

Submitted offline

HKAB

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 are supportive for the proposed move to a T+1 settlement cycle. Members recognise its potential to reduce settlement risk and align Hong Kong with other major markets, but also highlighted that successful implementation will depend on careful consideration of operational readiness, client behaviour, and investor protection, particularly in a high-volume retail environment.

In addition, members also provided comments on the proposed arrangements below:

Trade Amendment

Under T+1, the time available to identify, verify, and resolve trade amendments will be materially shortened. For retail brokers handling large numbers of client trades, this creates additional operational pressure, especially where amendments arise late in the day. Clear amendment cut-off times, standardised processes, and well-defined exception handling arrangements will be important to minimise errors and reduce the risk of client disputes, with straight-through processing (STP) being of utmost importance.

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

Post-Trade Processing

Retail brokers rely heavily on automated post-trade workflows to support high transaction volumes. Earlier confirmation and settlement under T+1 would result in faster turnaround for clients, quicker release of margins, and compressed processing windows for derivatives and transfers, particularly across time zones, requiring robust STP and closer coordination with clearing participants. Clear market-wide standards, operational guidance, and sufficient testing will be critical to ensure stability, particularly during periods of heightened market volatility. In this connection, member banks noted that the current proposed approach has provided limited arrangements at the end-to-end flow with banking services (for example, banking hours and currency cut-offs). We considered it beneficial for HKEX to provide a few examples of the value chain for securities and money settlement from the market participants' perspective (e.g. as referenced in Exhibit 1 and paragraphs 110–113) to help clarify these interfaces.

Members recommend to extend the service hours of the SI and ATI functions within the CCASS system and increase the number of settlement batches. Furthermore, FOP SI instructions should be allowed to undergo partial execution when CP positions are available and the remaining quantities retained in the system for processing in the next batch. Additionally, a new ATI interface should be introduced to allow CP to connect to CCASS directly for SI/ATI entries.

Also, regarding paragraph 61, the proposed generation of the Final Clearing Statement (FCS) at 8:00 pm on T-day may have implications for operational support coverage for branches with overseas support and internal system cut-offs. After receiving the FCS, follow-up actions and handshaking between parties may still be required. In this regard, we would like the HKEX to provide clarification on by when such follow-up actions should be completed to ensure end-to-end funding movements can be supported under the T+1 settlement cycle.

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

Risk Management

While a shortened settlement cycle reduces overall settlement exposure, it also increases pressure on same-day funding and intraday risk management. Retail brokers will need to enhance pre-trade controls, real-time monitoring, and margin management to ensure clients have sufficient cash or securities to meet settlement obligations. Banks are of the view that these measures will be important to mitigate settlement failures, especially where retail client behaviour may be less predictable.

In this connection, we would like to understand whether HKEX would consider postponing the issuance of buy-in notices in the event of failed settlement, from SD+1 to SD+2, to better align with the proposed T+1 operating model.

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

Other Processes

We generally support aligning reporting, corporate actions processing, stock conversion arrangements, and stamp duty workflows with the T+1 operating model. For retail brokers, it is important that these supporting processes remain operationally efficient and that the client impact is clearly communicated, so as to avoid confusion among less sophisticated retail investors. That said, some banks would like to understand whether it would be feasible to complete the stock conversion process in a single cycle, similar to the practice adopted for US equities, instead of maintaining parallel stock conversion cycles.

In addition, members which are custodians would also like to highlight the below for HKEX's consideration:

Corporate Actions

A key benefit of the T+1 model will be the shortened Corporate Actions (CA) ex-dates, which will align the record date with the settlement date. This change will remove the current requirement for buyers to claim dividend entitlements from sellers, thereby reducing administrative burdens and potential disputes for investors and market intermediaries.

SI input/matching operating hours extension

While an extension of system operating hours generally provides custodians with more time to process client instructions and / or amendments, it necessitates careful consideration of staffing models, including potential overtime, night shift arrangements, and potential offshoring (note that no further offshoring is allowed for AO and TPC models). Even with the implementation of automation, human resources remain essential for managing exceptional cases and responding to client inquiries.

Stamp duty payment processing

A significant portion of stamp duty calculation and payment processing relies on manual tasks that is prone to manual processing by nature of those tasks. In addition, the payment timing will be shortened by one day. Consequently, manual processing under compressed timelines is anticipated to create considerable operational challenges, increasing the risk of miscalculations and missed deadlines.

