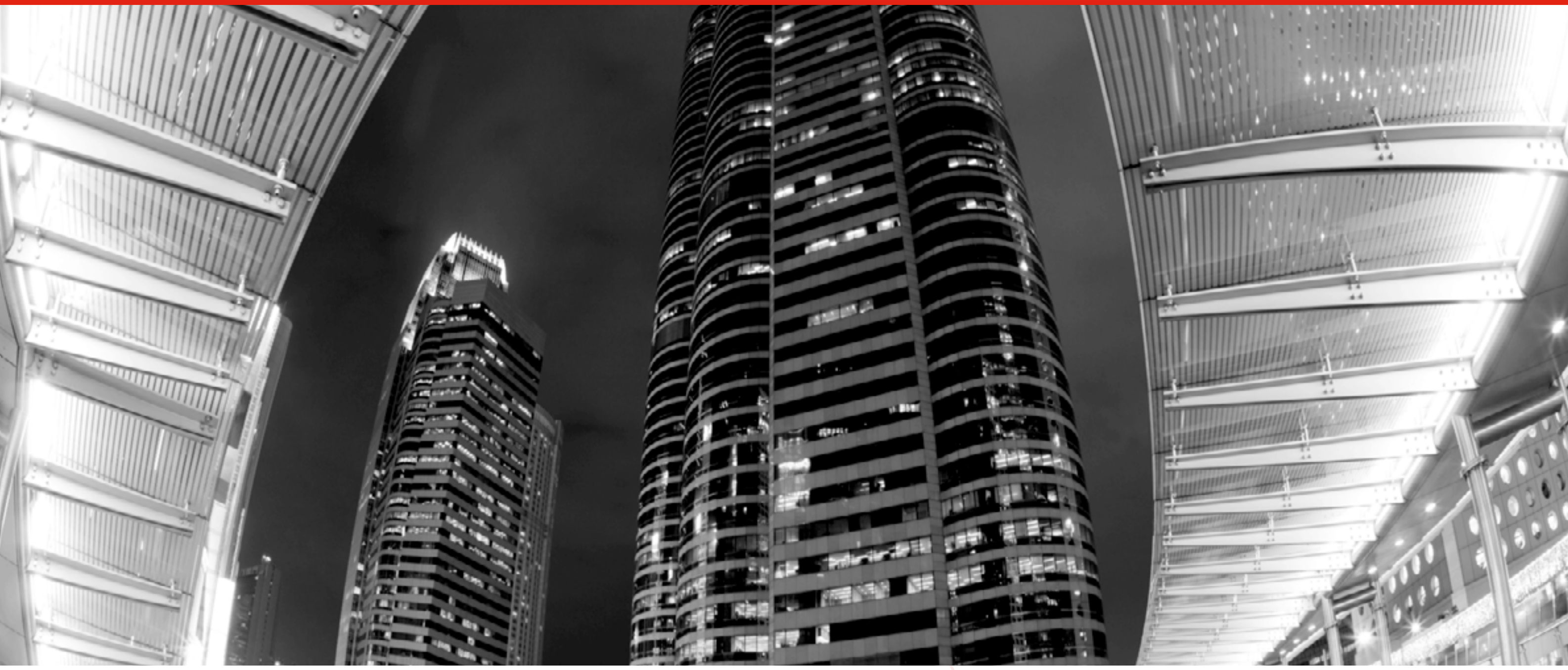

HKEX Consults on T+1 Settlement

On 17 April 2026, Hong Kong Exchanges and Clearing Limited (**HKEX**) published a Consultation Paper on Accelerated Settlement for the Hong Kong Cash Market (**HKEX T+1 Consultation**) proposing to shorten the settlement cycle for the Hong Kong cash market from the current T+2 to T+1, with an indicative implementation date of the fourth quarter of 2027. The proposal, which follows a Discussion Paper published in July 2025, sets out a detailed operating model for the transition and seeks public comments by 18 May 2026.

The practical consequences of the change are considerable. The HKEX T+1 Consultation notes that international institutional investors, who account for over 60% of cash market turnover, may effectively find themselves operating on a 'T+0 timeline' once the proposed changes take effect.

Global Move to T+1 Settlement

The direction of travel has been clear for some time. India completed its transition to T+1 for all stocks in January 2023. The United States, Canada and various other markets in the Americas moved to T+1 in May 2024, covering equities, corporate bonds and exchange-traded funds. The United Kingdom, the European Union and Switzerland have announced a coordinated move to T+1 on 11 October 2027.

