28 August 2025

Hong Kong Exchanges and Clearing Limited
8/F Connaught Place,
Central, Hong Kong

Submitted electronically

Re: *Discussion Paper: Accelerated Settlement for the Hong Kong Cash Market*

Dear Sir or Madam,

The Investment Company Institute (ICI)[1] appreciates the opportunity to provide feedback to the Hong Kong Exchanges and Clearing Limited (HKEX) discussion paper on accelerated settlement for the Hong Kong cash market.[2] As the leading trade association representing regulated funds globally, we have a strong interest in promoting efficient capital markets for the benefit of long-term individual investors.

ICI strongly supports Hong Kong shortening the securities settlement cycle from two business days after the trade date (T+2) to one business day after the trade date (T+1). Shortening the settlement cycle to T+1 benefits regulated funds, and by extension retail investors in these funds. A clear commitment and a detailed roadmap on how to achieve the transition are critical steps in ensuring that regulators and market participants have a reasonable and practicable implementation period for moving to a T+1 settlement cycle.

ICI successfully led the multinational transition for the North American markets. Working closely with partners at the Depository Trust and Clearing Corporation (DTCC) and the Securities Industry and Financial Markets Association (SIFMA), we created a comprehensive

[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$50.0 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.

[2] Discussion Paper: Accelerated Settlement for the Hong Kong Cash Market (28 July 2025) (the Discussion Paper).

T+1 roadmap[3] and supporting resources, convened regular meetings to monitor progress, addressed operational challenges, and delivered essential communications before and during the implementation. We have also continued our efforts, publishing the T+1 After Action Report[4] and liaising with regulators and industry participants to monitor post-transition efficiency and effectiveness.

Although moving to T+1 a complex undertaking and each market faces unique challenges, ICI's experience in North America has guided our engagement in the United Kingdom, European Union, and Switzerland, as we engage with leaders and industry task forces to share lessons learned and best practices, help identify and solve challenges, and foster preparedness. Drawing on this expertise, we also offer the following insights for Hong Kong to consider as it plans to shorten the settlement cycle in its markets:

Demonstrated benefits. Following the transition in the United States, there have been clear improvements in trading conditions, as demonstrated by affirmation rates, fail rates, and clearing fund requirements.

Coordination and collaboration are critical to achieving a successful outcome. Planning, executing, and implementing the transition to T+1 requires coordination across multiple stakeholders locally and globally over a multi-year period.

Clear communication is essential to foster preparedness across the broad scope of impacted market participants. Frequent and unambiguous messaging is needed to ensure that all participants are aware of the necessary operational changes and deadlines and are diligent in their preparations. As HKEX considers how to proceed, we encourage HKEX to continue to clearly communicate its commitment to the transition and develop a detailed roadmap, so that market participants understand the necessary steps and key milestones throughout the implementation period.

Preparation for unexpected challenges. Having proper governance in place, including an industry transition committee, is critical to quickly identify and address unexpected aspects of the transition that may arise during the implementation period.

Support market-driven solutions. Early identification of the challenges specific to the Hong Kong market will provide market participants the opportunity to resolve them effectively and

[3] T+1 Securities Settlement Industry Implementation Playbook (August 2022).

[4] T+1 After Action Report (September 2024).

efficiently. We encourage HKEX to collaborate with market participants on those issues that have already been identified, including potential automation solutions to increase efficiency in trade matching and settlement activities and how to address potential fails within the market in light of Hong Kong's mandatory buy-in regime.

ICI is committed to supporting the global transition to a T+1 settlement cycle, so that investors around the world, including in Hong Kong, can enjoy the benefits. We welcome the opportunity to continue our dialogue with HKEX, sharing our experience and fostering preparedness for our members who operate and are based in jurisdictions around the world, including Hong Kong. If you have any questions, please contact me at tracey.wingate@ici.org.

Sincerely,

/s/ Tracey Wingate

Tracey Wingate
Head of Global Affairs

Attachment: Investment Company Institute Responses to *Discussion Paper: Accelerated Settlement for the Hong Kong Cash Market*

Letter from Investment Company Institute

Investment Company Institute Responses to *Discussion Paper: Accelerated Settlement for the Hong Kong Cash Market*

Submitted electronically

Question 1 What do you think would be the effect of adopting a T+1 settlement cycle on the market vibrancy and competitiveness of the Hong Kong market as an international financial centre? Please give reasons for your views.