This reduction in the payment window could potentially necessitate market participants to hold higher intraday liquidity buffers in a non-interest-bearing account that they forgone the interest income they would otherwise entitle to. Additionally, we propose that HKEX, together with the relevant authority, to consider reassessing the late stamp duty payment penalty framework or instituting a temporary grace period. We propose the grace period is no less than 6-month (from T+1 implementation date) to allow market participants sufficient time to assess and adapt their liquidity management strategies in response to the aforementioned changes. This period would also help mitigate the passing of additional penalty costs to investors and consequently reduce the overall negative impact on investors. Such measures would greatly assist participants in smoothly transitioning to T+1.

Lastly, while the current proposal is to shorten the settlement cycle to T+1, a few members took this opportunity to express some reservations about migrating further to same-day settlement (i.e. T+0) which is mentioned in HKEX's consultation paper as a "longer-term possibility".

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

ETP Primary Market – Guiding Principles

The guiding principles for the ETP primary market appear appropriate overall. From a retail broker perspective, effective implementation will depend on clear coordination among issuers, market makers, settlement agents, and brokers, to ensure that retail clients are not adversely affected by tighter timelines or operational constraints.

Buy-in Considerations for ETPs

Members noted that the reduced timeframe under T+1 may increase buy-in risk where settlement issues arise, for example, on redemption of ETPs based on closing price. Greater clarity on buy-in triggers, timelines, and communication arrangements would be helpful, enabling retail brokers to better manage client expectations and explain potential financial impacts in a timely and transparent manner.

Stock Options (Exercise and Assignment)

We support aligning stock options exercise and assignment processes with the T+1 cycle, provided that cut-off times and processing arrangements are clearly defined. Given the level of retail participation in stock options, sufficient system readiness and clear client communication will be essential to minimise operational risk and avoid misunderstandings.

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 agree that consequential amendments to the Listing Rules may be necessary to support the proposed T+1 operating model. From a retail broker's perspective, such amendments should be clearly drafted, operationally practical, and avoid introducing unnecessary complexity that could impact client servicing or compliance processes.

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 recognize the importance of automation and streamlining for market participants in adapting to the accelerated settlement cycle. However, it is imperative to address how exceptional circumstances and handling procedures will continue to be managed.

To ensure a smooth transition, it would be highly beneficial to understand whether existing CCASS features will remain, or if certain functions are slated for replacement by the new functionalities intended for implementation within OCP/RAP in H1 2027. A transparent roadmap for OCP and RAP respectively is essential.

As an alternative, we respectfully suggest HKEX to consider extending the API and PG parallel run. This extension would provide market participants with additional time to ensure a smooth transition and achieve full system stabilization prior to the T+1 implementation.

For severe weather trading (SWT), our two years of operational experience have solely been via the existing PG infrastructure. Hence, we deem it prudent to gain practical experience with severe weather trading events utilizing the new API connectivity prior to the T+1 implementation.

In addition to the areas already covered, banks would also like to highlighted the following retail-specific considerations warrant further attention:

- Retail client readiness, including education on earlier settlement timelines and funding requirements;
- Impacts on margin trading, cash pre-funding, and forced liquidation arrangements;
- The importance of clear, timely, and consistent client communications; and
- Industry testing under high-volume retail trading scenarios and volatile market conditions.

We suggest HKEX to outline, in the conclusion paper, the possible options that have been explored with a focus on extending the operational flow of market participants.

Also, since Southbound Stock Connect will be part of the T+1-eligible securities, we believe ChinaClear and the mainland stock exchanges are also key stakeholders to be engaged throughout the process.

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

Most members, including those providing full range of equity trading and post-trading services to retail and wholesale customers, consider the proposed implementation timeframe, with T+1 targeted for Q4 2027, to be generally adequate, provided there is early visibility of detailed requirements.

Regarding the implementation approach, we would recommend that HKEX to provide a clear implementation roadmap with associated milestones to ensure this initiative is properly monitored and checked along with proposed timeline. Industry-wide testing and ongoing engagement with market participants, would also be needed help reduce operational and client-related risks. As regard the testing, it is recommended to conduct a minimum of three to four full end-to-end settlement cycle, with each test cycle taking approximately five business days to complete.

Adequate time for client communication is equally essential. With significant focus and resources of European based clients and the global custodians currently being directed towards the EU and UK T+1 roadmaps, it will likely present a capacity constraint for buy side clients to extend their review efforts to the HK T+1 initiative. Having said that, foreign investors are fully aware of and closely monitoring the T+1 developments in both Hong Kong and the broader Asian region.

That said, a couple of member banks providing certain post-trade services (e.g. custody) suggest that H1 2028 might be a more suitable timeframe for them to understand the interaction with other HKEX-lead initiatives (e.g. OCP).