

Submitted via Qualtrics

The International Securities Services Association (ISSA)

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

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

ISSA is an international association that supports the Securities Services industry globally. ISSA's members include central securities depositories, custodians, technology companies and other firms who are actively involved in all aspects of the Securities Services value chain.

ISSA notes that HKEX's planning and the questions it is asking in the Consultation Paper cover the areas that ISSA has highlighted as critical for planning to implement T+1 for international investors. We note that HKEX highlights that international investors represent 60% of HK cash securities trading.

ISSA encourages HKEX to adopt in its final plans to move to T+1 practices that are consistent with the spirit of the recommendations that ISSA made to markets exploring a move to T+1 settlement in our December 2023 white paper entitled "T+1 Global Impacts". This white paper may be accessed at this link:

https://issanet.org/content/uploads/2023/12/ISSA-T1-Global-Impacts_FINAL-.pdf

ISSA's recommendations can be found in the Executive Summary of that paper. The first two ISSA recommendations mainly relate to consultation with market participants outside the domestic market who transact on a cross-border basis. It is important to document potential challenges and to mitigate those to the extent possible - especially those relating to Foreign Exchange (FX) processing.

Another ISSA recommendation regards timing. Domestic market authorities should require that all critical market practice changes necessary to implement T+1 settlement successfully, be in place and utilized by all market participants for a significant period prior to the targeted implementation date of T+1 settlement.

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

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

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.

No comment

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

The area of liquidity/funding for international institutional investors investing in HK securities is a critical one. It impacts investors that may settle in those markets with foreign currencies and those investors who execute FX transactions to settle in HK in the local market currency.

ISSA recommends that HKEX consult with buy-side firms from market centers that invest significantly into HK on a cross-border basis, and with the FX/international payments industry to analyze the obstacles in both execution/liquidity and settlement, before finalizing the new market practices necessary to support the move to T+1 settlement. Finding ways to minimize the impact and potential increased costs relating to funding by international investors is critical to keep international investors from having to pre-fund their transactions or experiencing significantly increased FX/funding costs.

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

Given that the comments on the Consultation Paper are due May 18, there are only 16 months to October 11, 2027. If such an implementation date were chosen (to coincide with the implementations in the EU and UK), that leaves a very short time for market participants to make all the necessary preparations between themselves and HKEX and between themselves and their counterparties and then for the HK market to conduct significant testing for a substantial period prior to implementation. We note that the current Joint Testing Plans of the UK, EU and Swiss Markets allow for nine months of testing following the implementation work by both the market infrastructures and market participants. That is consistent with ISSA's recommendation that "all critical market practice changes necessary to implement T+1 settlement successfully, be in place and utilized by all market participants for a significant period prior to the targeted implementation date of T+1 settlement". Thus, we recommend that HKEX work with the industry to agree on a testing and transition plan immediately after the Consultation period ends.