

Submitted via Qualtrics

Federation of Share Registrars Limited

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 comment

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 comment

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 comment

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 appreciate that T+1 will require re-calibration of many market processes that we collectively need to address. We wish to highlight that T+1 will pose a particular challenge for handling cashless options exercises, which is one of the most common exercise types under share option schemes, for issuers that are not yet participating in USM, where share certificates must still be generated and delivered to HKSCCN, which we would appreciate the opportunity to discuss in detail with HKSCC.

This transaction type involves sale of the new shares upon option exercise under share option scheme. Those new shares will need to be available in CCASS for settlement on T+1. The total number of new shares can however only be calculated and then issued after completion of the option exercise (i.e. only after end of day on exercise date, T). For non-USM participating securities, this will require the following steps to all occur to meet T+1 settlement in CCASS:

- › production of a share certificate in the name of the broker (which is also the plan administrator)'s nominee entity by the issuer's registrar
- › action by the broker to pick up the share certificate from the issuer's registrar; and
- › action by the broker to go to CCASS counter to transfer shares into CCASS by submitting 1. share certificate in the name of broker's nominee entity, 2. form of transfer, and 3. CCASS deposit form.

All of these steps can only occur after end of day on T and must complete prior to the last batch settlement run at 3.45pm on T+1. In our view, this will create a high risk of settlement failure on T+1 for such transactions for non-USM participating securities.

For issuers participating in USM, these processes can be streamlined via digital transactions on USI holdings with lower risk of settlement failure, on the condition that registrars, brokers and HKSCC are all following the pre-agreed working-around time on T day. However, Hong Kong will be operating in a dual environment of USM and the current certificated regime for at least four years after the anticipated commencement of T+1 (potentially longer for those issuers from jurisdictions other than Hong Kong, PRC, Bermuda and Cayman Islands). This will place significant pressure on cashless option exercise transactions under share option schemes for affected issuers, and we propose that alternate arrangements should be discussed between brokers, share registrars and HKSCC.

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?

No comment

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.

No comment

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 comment