HKEX published a Discussion Paper in July 2025 to begin what it describes as a 'holistic and well-informed discussion' with the market. More than 60 responses were received from banks, asset managers, custodians, industry associations and private individuals. The broad conclusion, according to the HKEX, was that the industry supports the transition. The HKEX T+1 Consultation now sets out how and when T+1 settlement will be implemented in Hong Kong.

T+1 Operational Model on HKEX

The core proposal is straightforward: trades executed in the secondary market would settle one business day later, rather than two. However, the operational consequences are not straightforward. The HKEX proposes amendments across the entire trade lifecycle, and practitioners will need to understand each of them carefully.

Trade Execution

The procedures for order placement, trading hours and trade execution will remain unchanged.

Trade Amendment

Under the existing regime, Exchange Participants (**EPs**) can submit trade amendment applications up to T+1. Under the proposals, the T-day window would be extended slightly, with amendments permitted until T-day 5:00 pm (up from 4:00 pm). Crucially, however, the T+1 amendment window would be removed entirely. Positions must therefore be finalised within the trade date itself.

Clearing

Currently, the Final Clearing Statement is generated on T+1 at 2:00 pm. Under the proposals, it would be generated on T-day at 8:00 pm meaning that Clearing Participants (**CPs**) would have full visibility of their cleared positions on the same day as trading, giving them the overnight period to prepare for next-day settlement.

Settlement

The settlement date moves from T+2 to T+1, but the underlying framework remains intact. HKEX proposes to retain the existing Delivery Versus Payment Model 2 structure and the four-batch settlement running at 10:30 am, 12:00 pm, 2:00 pm and 3:45 pm. The HKEX believes this can preserve the advantages of the current system while reducing transition costs for participants.

Settlement Instructions

The window for inputting and matching Settlement Instructions (**SIs**) would be extended on T-day. Input would be permitted until 10:00 pm (extended from 7:00 pm) and the matching window would run until 9:30 pm (extended from 6:00 pm). The rationale is to give participants more time to complete post-trade processing before the settlement clock starts ticking.

Risk management

The existing clearing risk management framework would continue to apply, but the compressed cycle means that intraday marks and margin calculations would cover two days of open Continuous Net Settlement positions (T and T-1), down from the current three. Day-end calculations would cover one day of open CNS stock positions (T) rather than two. The daily risk payment obligation report would be issued later, at 10:00 pm on T-day rather than 8:30 pm, though the payment deadline of 9:30 am on T+1 would remain unchanged.

Scope: T+1 Applicability

The proposed T+1 cycle would apply to:

- all secondary market exchange trades of:
    - Equities (including ordinary shares, preference shares, stapled securities, SPAC shares and SPAC warrants);
    - SFC-authorised Collective Investment Schemes including REITs and exchange-traded products (**ETPs**) including ETFs and Leveraged and Inverse Products;
    - Structured products;
    - Debt securities; and
    - Securities traded through the Southbound Stock Connect Programme. The physical settlement of equities arising from stock option exercise and assignment would also move to T+1;
- Physical settlement of equities upon the exercise and assignment of stock options; and
- For primary transactions of ETPs (i.e. creation and redemption), settlement arrangements should, where feasible, align with the T+1 cycle used in the secondary market. Where full alignment isn't operationally achievable, settlement timelines should move as close to T+1 as practicable.

Excluded from scope are initial public offerings, structured product issuances, final settlement at expiry of structured products and, notably, Chinese Mainland securities traded through the Northbound Stock Connect Programme. These would continue to operate on their existing timetables. The practical consequence is that multiple settlement cycles would run concurrently, which HKEX acknowledges will require participants to manage different timelines simultaneously.

For ETP primary market transactions (creation and redemption), HKEX proposes that settlement should align with T+1 where feasible, and move as close to T+1 as practicable where full alignment is not achievable.

ETPs and Stock Options

Two product areas deserve particular attention.

ETPs

The ETP primary market involves multiple parties — issuers, participating dealers, custodians, trustees and registrars. The HKEX acknowledges that greater digitalisation and automation will be essential to accommodate compressed timelines. The consultation also flags the continued importance of the existing buy-in exemption framework for ETP market makers, and invites views on whether any modifications to that framework may be required.

Stock Options

Settlement of equity transactions arising from the exercise and assignment of stock options currently takes place on T+2 day. Under the proposals, it would move to T+1. The HKEX notes the practical difficulty here: assignment instructions are not received until after the market closes on T-day, leaving participants a very narrow window to ensure securities are available for next-day settlement.

