and the ability to cover global client positions within the shortened timeframe.
- Heightened challenges for cross-time-zone flows, including, overnight client allocations and give-in/give-up instructions.

We request clarification from HKEX on:

- Revised operational processes and definitive cut-off times applicable under the T+1 regime.
- Whether the current automatic buy-in process on sell-side settlement fails will remain unchanged.

Consultation Question 1(b):

Do you support the proposed arrangements on post trade under the T+1 settlement cycle across the Cash Market trade lifecycle?

Please give reasons for your views.

Yes, comments (optional) as follows

B. Post-Trade Processing

We support the proposed transition of post-trade processing activities — including trade confirmation, allocation, matching, and settlement instruction preparation — onto Trade Date (T). Completing these processes on T-day is a logical prerequisite for a functioning T+1 settlement cycle.

We note the following implications and recommendations:

- Achieving T-day completion of post-trade activities will require market participants to adopt significantly greater standardisation, straight-through processing (STP), and automation. Reliance on manual or downstream interventions will not be sustainable under a T+1 cycle.
- We anticipate that the adoption of T+1 will enhance trade matching rates on the trade date and facilitate improved cash management effectiveness through fully automated STP processes.
- However, significant challenges remain for cross-border flows that depend on coordination among clients, brokers, and custodians operating across multiple time zones. Further attention should be given to the needs of global clients trading in the Hong Kong market.
- HKEX should consider whether certain exception types warrant differentiated handling or enhanced tooling support to manage breaks that cannot be resolved within the compressed window.
- Clarification is required regarding the timings for give-in acceptance on equity swaps. Specifically, we request further detail on the required allocation process on T+0 to facilitate settlement on T+1.

Consultation Question 1(c):

Do you support the proposed arrangements on risk management under the T+1 settlement cycle across the Cash Market trade lifecycle?

Please give reasons for your views.

Yes, comments (optional) as follows

C. Risk Management

We generally support the proposed risk management arrangements under the T+1 settlement cycle. However, we wish to highlight several areas where accelerated settlement may introduce or amplify risk.

Prime Brokerage and Margin Implications

While accelerated settlement is intended to reduce counterparty exposure, the compressed timelines have material implications for prime brokerage margin processes. Specifically, T+1 is likely to:

- Require margin determination earlier on T-day, reducing the time available for accurate risk assessment.
- Increase intraday and overnight margin volatility.
- Exacerbate time-zone misalignment between margin calls and client funding capacity, particularly for global clients operating across EMEA, the US, and Asia.
- Increase reliance on pre-funding, buffers, or auto-liquidation controls.

- Shift margin risk from end-of-cycle counterparty exposure to intraday and overnight liquidity execution risk.

The resulting increase in intraday liquidity risk, funding dependencies, and margin dispute potential should be carefully balanced against settlement efficiency objectives. Industry guidance and transitional flexibility will be critical to avoid unintended margin stress and pro-cyclical liquidity effects.

Settlement Fail and Buy-in Risk

- Higher settlement fail rates and buy-in risk may result from the compressed timelines, with limited time for stock borrow sourcing and funding.
- Fail scenarios will crystallise faster with no overnight recovery window. Stock recall timeliness will remain a key consideration for buy-in exposure.
- Ideally matching statuses should be received in real time rather than via batch runs as is current practice. We request confirmation from HKEX on this point.

The primary risks are concentrated in pre-settlement activities: allocations, funding, FX, and securities lending. Industry guidance, transitional arrangements, and tooling enhancements that recognise global time-zone realities will be critical to achieving the intended risk-reduction outcomes without increasing operational fails.

Our expectation is that HKEX will allow sufficient time for market readiness, provide clear industry-wide standards, and consider initial relaxations to help participants adapt to the new framework and address process challenges. We are committed to supporting HKEX in accomplishing this.

Consultation Question 1(d):

Do you support the proposed arrangements on other processes (including reporting, corporate actions, stock conversion arrangement and stamp duty arrangement) under the T+1 settlement cycle across the Cash Market trade lifecycle?

Please give reasons for your views.

Yes, comments (optional) as follows

D. Other Processes

We highlight the following additional areas requiring further clarification or enhancement:

Settlement Infrastructure

- We recommend that HKEX consider increasing the number of settlement batches beyond the current four, including the introduction of additional batches later in the day (e.g. post 15:45 HKT), to improve settlement rates and overall market efficiency, particularly where T+0 FX settles only after the last settlement batch.