The Investment Company Institute (ICI)[5] appreciates the opportunity to provide feedback to the Hong Kong Exchanges and Clearing Limited (HKEX) discussion paper on accelerated settlement for the Hong Kong cash market.[6] As the leading trade association representing regulated funds globally, we have a strong interest in promoting efficient capital markets for the benefit of long-term individual investors.

ICI supports Hong Kong shortening the securities settlement cycle from two business days after the trade date (T+2) to one business day after the trade date (T+1). We are encouraged by HKEX's recognition that the question is not "whether" Hong Kong should move to T+1, but "when," and that through this consultation process the HKEX is addressing the critical issues of "how." A clear commitment to move to T+1 and a detailed roadmap on how to achieve the transition are critical steps in ensuring that regulators and market participants have a reasonable and practicable implementation period for moving to a T+1 settlement cycle.

Shortening the settlement cycle to T+1 benefits organisations across the financial services industry and throughout the trade lifecycle, thereby strengthening Hong Kong capital markets and its role as an international financial centre. Based on international experiences, a reduction in the settlement cycle to T+1 will deliver reduced operational and counterparty risk, a significant reduction in collateral and margin requirements, increased liquidity and capital efficiency, continued modernisation of post-trade infrastructure, and expedited cash and

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[6] Discussion Paper: Accelerated Settlement for the Hong Kong Cash Market (28 July 2025) (the Discussion Paper).

security deliveries to investors. These benefits will further lower trading costs and facilitate a more efficient use of capital for investors.

In addition, transitioning to T+1 settlement in Hong Kong would close the settlement misalignment with major capital markets that have already transitioned or are in the process of transitioning to T+1. The magnitude of the potential negative impacts of misalignment is directly related to the depth of the interconnectedness of global capital markets. Realigning settlement timelines with major global markets would reduce the costs and risks associated with that misalignment and thus increase the competitiveness of Hong Kong capital markets.

As investors in the markets, regulated funds would benefit from a shortened settlement cycle, and these benefits would ultimately flow to investors in these funds. Retail investors benefit from expedited cash and securities deliveries. In addition, reducing risk and increasing efficiencies generally can lead to lower costs, which can improve net returns on investments. We anticipate a shorter settlement cycle to deliver ongoing benefits and cost savings to market investors, including retail investors.

Question 2 Do you see any effect in the implementation of T+1 on the long-term liquidity and risk management capabilities within the Hong Kong market, and in the harmonisation of the settlement cycle across major exchanges across global markets? Please give reasons for your views.

Generally, reducing the time between trade and settlement results in a reduction in systemic, counterparty, and operational risk across the settlement ecosystem, particularly in times of market volatility. The associated reduced collateral requirements permit market participants, including regulated funds, to improve their cash and liquidity management, leading to more efficient and liquid capital markets.

For regulated funds, shortening the settlement cycle to T+1 would result in lower counterparty exposure, which in turn reduces margin requirements. Particularly in times of market volatility, regulated fund managers would be better able to manage their capital and liquidity risk and efficiently use their available capital.

In addition, shortening the settlement cycle incentivises market participants to modernise their processes through greater use of technology, automation, and standardisation, which leads to more efficient and cost-effective operations. For example, moving to T+1 accelerates the industry's adoption of Straight-Through Processing (STP), which requires automating manual processes. Automating such processes significantly reduces operational risk, increases productivity, and reduces friction for market participants. Among other benefits, STP can help to eliminate redundant processes, save time and expenses, and reduce manual errors.

Coordination of settlement timelines across global capital markets is critical given the depth of their interconnectedness. This cross-border harmonisation delivers clear benefits to investors by reducing operational risks and costs that arise from fragmentation. Based on international discussions on the T+1 transition, we have observed that global investors, including regulated funds, are often concerned that frictions created by the dislocation of settlement timelines across global capital markets would increase operational risks and the cost of investing in markets that are yet to transition to T+1, in turn, constraining liquidity providers' ability to trade and impair liquidity in these markets.

Question 3 How has your organisation been involved in the recent T+1 transition in the US / Americas and discussions in Europe?

