

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

██████████ supports the move to T+1 in principle but believes the proposed operating model — particularly the retention of multi-batch settlement and the absence of structural relief for liquidity providers — requires further work to preserve settlement certainty and market liquidity.

If implemented well, we think the market will experience the same benefits that are associated with T+1 settlement in other markets: reduced collateral and faster turnaround of money flows enable reinvestment (liquidity provision) into the HK market, subject to a number of changes that will need to be made to the operating model.

Settlement model

We are primarily concerned with the functioning of the current settlement model under a T+1 cycle, and believe further consideration is required to maintain settlement certainty and market liquidity across all market participants and transaction types.

Whilst HKEX presents multi-batch settlement as offering flexibility, in practice each batch's existence reduces incentive to source inventory ahead of batch 1; under T+2, the resulting late-batch dependency is absorbed by the trailing settlement day, but under T+1 it has no buffer to land in.

A market maker that sells an ETF unit on T must deliver constituent stock by T+1 batch 1; if its inbound CRRD or recall lands in batch 3, the resulting fail propagates to its on-exchange counterparty and through any further onward chain. This settlement chokepoint will be especially pronounced in volatile markets.

Potentially a single-batch model — or a functionally equivalent design that settles all matched transactions in one pass — would have the following benefits:

Create stronger incentives for timely delivery,

Reduce the uncertainty that currently sits between settlement windows, and

Enable a single settlement batch run that settles all positions in one pass against multilaterally-pooled inventory. This would break inter-CP daisy chains rather than relying on each CP independently sourcing into discrete batches.

API tool for settlement

CCASS should have programmatic read and write access to increase settlement efficiency and lower operational burdens. The programmatic tool should be API-driven (read and write) and provide real-time settlement-at-risk indicators — not end-of-day reports, but live flags that let CPs, GCPs, and other market participants see what transactions are breaks while there is still time to act to amend trades.

To reduce the risks to liquidity, we suggest that HKEX:

introduce real-time settlement status visibility — not just informational dashboards, but actionable data that lets CPs and GCPs see and interact, before each batch, whether inbound stock is confirmed or at risk, and allows the GCP to amend transactions to increase settlement efficiency.

enable GCPs to automatically adjust transactions and automatically accept partial settlements.

assess whether non-exchange trades (bilateral transfers, CRRD deliveries) could settle on a real-time or immediate basis rather than being funneled through the same batch cycle as exchange trades. Separating these flows would reduce late-batch dependency and give market makers better certainty over their inventory positions.

Stamp duty

HKEX proposes to bring the Form SD-1 submission and stamp duty payment deadlines forward from T+2 to T+1. We support this alignment in principle, but it is not viable without full automation of the SD-1 submission, stamp duty calculation, and reconciliation chain. Manual or semi-manual SD-1 workflows that work today on a T+2 timeline will not survive a T+1 deadline at scale, particularly on high-volume days. Automation should be a go-live dependency, not a future enhancement.

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

See comments above in Q1 (a)

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

See comments above in Q1 (a)

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

See comments above in Q1 (a)

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

██████████ supports the HKEX guiding principles as highlighted under 90, 91, 92 and 93. In particular, we would like to add the following context.

Settlement efficiency matters most for liquidity in ETFs and stock options.

In the current settlement model, if settlement fails to one party, it may be to a party that has forward deliveries, resulting in a possible cascade of failed settlements. Market makers, by virtue of being two-sided to many counterparties, sit at multiple nodes in any settlement chain. As a result, it impacts market makers' ability to provide liquidity in stock options (when the inventory is not available to sell) and in ETFs (when the inventory is not available to create or redeem).

The combined effect of strict fail discipline and limited liquidity-provider relief already constrains operational capacity today.

ETP primary-market settlement needs to keep pace with a T+1 secondary-market. If secondary-market trades settle T+1 but ETF creation/redemption remains on T+2 with less predictable cut-offs, market makers face a gap: they have delivery obligations on exchange trades but their primary-market inventory will not arrive in time. The practical result is wider spreads, reduced quote sizes, or

both — particularly in volatile periods or late-day trading when inventory is thin, there may be materially reduced liquidity available to trade.

We would recommend that HKEX go further and enable T+0 ETF creation, similar to Mainland China, and may be subject to the same SSE/SZSE rules. Even limited T+0 capability — for the most liquid ETFs or during extended hours — would give market makers confidence to maintain tighter quotes during stress periods and end-of-day demand spikes. The ability to create units intraday is a direct input into how competitively a market maker can price an ETF.