Late Trade Reporting

- The Consultation Paper does not address late trade reporting. We request confirmation on whether the existing reporting timelines — currently reported to HKEX on T+1 morning under Paragraph 7.1 of the HKEX Operational Procedures for Stamp Duty Collection — will change under the T+1 regime.
- We also require guidance on how to define the settlement date for late trades (i.e. trades executed after the exchange closes and prior to the next day's market open).

Stamp Duty and Reporting

- Clarification is required on any changes to stamp duty collection procedures under the revised settlement cycle, including the HKEX Operational Procedures for Stamp Duty Collection, Rules of the Exchange — Chapter 13 (Stamp Duty Collection), Cap. 117 Stamp Duty Ordinance, and the HKEX Electronic Communication Platform User Guide.

Corporate Actions

- Further detail is required on the impact of T+1 on corporate action processing, including ex-date calculations and record date alignment under the shortened cycle.

Debt Securities

- Clarification is required on whether SEHK-listed but OTC-traded debt securities fall within the scope of the T+1 transition, and on the treatment of debt securities that are not settled through CCASS.

Consultation Question 2:

Do you have any comments on the assessment of the implications for Exchange Traded Products (ETPs) and Stock Options under the proposed T+1 settlement cycle? In particular, please comment on:

- Guiding principles for the ETP primary market;
- Buy-in considerations for ETPs; and
- Stock options (including exercise and assignment).

Please give reasons for your views.

Yes, comments (optional) as follows

We recognise the long-term benefits of harmonising Hong Kong's settlement cycle with other major markets. However, T+1 compresses creation/redemption and stock option settlement timelines, with high dependency on timely allocation, funding, and underlying settlement. The risk of settlement fails increases materially where workflows involve multiple parties and manual processes.

A. Exchange Traded Products (ETPs)

We consider it critical that ETP market maker settlement cycles are aligned with T+1. If market makers continue to settle on a different cycle, Exchange Participants may face settlement and funding risks for onward deliveries.

- We believe that addressing settlement alignment for ETP market makers is preferable to introducing buy-in exemptions, which risk creating broader market distortions and onward impacts.
- If, under the revised operational workflow, we are able to receive settlement from ETP market makers on a timely basis, there should be no material impact. However, if alignment is not achieved, we will be at risk in respect of onward deliveries and funding.
- Stock recall timeliness will remain a key consideration for ETP buy-in concerns under the shortened settlement cycle.

B. Stock Options (Exercise and Assignment)

While we do not anticipate that the current processes for exercise and assignment notifications (which occur post-market) are fundamentally incompatible with T+1, the compressed timelines raise a number of significant concerns:

- Compressed downstream processing timelines: given that assignment instructions are only confirmed after market close on T-day, the accelerated settlement cycle materially compresses downstream processing. Under T+1, timely booking and processing of option exercises and assignments on trade date will be critical, as opportunities to resolve breaks or discrepancies post-T will be significantly reduced.
- Elimination of the post-trade-date remediation window: the removal of a post-trade-date remediation window increases reliance on the accuracy and completeness of trade date processing. All assignment notifications, position updates, account mappings, and resulting equity settlement instructions must be generated, validated, and confirmed promptly following market close on T-day to avoid direct settlement risk on T+1. Enhanced trade date exception monitoring, reconciliation controls, and escalation processes will therefore be essential.
- Unsustainability of manual interventions: under a T+1 framework, reliance on manual interventions and late allocation or reallocation requests from clients for option-related equity trades will not be operationally sustainable. Timely receipt and processing of client allocations for stock options on Trade Date (T) will be critical to ensure that option positions are accurate and aligned prior to the exercise and assignment process. Late or incomplete allocations may result in misaligned positions, increasing the risk of incorrect assignment outcomes and inaccurate resulting equity settlement obligations.
- Cross-time-zone allocation challenges: for global clients trading Hong Kong stock options across different time zones, timely submission of client allocations on Trade Date (T) will be particularly critical. Delays in allocation may lead to mis-booking or late booking of stock option positions, which could adversely impact the accuracy of exercise and assignment processing and the timely settlement of resulting equity transactions.
- Physically settled options and securities availability: for physically settled stock options, the accelerated settlement timeline increases dependency on pre-positioned securities or readily available borrowing arrangements, particularly where assignment occurs late on T-day. This may heighten settlement risk for less liquid or hard-to-borrow securities and places greater importance on automation and straight-through processing across clearing, custody, and securities lending workflows.
- FCS reporting alignment: we note that the existing FCS report shows equity transactions arising from the exercise and assignment of stock options with a trade time of 23:59 on T-day. We request confirmation on whether this will be changed going forward such that these transactions are captured in the FCS report available at 20:00 HKT on T-day.