Implications for Corporate Actions

For corporate actions commencing after T+1 implementation, the ex-date for dividends, bonus issues and rights issues would shift. Under the current T+2 regime, the ex-date falls one settlement day before the last registration date or the record date if there is no book closure. Under T+1, the ex-date and the last registration date would coincide. For practitioners advising listed companies on corporate action planning, this is a material change that will need to be reflected in documentation and communications with shareholders.

Stock Conversion Arrangement for Parallel Trading

Parallel trading refers to a transitional period during which securities undergoing certain corporate actions such as consolidation, subdivision or re-organisation, are traded concurrently under both a temporary stock code and the original stock code following the effective date of the corporate action.

When an eligible security is subject to parallel trading, HKSCC will initiate automatic stock counter conversions of holdings and/or positions to facilitate settlement in the relevant counter. The conversion schedule is determined with reference to the parallel trading arrangements and the applicable settlement cycle. The existing CCASS conversion mechanism is designed for a T+2 settlement cycle. With the adoption of the T+1 settlement cycle, conversion schedules will be adjusted accordingly, and the overall conversion duration will also be shortened.

Stamp Duty on HKEX Trades: Compressed Timelines for Compliance

Stamp duty reporting and payment will be accelerated. It is expected that Form SD-1 submission, currently due on T+2 by 11:00 am, would move to T+1 by 11:00 am. The stamp duty payment deadline, currently T+2 day-end, would move to T+1 day-end. However, the stamp duty exemption submission deadline (T+1 10:15 am) would remain unchanged. HKEX is engaging with the relevant authorities on these changes, and notes that participants will need to build relevant systems enhancements to support the accelerated timeline.

Implications of T+1 for HKEX ETP Primary Market Settlement

A central concern in the consultation is whether the exchange traded product (**ETP**) primary market, encompassing the creation and redemption of ETP units, can be restructured to operate consistently with a T+1 settlement cycle. HKEX has indicated that primary market settlement timelines should, where feasible, mirror the T+1 cycle applicable to the secondary market, and that clear and predictable cut-off times will be essential to facilitate timely processing by relevant stakeholders.
Where full alignment with T+1 is not operationally achievable, HKEX has adopted a pragmatic position: settlement timelines should move as close to T+1 as practicable. This graduated approach recognises the complexity involved in compressing the primary market settlement window.

The involvement of multiple parties in the creation and redemption process, including issuers, participating dealers, custodians, trustees and registrars, means that end-to-end workflow reviews will be necessary. Market participants should assess their existing processes, identify dependencies and constraints, and consider what operational changes may be required to accommodate shortened timelines.

Digitalisation and Operational Readiness

HKEX has made clear that the transition to T+1 will require a material reduction in manual and paper-based procedures. Market participants that continue to rely on non-automated workflows may find themselves unable to meet the demands of a compressed settlement cycle. The consultation therefore implicitly encourages firms to prioritise investment in digitalisation and streamlined processing capabilities.

Buy-In Exemptions for ETPs

A notable point raised by ETP market makers during industry discussions is the continued relevance of the existing buy-in exemption framework for ETPs. Under a shortened settlement cycle, the risk of settlement failures may be heightened, and the question of whether the current exemption framework requires modification will need careful consideration.

HKEX has invited feedback on operational challenges and has indicated a willingness to explore whether any proposals to the current framework should be put to the regulatory authorities. Firms with views on this issue should engage with the consultation process. Given that any changes to the buy-in exemption framework would require regulatory engagement, early and constructive industry input is likely to be particularly valuable.

Stock Options: Implications of T+1

The proposed shift to T+1 also has direct consequences for equity transactions arising from the exercise and assignment of stock options. These transactions currently settle on T+2, and will need to settle on T+1 following the transition.

This compresses an already tight operational window. Assignment instructions are not received until after the close of the market on the trade date, meaning that market participants must be in a position to act expeditiously and to have the relevant securities available for settlement without the benefit of an additional trading day. Firms should review their options processing workflows as a matter of priority to ensure that they can meet this requirement.

HKEX Listing Rule and Legislative Amendments

HKEX confirms that it will amend its HKEX Listing Rules and Clearing House Rules to reflect the T+1 operating model. The HKEX Listing Rules changes will include removing references to the 'T+2 settlement system' and reflecting the revised ex-date timing. References in the HKEX Main Board Listing Rules to the 'first ex-date' will be removed and the 'second ex-date' will simply become the 'ex-date.' Broader legislative and regulatory changes are also anticipated, although HKEX states that further details will be confirmed in due course.

