

Submitted via Qualtrics

Hong Kong Investment Funds Association

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

HKIFA members generally support HKEX's proposed arrangements on trade amendment. We suggest extending the T-day trade amendment window to 6pm, from the proposed 5pm, to allow sufficient time to confirm trades, particularly for non-straight-through-processing (STP) trades that require manual intervention and coordination across market participants.

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

HKIFA members generally support HKEX's proposed arrangements on post trade under the T+1 settlement cycle.

Some members have identified a number of operational risks and practical considerations within the proposed settlement framework that we respectfully encourage HKEX to address in its consultation conclusions and implementation planning.

1. Systemic operational dependencies under T+1

Members note that the effectiveness of a T+1 settlement cycle will be highly dependent on the operational readiness and cut-off times of third-party service providers, including global custodians and securities lending agents. Under the compressed timeline, these intermediaries may introduce additional internal buffers, further reducing the effective processing window for trade matching, affirmation, and settlement.

Where settlement instructions are required to be submitted prior to market close, this may constrain asset managers' ability to achieve both best execution and timely settlement.

In addition, T+1 will increase reliance on counterparties—particularly brokers and custodians—to provide timely confirmations, efficient issue resolution, and robust settlement support. While members are supportive of a global operating model, its success will depend on enhanced service coverage during Asia hours. Currently, some custodians operate predominantly outside the region, and a genuine "follow-the-sun" or "pass-the-book" model will be critical to ensure seamless cross-time-zone processing.

2. Specific operational suggestions

a) Batch settlement

As noted in paragraph 63 of the Consultation Paper, settlement will continue to be conducted through batch runs in CCASS at 10:30am, 12:00pm, 2:00pm, and 3:45pm on settlement day.

Under the current T+2 cycle, market participants generally have sufficient time on T+1 to resolve unmatched trades. However, under T+1, members anticipate increased operational challenges in resolving unmatched trades involving EMEA-based custodians due to time-zone differences, which may result in trades missing existing settlement cut-offs.

To address this, members suggest that HKEX/HKSCC consider introducing an additional late-day batch settlement run (for example at 7:45pm, aligned with the final batch run for Northbound Stock Connect). This would provide additional time for coordination with EMEA-based counterparties and create a larger buffer to resolve trade issues within the compressed settlement timeline.

b) Settlement instruction input (SII) and matching

As set out in paragraph 67 of the Consultation Paper, the SSI matching window is proposed to be extended to 9:30pm on T-day. While this extension is helpful, the move from T+2 to T+1 significantly increases the urgency of resolving SSI-related issues earlier in the trade lifecycle.

Members currently maintain SSIs through established market utilities such as ALERT. In the event that HKEX proposes to introduce a centralised SI repository, members would welcome further clarification on whether such a system would integrate with, or automatically reference, existing platforms like ALERT. This would help avoid duplication of effort, reduce the risk of inconsistencies, and support operational efficiency across market participants.

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.

No comment

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

HKIFA members generally support HKEX's proposed arrangements on other processes under the T+1 settlement cycle.

Our specific comments are as follows:

1. Bank holidays misalignment

We would add that the move to T+1 may increase the risk of FX settlement failures and failed trades where overseas bank holidays are not aligned with Hong Kong trading days. This is particularly relevant for transactions involving foreign currency funding or global custodial networks operating across multiple jurisdictions.

Under the current T+2 cycle, market participants typically have additional time to manage such misalignments. However, the shortened T+1 timeframe may limit the ability to source funding, complete FX conversions, or resolve settlement dependencies when key markets are closed.

In this regard, we suggest that HKEX provide further guidance on how misaligned bank holidays will be addressed under the T+1 framework. Clarification on any contingency arrangements, market practices, or operational flexibilities would be helpful to support market readiness and reduce the risk of unintended settlement fails.

2. The implementation of Uncertificated Securities Market (USM)

The transition to T+1 may overlap with ongoing USM developments, while a significant proportion of securities remain outside the USM regime. Further clarity on the interaction between these initiatives would be helpful.

Physical securities: The current "express service" arrangements may need to be reviewed and adapted to remain operable within a T+1 settlement environment.

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 welcome HKEX's assessment of the implications of a T+1 settlement cycle for ETPs, including the guiding principles for the ETP primary market, and buy-in considerations for ETPs.

With respect to the ETP primary market, members emphasise that the ability of participant dealers to create and redeem ETF units at net asset value (NAV) at the end of each trading day is fundamental to maintaining pricing efficiency and overall market integrity. As the ETF creation & redemption timeline is not mandated to align with T+1, this could lead to additional operational complexity in inventory management, especially for liquidity providers. Such an increase in inventory risk is likely to lead to worse liquidity outcomes and wider spreads for affected instruments.

The guiding principles should therefore focus on enabling ETF managers, participant dealers, and relevant service providers to adapt their operational processes to ensure that creation and redemption activities can continue to function effectively within a T+1 environment.