Consultation Question 3:

Do you have any comments that consequential amendments should be made to the Listing Rules to reflect the arrangements proposed under the T+1 operating model?

We consider it necessary for the Listing Rules to be fully aligned with the shortened settlement cycle. Consequential amendments should be made to ensure that all Listing Rule provisions which reference market settlement are consistent with the T+1 framework. This will ensure that all impacted parties can assess the implications of the shortened settlement cycle holistically and with overall market structure predictability.

Key considerations include:

- Listing Rule changes should reflect compressed timelines and earlier settlement obligations, ensuring that operational deadlines for matching, funding, and reporting do not create inconsistencies across market participants.
- Clarification is required on whether the IPO-related settlement exemption (referenced at page 16 of the Consultation Paper) extends to other primary issuances, such as follow-on offerings, rights issuances, equity-linked issuances (e.g. exchangeable and convertible bonds), top-up placements, OTC debt securities (e.g. bonds settled outside of CCASS) and OTC derivatives and other primary transactions.

Further clarity is also required in relation to:

- Stamp duty procedures, including Cap. 117 (Stamp Duty Ordinance), the HKEX Operational Procedures for Stamp Duty Collection, and Rules of the Exchange — Chapter 13.
- Electronic communication requirements under the HKEX Electronic Communication Platform User Guide.

Consultation Question 4:

In assessing your circumstances for a T+1 transition, are there any other key topics, perspectives or types of market participants which you believe are relevant to highlight, that have not been covered in Exhibit 1 and paragraphs 110-113?

Please share your views.

Yes, suggestions and considerations as follows

We are supportive of Hong Kong's transition to a T+1 settlement cycle and recognise the benefits of aligning with global settlement standards. At the same time, we urge HKEX to give careful consideration to the operational, liquidity, and risk management challenges highlighted in this response.

In particular, we emphasise the importance of:

- Ensuring that FX and funding infrastructure is aligned with the shortened settlement cycle to avoid Hong Kong becoming a de facto prefunding market.
- Providing clear industry-wide standards and transitional flexibility to allow market participants to adapt.
- Revisiting the proposed Q4 2027 implementation timeline, with a view to providing additional time for comprehensive testing and readiness.

- Providing early and detailed technical specifications — including for the proposed workflow tool and SSI repository — to support technology planning and implementation.

We welcome the opportunity to engage further with HKEX on any of the matters raised in this response.

We wish to highlight several additional topics and considerations that are material to the success of the T+1 transition.

A. FX and Funding Alignment

The transition to T+1 introduces significant dependencies on FX markets. Alignment of FX settlement timelines with the shortened equity settlement cycle is crucial to ensure that investors are able to fund their settlement requirements without Hong Kong effectively becoming a prefunding market.

Key risks include:

- Increased reliance on T+0 FX, which operates outside CLS, with potential need for additional bilateral FX lines in the interdealer market.
- Reduced time to source sufficient HKD liquidity to meet settlement obligations, given that current T+2 settlement is aligned with the spot FX market's T+2 settlement cycle.
- FX cut-off constraints and limited T+0/T+1 FX market depth.

Additional challenges include:

- Where Hong Kong settlement day (T+1) overlaps with a USD holiday, the timing of HKD trade flow visibility into settlement systems — along with any client FX traded after market close — will be constrained.
- Internal system latency and late client trades further reduce the window available for T+0 FX funding, particularly where T+1 USDHKD FX settlements are closed.

We request that HKEX and relevant authorities consider the following:

- Whether primary HKD liquidity providers plan to deepen T+0/T+1 FX market depth and/or extend trading cut-off timings.
- Whether HKEX would consider a currency funding backstop for Exchange Participants, allowing posting of non-cash collateral or USD in lieu of HKD for short-term currency bridging.
- Whether custodians are preparing to extend additional intraday credit lines to their clients to facilitate orderly matching and smooth settlement.
- HKEX guidance on acceptable funding models and tolerance for FX-related delays would materially reduce fail risk.

We emphasize the importance of ensuring that the T+1 transition does not result in Hong Kong effectively becoming a prefunding market, which could have material implications for investor appetite and the ability to fund and finance HK equities exposure, ultimately making the Hong Kong market less attractive.

