

Submitted via Qualtrics

Securities Finance 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.

No, reasons and considerations as follows

We are not supportive in the proposed form - the new extension of 17.00 on T date is insufficient for market participants, given the cross border nature of investment activity into Hong Kong.

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.

No, reasons and considerations as follows

We are not supportive in the proposed form - this lacks infrastructure and technical details for member firms to consider.

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

We are supportive, as the proposed arrangements on risk management under T+1 settlement cycle indicate that there is no material change from current market obligations.

However, in the proposed form this creates a significant compression on the operational window to support this business activity.

Market wide stress testing needs to be conducted including liquidity stress scenarios to consider increased securities borrowing demand which also coincide with new proposed shorter funding windows.

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

We are not supportive in the current form - the proposal lacks operational clarity and detail in relation to reporting, corporate actions, stock conversion arrangement and stamp duty arrangements that is required by the industry.

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 have comments. We are not supportive in the current form - the proposal lacks operational clarity and detail in relation to these three topics.

Two immediate examples are:

ETP Primary Market

- Primary and secondary market practice should be aligned to ensure there is no mis-match.

Stock Options

- Current market practice for assignments which are generally confirmed post trade date will lead to increasing number of failing transactions and buy-ins due to the compressed timeline of a T+1 settlement.

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?

Ensure consistent alignment across primary and secondary market practice.

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

Yes, there are many topics that are relevant to highlight. The key topics are as follows:

- Based on our experience from other locations this is an unrealistic timeline for implementation.
- Creates structural risks to the Cash Prime Brokerage business model.

- Risk of Hong Kong's market aligning with more frictional regional peers that do not encourage or support a cash Prime Brokerage model.
- Risk of moving existing cash market flows to OTC derivative structures.
- Time-zone implications for regionally executed and globally distributed securities borrowing and lending flows, including recalls and substitutions cannot all be compressed by post trade infrastructure adaptations alone.
- Custodians and Agent Lenders expect less investment managers to participate in securities lending activity. Those that do would immediately increase hold back rates, reducing equity borrow availability materially to mitigate this new infrastructural risk and potential buy-ins.
- Concurrently the mandatory buy-in structure needs to be reviewed and adapted based on the above.
- Risk that international market comparisons are not made on a like-for-like basis to Hong Kong's existing vibrant market infrastructure.
- Challenges regarding Funding and Foreign Exchange considerations.
- Reporting timelines for Stamp Duty payments.

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

We consider the timeline to be insufficient, based on our experience from other locations.

Shaping a timeline for market wide readiness requires detailed specifications to be published, considered and agreed. This will involve more than just system changes, extended cut-offs, matching, centralised SI repository, SI automation and a dashboard for MIS. This requires analysis, implementation, testing and acceptance validation. Consideration also needs to be made for extended client and technical support coverage by HKEX.

There are market wide deep concerns about the proposal overlapping with EU, Swiss and UK accelerated settlement implementations in October 2027.