Concurrent Enhancements to Cash Market Post-Trade Infrastructure

In addition to the proposals to transition to a T+1 settlement cycle, HKEX has signalled its broader commitment to developing future-ready market infrastructure through a series of concurrent post-trade enhancements. While these initiatives are not prerequisites for T+1 readiness, they are intended to improve market operational efficiency and to provide meaningful support to market participants.

Three principal enhancements are currently being introduced. First, HKEX is upgrading CCASS report retrieval through its Report Access Platform. The enhancement is designed to facilitate automated report retrieval processes.

Secondly, HKEX is introducing a new Application Programming Interface (**API**) for the Cash Market. The new API is intended to deliver improved operational processes, greater system reliability and enhanced scalability.

Thirdly, HKEX is upgrading its settlement instruction (**SI**) matching functionality from a batch processing model to a real-time model. This enhancement is expected to improve operational efficiency, increase visibility into the matching process, and enable prompt follow-up where exceptions arise.

Market participants should be aware that, taken together, these enhancements will require firms to review and potentially update their internal systems, connectivity arrangements and operational workflows. In-house legal and compliance teams, as well as external counsel advising financial institutions, should work closely with operations and technology functions to assess the impact of these changes and ensure that participant readiness keeps pace with the evolving infrastructure landscape.

Paving the Way for Industry-Wide Guidance

Recognising the breadth and complexity of the changes associated with a transition to T+1 settlement, HKEX has emphasised the importance of developing industry-wide guidance to support market participants through the transition. HKEX's stated philosophy is that such guidance should be developed 'with the industry, and grounded in the industry', reflecting an intent to ensure that practical implementation considerations are embedded in any framework that emerges.

Key Topics for Industry Consideration

As an initial reference point, HKEX has identified a set of high-level topics intended to assist market participants in structuring their transition planning. These topics have been developed on the basis of industry discussions, feedback and detailed analysis, and are organised across four broad categories.

The first category addresses the general transition to T+1, and covers the need for an end-to-end assessment of the entire settlement lifecycle, the consideration of both streamlining and automation as viable approaches, the identification of both business-as-usual and exceptional circumstances, and the importance of stakeholder communications and market education.

The second and most detailed category concerns pre-settlement activities. Participants are expected to complete pre-settlement activities as soon as practicable, leverage automation and straight-through processing, maintain up-to-date static data and standard settlement instructions, and enable pre-settlement matching at the earliest opportunity. Specific attention is also directed to settlement instruction creation, validation and repair, exception management and the prompt handling of settlement fails, the adequacy and timeliness of funding and foreign exchange management, and the arrangement of securities borrowing and lending facilities to support effective securities inventory management.

The third category addresses operational resilience, staffing and go-live stabilisation, with an emphasis on ensuring holistic operational readiness across the organisation.

The fourth category concerns downstream processes following settlement, and in particular the need to review the implications of T+1 on non-exchange listed products that have Hong Kong equities as their underlying assets or constituents. This is a point of particular relevance for structuring teams and those advising on derivative and structured product arrangements.

Implications Across Participant Types

HKEX has also identified the general implications of T+1 for a broad range of market participants. The participant types identified include retail investors, margin clients and leveraged investors, Hong Kong and Chinese Mainland institutional investors, international institutional investors, brokers and exchange participants, clearing participants, ETP issuers and market makers, structured product issuers and liquidity providers, local and global custodians, cash settlement banks, cash correspondents and foreign exchange providers, the securities borrowing and lending ecosystem, listed companies, prospective IPO issuers and system vendors.

The breadth of this list underscores the extent to which the T+1 transition will touch virtually every participant in the Hong Kong capital markets. Each participant type will face its own implementation considerations, and the guidance is expressly presented at a high level to ensure applicability across a diverse range of operating models.

Further Supporting Materials and Gap Analysis Framework

HKEX has acknowledged that different market participants will require additional implementation detail in order to plan and execute the necessary changes. HKEX has indicated that it will encourage, and may consider providing, further supporting materials to the market in due course. HKEX has also stated that it will develop a framework to assist market participants in identifying gaps and dependencies ahead of go-live.

Pre-Settlement Activities and the Proposed Workflow Tool Solution

A recurring theme in HKEX's consultation is the critical importance of completing pre-settlement activities as early as practicable. Under a T+1 settlement cycle, the operational window available to market participants will be significantly compressed, making it essential that key prerequisite processes, including funding arrangements and trade allocation and confirmation, are completed well in advance of the settlement deadline.