B. Securities Borrowing and Lending

- Securities borrowing and lending (SBL) arrangements must be aligned with the shorter settlement timelines, ensuring that recalls and settlement are in line with the new cycle.
- Tighter recall windows may result in more conservative lending behaviour from investors, reducing securities lending liquidity and having a direct impact on trading activities on HKEX.
- If mandatory buy-in requirements remain unchanged, investors may further reduce the volume of securities they are willing to lend, compounding the impact on borrow availability.

C. Buy-in Requirements

Given the broad international investor base, mandatory buy-in requirements should be revisited to reflect the shortened settlement timeline. Unless the full ecosystem (including the FX market) is structurally aligned with the HKEX timetable, there will be strain on investors' ability to meet shortened settlement obligations.

- HKEX might consider relaxing the regulatory obligation on Exchange Participants to meet exchange settlement timelines in circumstances where the settlement failure was solely attributable to investor-side causes beyond the Exchange Participant's control.
- Clarity is required on buy-in communication protocols under the compressed timelines, including systemic notification options.

D. Market Infrastructure and Processing

- Additional settlement batches: we recommend the introduction of additional settlement batches later in the day (e.g. post 15:45 HKT) to facilitate trade matching, particularly where T+0 FX settles only after the last current settlement batch.
- CNS pay-in arrangements: currently, gross buy CNS obligations in HKD are debited at the start of the day by CCASS via standing auto-debit. Under a T+1 cycle, we request that HKEX consider collecting net (rather than gross) buy obligations to reduce intraday funding frictions.
- CHATS intraday throughput: we request that consideration be given to whether CHATS member banks may face challenges in adhering to HKICL throughput cut-off guidance at 13:30 and 16:30 HKT, given the likely increase in T+0 FX settlement volumes.

E. Operational and Regulatory Clarity

We request clarification on the following matters:

- Off-market stamping deadlines: the Consultation Paper does not clearly state whether the stamping deadline for off-market trades (currently T+2 for trades effected in Hong Kong) will be aligned to T+1. While we note that Paragraph 82 indicates HKEX is engaging with the relevant authorities, we would welcome further clarity on the expected approach.
- Late or resubmitted Form SD-1: for exceptional scenarios requiring late or re-submission of Form SD-1, we would welcome the opportunity to explore process streamlining with HKEX — for example, replacement of cheque deposits into HKEX's bank account with direct debit arrangements (similar to BAU payment), and re-submission through re-uploading of CSV files rather than email of signed SD-1 forms.
- Regulatory reporting timelines: clarification is required on the implications of T+1 for regulatory reporting timelines, including the BCAN Aggregation Report and OTCR.

Consultation Question 5:

Do you consider the timeframe to be sufficient for you to prepare for T+1 to become effective in Q4 2027, given the advance visibility and lead time provided? Do you have any comments on the discussion and implementation approach?

Please share your views on the proposed approach and timeline.

No, reasons and considerations as follows

While we support the transition to T+1 in principle, we believe the proposed Q4 2027 timeline presents significant implementation challenges.

Key Considerations

- The Hong Kong market is currently managing several major infrastructure and regulatory changes targeted for the 2026/2027 period. These initiatives each require system development, operational readiness, market testing, and participant coordination.
- Significant system development and end-to-end testing requirements must be completed across multiple internal and external platforms.
- The feasibility and support for the proposed timeline is heavily reliant on system vendors ensuring that all processes are supported for STP across all impacted parties as listed in Paragraph 110 of the Consultation Paper.
- Due to the short consultation period, we have not been able to discuss the proposed timeline with our broad international client base to assess investor readiness and whether investors prefer a globally phased-in approach across regions — i.e. the US (already live), EMEA (Q4 2027), followed by a minimum six-month interval before Hong Kong — or whether clients prefer consistency with EMEA so that they do not need to manage the regions separately.

Recommendation

In light of the number of competing priorities and the limited implementation window, we believe market participants would benefit from an extended timeline. We recommend that consideration be given to a revised implementation date of 2028 to support:

- Comprehensive market testing and industry-wide readiness assessments.
- Operational readiness across all participant types.
- Reduced implementation risk arising from concurrent market infrastructure changes.

Additional Dependencies

We note that the timeframe sufficiency is also subject to each Exchange Participant's ability to align its internal systems to capture and reflect trade activity in a timely and accurate manner to allow for FX funding decisions prior to FX market cut-offs. In this regard:

- Enhanced trade flow visibility (ideally near real-time) at the end of each trading session (AM/PM) would be critical.
- Alignment with measures to enhance and ensure T+0 FX market liquidity by primary HKD liquidity providers should be considered as part of the implementation approach.