

Submitted via Qualtrics

Investment Company Institute

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.

The Investment Company Institute (ICI) [1] appreciates the opportunity to provide feedback on the Hong Kong Exchanges and Clearing Limited (HKEX) consultation on accelerated settlement for the Hong Kong Cash Market ("Consultation").

As the leading trade association representing regulated funds globally, ICI has a strong interest in promoting efficient capital markets for the benefit of long-term individual investors. We strongly support Hong Kong's commitment to accelerate the securities settlement cycle from two business days after the trade date (T+2) to one business day after the trade date (T+1). This commitment is crucial to enhancing Hong Kong's market efficiency, increasing competitiveness, and improving the resiliency of Hong Kong's financial markets.

We note that Hong Kong's proposed transition timeline to T+1 will broadly be in line with the October 2027 transition in the European Union and the United Kingdom. This alignment can facilitate cross-border harmonisation across global securities markets. Successful implementation of T+1 in Hong Kong will require substantial preparation, including close engagement and coordination across the industry, development of operational approaches, and testing across market participants and service providers. As such, we recommend HKEX develop a dedicated, ongoing stakeholder convening mechanism among both local and international stakeholders participating in the Hong Kong Cash Market to better assess and facilitate industry preparedness for the proposed T+1 implementation timeline.

Drawing on ICI's successful leadership of industry preparations for transitioning to the T+1 settlement cycle in North America and active engagements on industry preparations in the European Union and the United Kingdom, we are pleased to support HKEX's work to finalise a roadmap for the transition to T+1. Below please find our response to selected questions HKEX raised in the Consultation.

We are supportive of the proposed transition to a T+1 settlement cycle for the Cash Market, including the broad structure of the proposed operating model. Aligning Hong Kong's settlement cycle with other major global markets has the potential to reduce counterparty and settlement risk, improve capital efficiency, and enhance Hong Kong's competitiveness as an international financial centre. At the same time, the success of T+1 will depend on ensuring that settlement activities can be completed reliably within the accelerated timeline, supported by close engagement and preparatory work across the industry and with HKEX.

We support HKEX's objective of finalising trade positions earlier on the trade date to facilitate timely clearing and settlement under T+1. However, we recommend that HKEX consider further extending the proposed T-day trade amendment window from 5:00 pm to 6:00 pm.

Under the proposed model, the trade amendment window on T+1 would be removed, making the T-day cut-off the final opportunity to correct errors. With the market closing at 4:00 pm, a one-hour window may be challenging, particularly for trades that require manual intervention and coordination across market participants. Modestly extending the T-day amendment window would maintain the objective of earlier trade finality while reducing the risk that correctable trade errors become settlement failures.

Note:

[1]: The Investment Company Institute (ICI) is the leading association representing the global asset management industry in service of individual investors. ICI members are located in North America, Europe, and Asia and manage fund assets of US\$53.8 trillion, including mutual funds, exchange-traded funds (ETFs), UCITS, closed-end funds, unit investment trusts (UITs) and similar funds in these different jurisdictions. ICI has offices in Washington, DC, Brussels, and London.

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

We support the proposed approach to advancing post-trade processing under T+1, including earlier clearing on T-day and extended service hours for settlement instruction input and matching.

A continued focus on promoting automation, straight-through-processing (STP), and early exception detection across the post-trade lifecycle will be critical to efficiently meeting the accelerated timelines, particularly for cross-border participants operating across multiple time zones.

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.

No, reasons and considerations as follows

Similar to the references in the paper regarding severe weather trading and half-day trading, we encourage HKEX to provide guidance on how bank holidays and other non-aligned business days with jurisdictions outside Hong Kong will be managed under T+1. Misalignment between Hong Kong trading days and overseas banking or foreign exchange settlement calendars may increase the risk of funding or foreign exchange-related settlement failures in an accelerated cycle. Clear expectations and guidance would assist market participants in planning liquidity, foreign exchange execution, and contingency arrangements.

There is also the potential for liquidity mismatches to arise in cases where underlying securities are settled on T+1 but investor subscriptions and redemptions in a fund settle on T+2 or T+3. It would be helpful to clarify if market participants have the flexibility to bilaterally agree on an extended settlement for a fund's underlying securities in certain cases, such as a fund that needs to accommodate large cash flows while avoiding overdrafts or excess cash balances.

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 consideration of the implications of a T+1 settlement cycle for exchange-traded funds (ETFs) and other ETPs, and support HKEX's proposal to develop guiding principles for the ETP primary market.

Particularly as it relates to ETFs, the ability of participant dealers to create and redeem ETF shares at net asset value (NAV) at the end of each trading day is critical for ETF pricing efficiency and operational integrity. The guiding principles should be developed with the primary objective of assisting ETF fund managers, participant dealers, and respective service providers to review and adjust processes to ensure that ETF creation and redemption activities can continue to function effectively under a T+1 settlement cycle.

A central lesson from the North American transition is that effective T+1 implementation for ETFs requires coordinated efforts across industry participants to accelerate the availability of pricing information. For example, as a result of industry engagements in the lead-up to the transition, the National Securities Clearing Corporation (NSCC) accelerated the availability of its end-of-day pricing to allow for near real-time reporting of ETF creation and redemption trades and end-of-day true-up to

current NAV. Creating the ability to support an accelerated creation/redemption cycle was an integral part of the transition to T+1 for ETFs in the North American market.