ICI has a unique perspective on the challenges of accelerating to T+1, having successfully led the multinational transition to T+1 for the North American markets. To ensure operational readiness for T+1 in the United States, ICI helped guide buy-side market participants, including asset managers, along each step of the transition process. Together with our partners at the Depository Trust and Clearing Corporation (DTCC) and the Securities Industry and Financial Markets Association (SIFMA), ICI developed a T+1 roadmap and other resources, regularly convened market participants to assess progress, helped solve operational issues, and provided critical communications leading up to and during the implementation.

In December 2021, ICI, DTCC, and SIFMA published a white paper titled "Accelerating the U.S. Securities Settlement Cycle to T+1"[7] and announced the joint formation of the Industry Steering Committee (ISC) and Industry Working Groups (IWG) to assess the feasibility and impact of the transition to T+1 settlement. Together with feedback and input from over 100 participating firms, ICI, DTCC, and SIFMA published a T+1 Industry Implementation Playbook in August 2022,[8] identifying key issues across a number of business areas that market participants need to consider in moving to T+1 and providing a timeline and milestones to address each issue. These issues include trade processing, asset servicing, documentation, securities lending, prime brokerage, and funding and liquidity.

[7] Accelerating the U.S. Securities Settlement Cycle to T+1 (1 December 2021).

[8] T+1 Securities Settlement Industry Implementation Playbook (August 2022).

During the two year implementation period, ICI continued to lead the preparation efforts and together with our partners, hosted webinars, workshops and working groups to tackle the key challenges in the industry, which included: (i) securities lending recall processing, (ii) foreign exchange and cash management, (iii) primary and secondary market ETF processing, (iv) allocation, confirmation and matching, and (v) cross-border securities related issues, among others.

ICI, along with DTCC and SIFMA, also stood up and operated an Industry Command Centre for the final weeks leading up to and following the transition. This command centre played a critical role in ensuring the success of the transition to T+1 in the United States. As a live industry communication centre that operated 24/7 over the transition weekend, the Command Centre ensured that any issues were identified, communicated rapidly, and addressed as needed.

Following the transition, ICI continued our efforts including the joint publication of the T+1 After Action Report,[9] and on-going engagement with regulators and industry participants to monitor post-transition efficiency and effectiveness. ICI is currently working with Deloitte, DTCC, SIFMA, and industry participants to assess the operational resilience of the United States securities markets through a series of three simulated industry outages. We plan to publish the findings of these simulations at the end of 2025.

ICI is committed to supporting the global transition to a T+1 settlement cycle. Building on our leadership of industry preparations in North America, we have been actively involved in preparations in the European Union to move to T+1 and actively engaged with leaders in the United Kingdom, Switzerland, and other jurisdictions to share our experience, help identify and solve challenges, and foster preparedness. For example, in April 2025, we convened and hosted a webinar with the leaders of the European Union and the UK industry task forces for the T+1 transition to share perspectives with policymakers and industry stakeholders. In addition, as the leading association representing regulated investment funds globally, ICI benefits from the perspective of members operating in and based in jurisdictions around the world, including Hong Kong.

Question 4 From your perspective, are there any learnings from the recent T+1 transition in the US / Americas and discussions in Europe? Please give reasons for your views.

[9] T+1 After Action Report (September 2024).

Although there are structural differences between markets in the United States, European Union, United Kingdom, and Hong Kong, our experience in these markets provides insights for Hong Kong to consider as it plans to shorten the settlement cycle in its markets.

Demonstrated benefits. The T+1 After-Action Report revealed clear improvements in trading conditions, including an improvement in trade affirmations, consistently low fail rates, and a significant reduction in collateral requirements, as demonstrated by the following metrics:

Affirmation Rates: Nearly 95% of transactions met the affirmation criteria by the 9:00 pm ET cutoff on the trade date, as set by The Depositary Trust Company (DTC). This marks a notable improvement from the 73% affirmation rate recorded at the end of January 2024.

Fail Rates: The average Continuous Net Settlement (CNS) Fail Rate for July 2024 was 2.12%, consistent with T+2 settlement rates. Similarly, the average DTC non-CNS Fail Rate was 3.31% for July 2024, which was also consistent with T+2 settlement averages.

Clearing Fund Requirements: In a T+1 environment, the National Securities Clearing Corporation (NSCC) Clearing Fund decreased on average by US$3 billion (23%) from the prior three-month average value of US$12.8 billion in a T+2 environment to US$9.8 billion. The NSCC Clearing Fund decreased on average by US$2.4 billion (20%) from the prior month average value of US$12.2 billion in a T+2 environment to US$9.8 billion post T+1 implementation.