Assignment for stock options

In a T+2 settlement model, where assignments are received on T after the close, and deliveries need to be made on T+2, there is one business day to ensure deliveries will be made.

In a T+1 settlement model, where assignments are received on T after the close, and deliveries need to be made on T+1, the one business day has been taken away. For developed markets currently on T+1, most prevalent settlement models are gross-real-time-settlement or one single settlement batch at the end of T+1. This allows participants to source stock on T+1 for delivery later in the day. Under T+1 this is a problem, especially for hard-to-borrow securities.

We recommend HKEX introduces a similar settlement model (closest model is one netted batch at end of day), as we elaborate on earlier in Q1.

Buy-ins

On buy-ins, T+1 halves the time available to source securities through SBL, complete CRRD cycles, or resolve settlement breaks. Under T+2, if a market maker sells ETF units on-exchange and the underlying basket stock for the creation is delayed — e.g. because a SBL recall has not settled, a creation order is still processing, a cross-border transfer is in transit, or just one stock of the basket has not settled — there is a second settlement day to resolve it. Under T+1, that buffer disappears and the settlement is more likely to fail.

The current buy-in exemption framework needs to adjust to enable liquidity provision. We recommend to provide market makers with an automatic settlement extension equal to (primary cycle – secondary cycle) days. Under a T+1 secondary / T+2 primary configuration, this is one trading day, mirroring the principle of Reg SHO Rule 204(a)(3) in the United States

The buy-in exemption process should be built into the system as an automatic feature for official market makers, not something that requires a manual application each time. Under T+1, exception windows are shorter and operational pressure is higher; keeping the manual waiver process will likely mean that GCPs would not have the operational capacity. As a result buy-in exemptions would effectively not be available to market makers.

Hong Kong's settlement-discipline expectations are among the stringent globally. Applying T+1 compression, without comparable relief for liquidity providers, risks an outcome where market makers need to reduce liquidity provision in products with settlement uncertainty — ETPs, stock options, and anything with constrained borrow.

For reference, both the US and European markets operate with higher settlement-fail tolerances than Hong Kong and provide explicit settlement flexibility for market makers.

We refer to the following documentation around buy-in exemptions:

US markets: <https://www.law.cornell.edu/cfr/text/17/242.203>

EU markets: <https://eur-lex.europa.eu/eli/reg/2023/2845/oj>

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?

No opinion.

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 recommend HKEX add five named workstreams to the industry-wide guidance framework set out in paragraphs 110–113. While several of these topics are touched on elsewhere in the Consultation Paper, none are currently scoped into the cross-industry guidance framework, which is what paragraphs 110–113 ask respondents to address.

ETF creation/redemption alignment and recalibration of the buy-in exemption framework — a single workstream covering primary-market cut-offs and contingency arrangements, together with a recalibration (not a carry-over) of the buy-in exemption for T+1, with clarity for market makers and GCPs well before go-live.

A horizontal market-making impact assessment — a published assessment of how settlement design choices (cut-offs, batch finality, SBL recall timing, fail and buy-in mechanics) interact to determine liquidity provision capacity across ETFs, equities and stock-options-related flows.

A cross-border FX funding-gap workstream — explicit treatment of FX cut-off alignment and pre-funding practices.

Settlement-fail and Same-Day Affirmation metrics — a commitment to publishing settlement-quality metrics on a defined cadence, during the transition and in steady state.

HKEX–SFC coordination on settlement discipline — an explicit coordination commitment, with settlement-discipline targets calibrated with regard to the role of market makers in maintaining orderly markets.

Our views on the four-batch settlement model itself are provided under Question 1; here we note only that the guidance framework should include intraday finality reporting and contingency arrangements for late-batch under-deliveries, given the reduction in operational slack under T+1.

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.

Yes, comments (optional) as follows

For [REDACTED], Q4 2027 is workable, provided two conditions are met.

First, the operational details flagged in our Q1 and Q2 responses — including batch settlement design, buy-in exemption changes, ETP primary-market arrangements, and stamp duty automation — must be finalised well ahead of go-live, rather than in parallel with implementation.

Second, the broader industry dependencies need to be resolved in time. We appreciate that this project requires industry-wide coordination. [REDACTED] can highlight the impact of settlement-process design on liquidity provision, but the feasibility of a Q4 2027 timeline will depend primarily on clearers, custodians, asset managers, and on HKEX addressing the issues that the industry has recommended it resolve.