We also note that ETFs holding international securities may face additional operational complexity under T+1 settlement due to misaligned settlement cycles and associated funding requirements relative to other jurisdictions. In particular, where underlying securities settle outside the T+1 cycle, the timing of cash and collateral flows may create liquidity and cash management challenges. Consistent with ICI's experience in the North American transition, these challenges are best addressed through early analysis of funding and collateral timing, and through operational adjustments that improve coordination of cross-border processing.

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?

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 welcome HKEX's efforts to encourage the development of industry-wide guidance to support the transition to a T+1 settlement cycle in Hong Kong. Building on the issues highlighted in the Consultation, and based on experiences from the North American transition and the preparations underway in the European Union and United Kingdom, we would highlight the below topics to be addressed in the industry guidance.

In addition to this guidance, we recommend HKEX develop a dedicated, ongoing stakeholder convening mechanism, such as a "Hong Kong T+1 Task Force," to bring together local and international stakeholders participating in the Hong Kong Cash Market to prepare for the transition to T+1. This type of dedicated industry coordination has been critical to the preparation for the transitions in North America, the European Union, and the United Kingdom. Such a forum can bring together a range of stakeholders to provide a comprehensive market lens and help ensure that any outstanding issues, including cross-border issues, are identified and addressed before the implementation date. This group can also assist in monitoring effectiveness and identifying any problems during and following the transition. ICI has played an instrumental role in facilitating industry task force discussions for the T+1 preparations in North America, the European Union, and the United Kingdom. We will be pleased to work with HKEX and the broader industry to participate in such a Hong Kong industry task force and in the development of industry guidance.

Securities Lending:

Under a T+1 settlement cycle, securities lenders will have less time to recall securities on-loan and securities borrowers will have less time to return those securities to settle a sale of loaned securities. Although the legally binding recall time is determined per the applicable securities lending agreement, encouraging industry practices that provide sufficient time for securities lending recalls may help facilitate an accelerated settlement timeframe. For example, as the North American

markets transitioned to a T+1 settlement cycle, ICI, together with DTCC and SIFMA, led industry discussions to recommend an 11:59 pm recall cutoff on trade date as a “leading practice” in the industry, shifting forward from the previous practice of recalls by 3:00 pm on T+1.

Foreign Exchange:

The timing and management of foreign exchange related to cross-border settlements has been a consistent area of focus and potential concern in jurisdictions moving to T+1 settlement. The Consultation appropriately highlights this issue, and the variety of operational considerations and actions that may be needed to address it. Consistent with this focus, it will be helpful for HKEX to clarify its expectations on how it will treat foreign exchange-related trade issues. For example, if HKD foreign exchange transactions are not completed in a timely manner, it would be useful for market participants to understand if this situation would result in a trade fail or in an overdraft.

Partial Settlement:

Although not a feature of the North American transition, we note that preparations for the move to T+1 in the European Union and the United Kingdom have included a focus on enabling the partial settlement of trades. As currently envisioned, partial settlement will become an automatic default in the European Union, such that in the event a delivering party only has a partial amount of the shares they contractually agreed to deliver to a buyer, the trade will settle for that partial amount. The buyer and seller would retain the option, however, to agree in advance to disable partial settlement. In the United Kingdom, the authorities will encourage market participants to use partial settlement when circumstances warrant. As part of the preparations for the transition in Hong Kong, it would be beneficial to have clarity on whether partial settlement will be encouraged.

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

We note that HKEX's proposed implementation date of T+1 will broadly align with the transition dates in the European Union and the United Kingdom. Successful implementation of T+1 in Hong Kong will require substantial preparation, including close engagement and coordination across the industry, development of operational approaches, and testing across market participants and service providers.

In line with our recommendation in response to Question 4, we encourage HKEX to make use of a dedicated stakeholder convening mechanism, such as a Hong Kong T+1 Task Force, to evaluate industry readiness on an ongoing basis. Such discussions across the industry, including local and international fund managers, institutional investors, brokers, clearing participants, and custodians, will allow HKEX to ensure alignment between industry readiness and an implementation timeline.

Further, given the potential proximity to the T+1 transitions in the European Union and the United Kingdom on 11 October 2027, it will be particularly important to coordinate with international counterparts and global financial institutions to avoid excessive complexity in managing multiple transitions across different time zones over a short period of time. For example, transitioning in Hong

Kong on the same date as the transition in the European Union and the United Kingdom may be very difficult to manage.

We also note the importance of planning for coordinated real-time communication mechanisms during the final implementation period. For example, on the day of the North American transition, ICI, together with DTCC and SIFMA, established a monitored hotline for industry participants to quickly escalate and resolve any unexpected operational issues.

Finally, we encourage HKEX to consider whether transitional measures may be appropriate to support market stability during the initial implementation period. For example, it may be appropriate to temporarily relax the existing buy-in requirements, timings, and penalties during the initial transition period as market participants adjust to the T+1 settlement cycle.