Coordination and collaboration. Planning, executing, and implementing the transition to T+1 requires coordinated efforts across multiple stakeholders locally and globally. As demonstrated through the extensive preparations for the transitions in North America and the ongoing efforts in the United Kingdom, European Union, and Switzerland, moving to T+1 settlement is a significant endeavour that requires diverse industry members to perform extensive planning, coordination, and testing over a multi-year period. A collaborative approach ensures that market participants are aligned, informed, and prepared at every stage of the process.

Clear communication. We applaud that HKEX is leading the conversation with the industry on moving to a T+1 settlement cycle. Communication is critical to achieving a successful outcome. Given the broad scope of market participants that are impacted, clear and frequent communications are needed to ensure that all participants are aware of the necessary operational changes and deadlines, so that all participants are diligent in their preparations.

Preparation for unexpected challenges. Even though the United States transition has been widely heralded as a success, there were challenges and lessons learned along the way.

Shortly after the publication of the T+1 Industry Implementation Playbook, it became clear that the topics of (i) foreign exchange and cash management and (ii) the primary market for ETFs would require additional industry engagement and attention than originally estimated. ICI, together with our partners at SIFMA and DTCC, established specific working groups focused on these two topics.

From such experience, ICI observed that having clear governance for the industry transition committee is critical to quickly identify and address any aspects of the transition that may be underestimated during the initial stage.

We further highlight key observations on these challenges based on our experiences during the transition to T+1 in the United States:

Foreign exchange and cash management: Significant discussions during the North American transition centred around the integration of foreign exchange practices and the potential need for adjustments in the Continuous Linked Settlement (CLS) foreign exchange process. Despite initial concerns about the reduced time frame for transactions to be introduced by 6:00 pm ET daily, analysis indicated that changes were not possible prior to the T+1 transition date. Nevertheless, market participants and their custodians successfully adapted their operations without the need for altering the CLS activity for securities settlement, as early indications from CLS showed that their foreign exchange volumes remained consistent with historical trends.

ETF: ICI, together with partners at DTCC and SIFMA, facilitated workshops with subject-matter experts from the NSCC to tackle key issues prior to the T+1 conversion. These workshops addressed (i) same-day settlement instances, (ii) the impact to collateral requirements, (iii) authorised participant agreements, and (iv) real-time NSCC messaging. As a result of these workshops, NSCC accelerated the availability of its end-of-day pricing to allow for near real-time reporting of ETF creation and redemption trades. Creating the ability to support a T+0 creation/redemption cycle with end-of-day true-up to current NAV was an integral part of the transition to T+1 to support stock loan sourcing needs.

Question 5 Do you have any views on the specific considerations laid out above for the Hong Kong market to consider in a transition to T+1?

As HKEX develops a more detailed roadmap for shortening the settlement cycle in Hong Kong, complex technical challenges may arise that are specific to the asset management industry to address fund settlement timelines, primary and secondary ETF markets, foreign exchange, securities lending, post-trade operations, and corporate actions. We have found that inclusive international working groups and facilitated workshops can be used to identify areas of concern as well as potential solutions. Early identification of the challenges specific to the Hong Kong market will enable industry participants in Hong Kong to collaborate to resolve them efficiently and effectively.

With the shortening window to perform trade matching and settlement activities, automation will be key to ensuring that these workflows can be adjusted to perform these activities in the hours following a trade. A useful solution in the United States facilitates STP through matching and automating affirmation in a single platform. We encourage HKEX to consider automation solutions that would increase efficiency and achieve similar outcomes for the Hong Kong markets.

We also encourage Hong Kong to consider how to address potential fails within the market in light of Hong Kong's mandatory buy-in regime. Enforcing mandatory buy-ins during the transition period could add stress and create further risk to overall market operations. Similar concerns have been raised in the European Union regarding settlement penalties, where legislators are considering a temporary suspension to support the transition.

We appreciate HKEX's acknowledgment of the significant level of multinational participation in Hong Kong's markets. Clear and ongoing communication will be essential to ensuring that all market participants have sufficient time to implement changes to operating models and ensure adequate staffing and preparedness.