Members also note that ETFs holding international securities may face additional operational complexity under T+1 due to misaligned settlement cycles across jurisdictions. Where underlying securities settle on timelines longer than T+1, the resulting mismatch in the timing of cash and collateral flows may give rise to increased liquidity pressures and more complex cash management requirements. These challenges may be further exacerbated by time zone differences and should be carefully considered in the design of the overall framework.

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?

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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

HKIFA members consider the list of topics and stakeholders outlined in Exhibit 1 and paragraphs 110–113 to be broadly comprehensive.

We echo HKEX's observation that early and ongoing engagement with market participants across the full value chain will be critical to a successful transition. In particular, proactive coordination will help ensure that any outstanding or cross-cutting issues are identified and addressed well ahead of implementation.

In this regard, we suggest that HKEX consider establishing a dedicated industry task force comprising relevant stakeholders to facilitate planning, coordination, and market readiness. HKIFA would be pleased to work closely with HKEX and the broader industry to support such an initiative, including the development of practical guidance and leading practices.

In addition, members highlight the following areas for further consideration:

1. Securities lending

Under a T+1 settlement cycle, securities lenders will have less time to recall loaned securities, and borrowers will correspondingly have less time to return them to settle onward sales. While recall timelines are governed by bilateral agreements, the development of market-wide leading practices could help support a smoother transition.

2. Foreign exchange (FX)

FX remains a key operational dependency for cross-border transactions under T+1. While the consultation recognises this, further clarity would be needed on how FX-related settlement issues will be treated in practice, , as this will have implications for existing fund operating models.

In particular, members note that implementation may require a broader review of operational workflows,

including timelines for transfer agents to finalise orders and initiate FX instructions, the use and extent of custody-driven trade-by-trade FX, FX overlay processes, and the impact of currency holidays. These factors will need to be carefully evaluated alongside considerations of process efficiency and automation as further details are finalised.

Members also seek clarification on the consequences where FX transactions are not completed in time to meet settlement obligations (e.g. whether such scenarios would result in settlement fails or temporary overdraft arrangements). Greater certainty in this area would support more effective operational planning and liquidity management.

3. Transitional arrangements and market practices

Given the scale of operational change, members suggest that HKEX consider introducing time-bound transitional measures to support market stabilisation in the early phase of T+1 implementation. This may include calibrated flexibility around settlement-related processes (for example, in relation to timing tolerances or penalty application), alongside the promotion of leading practices such as earlier trade affirmation and increased use of central matching platforms. These measures would help reduce early-stage disruption and support a smoother adjustment to the shortened settlement cycle.

4. Fund-level settlement mismatch

Members note a potential mismatch between the T+1 settlement cycle for underlying securities and the prevailing T+2 or T+3 cycle for fund subscriptions and redemptions. This may give rise to liquidity and cash management challenges, particularly for funds that do not operate with overdraft facilities or maintain excess cash buffers.

Members highlight that fund operating models will need to be reviewed in detail to assess key implications, identify critical dependencies, and explore opportunities for greater automation, particularly as processes become increasingly time-sensitive under T+1. In this regard, members would welcome clarification on whether any flexibility could be accommodated in such

circumstances, for example through extended settlement arrangements or other practical solutions to alleviate timing mismatches.

5. Northbound settlement standards

Members note the need for further discussions with service providers to address the disconnect between Northbound Stock Connect settlement arrangements and the proposed Hong Kong T+1 standard, which may introduce additional operational complexity. In particular, this misalignment could result in more complex funding requirements across multiple currencies (including HKD, CNY, and CNH).

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

HKIFA members generally consider the proposed implementation timeline of T+1 settlement in Q4 2027 to be ambitious but broadly achievable, provided that key prerequisites are met. These include timely clarity on the final framework, early release of detailed implementation guidance, and sufficient lead time for market participants to adapt systems, processes, and governance frameworks, as well as to conduct industry-wide testing. Continued engagement and coordination across the industry will also be critical to support readiness.

As many HKIFA members are international asset managers who have already streamlined and automated a significant portion of their operational processes, this should support readiness for the transition. The proposed timeline also broadly aligns with developments in other major markets, facilitating global coordination.

That said, a few members suggest that a more prudent implementation timeline in early 2028 may be more achievable, taking into account the scale of change required. This is particularly relevant in light of time zone challenges.

We highlight that overall readiness will depend on several key factors, including:

- ☐ Further clarity on the final framework, particularly in relation to market penalties and buy-in processes.
- ☐ Confirmation of operational readiness across third-party providers, such as global custodians, brokers, and securities lending agents.
- ☐ Avoidance of requirements for material changes to existing systems and workflows unless supported by sufficient lead time and industry alignment.
- ☐ Establishment of real-time communication and escalation channels during the go-live phase to promptly address any operational issues that may arise.

In addition, we suggest that HKEX consider introducing transitional measures to support market stability in the initial phase of implementation. Specifically, greater flexibility in settlement funding and instruction cut-offs would help mitigate time-zone misalignment, especially where EMEA- or US-based counterparties are involved. Temporary adjustments to buy-in processes, timings, and penalties may help reduce early-stage settlement risks as market participants adapt to the T+1 environment.