Industry Feedback and the Case for a Workflow Tool Solution

In response to HKEX's earlier Discussion Paper, a number of industry respondents, particularly those with a global presence, highlighted the role that straight-through processing tools have played in facilitating smoother T+1 transitions in other markets. Investment managers, custodians and brokers noted that these tools had enabled the processes for settlement to be completed ahead of time, thereby reducing the risk of settlement failures.

Drawing on this feedback, HKEX has indicated that it is evaluating the feasibility of introducing an end-to-end post-trade workflow tool solution to support market participants in the pre-settlement matching process. The stated objective is to achieve timely and efficient settlement, and HKEX has noted that such a solution would align Hong Kong's post-trade infrastructure with global best practice while enhancing its international competitiveness.

The Challenge for Institutional Stakeholders Under T+1

The HKEX T+1 Consultation identifies a number of potential pain points for institutional stakeholders that are likely to become more acute under a T+1 settlement cycle. Under the current T+2 framework, market participants benefit from a sufficient operational window to conduct pre-settlement matching, coordinate instructions across multiple downstream parties, and ensure the timely movement of securities to meet CCASS cut-off times. Time zone differences, whilst a practical inconvenience for overseas participants, have to date been manageable within the existing operational framework. Manual, non-standardised and sequential workflows, including those involving email, fax or spreadsheet-based processes, have been capable of producing acceptable outcomes within the available time.

The transition to T+1 will fundamentally alter this position. The time available for investment managers and brokers to confirm trade economics and settlement details will be materially reduced. Regional and global asset managers, together with their custodians, are likely to be most directly affected given the complexity of their cross-border operations. Overseas participants who currently operate on what is effectively a 'T+1 timeline' within the existing T+2 cycle may find themselves operating on a 'T+0 timeline' once the new cycle takes effect. Broker participants, while somewhat less directly exposed, will face increased operational pressure as the importance of their role in facilitating timely settlement within the Hong Kong time zone becomes more pronounced.

Of particular significance from a systemic perspective is the downstream impact that failures in upstream pre-settlement processes could have on the continuous net settlement process between clearing participants and HKSCC. Where investment managers or brokers fail to allocate, match, confirm and instruct custodians and clearing participants in a timely manner, insufficient securities may be available for onward delivery to HKSCC. The potential for cascading failures across the settlement chain underscores the structural importance of robust pre-settlement processes.

Proposed Features of the Workflow Tool Solution

HKEX has outlined a number of processes recommended by the industry which it presents as possible individual add-ons that could be deployed where relevant. The key areas of opportunity identified are as follows.

In respect of matching functionality, the proposal contemplates a transition from manual processes to a centralised matching platform, enabling trade allocation and confirmation matching ahead of settlement and the simultaneous generation of settlement instructions based on matched trades for custodians.

A centralised SSI repository is also proposed, establishing a single source of truth for standard settlement instructions in the Hong Kong market, with secure input and retrieval functionality and access controls based on trade relationships and authorisation levels.

In relation to settlement instruction automation, the proposal includes overnight processing capabilities potentially extending beyond normal operating hours for firms operating across multiple time zones, automated simultaneous settlement instructions to custodians and CCASS, and flexible options for custodians to interface with the platform through direct instructions, drop copy or approval models.

Finally, a dashboard for management information systems is proposed, providing real-time settlement status updates to enable early identification of failures and management of exceptions before cut-off, improved clarity for securities borrowing and lending recalls, and reporting tools to monitor overall settlement efficiency.

Practical Takeaways for HKEX Market Participants

The HKEX is explicit that preparation should begin immediately, without waiting for the consultation to conclude. The paper encourages market participants to form cross-functional project teams, secure budgets and begin reviewing existing processes against the T+1 operating model.

The implications differ materially by participant type. Retail investors, whose activity is typically pre-funded, are expected to experience limited disruption. Institutional investors, brokers, custodians and clearing participants face a more demanding transition. International institutional investors in particular will need to reconsider their post-trade workflows, funding and foreign exchange arrangements, and staffing coverage to support what the paper calls the 'T+0 timeline' challenge.

For those involved in securities borrowing and lending, the paper notes that the window to source securities and complete recalls and returns will be compressed. It calls on those involved in SBL to collaboratively explore solutions, including alignment on recall cut-off times and greater automation of recall and return instructions.

Uncertificated Securities Market: A Parallel Change

It should also be noted that HKEX intends to introduce the Uncertificated Securities Market (USM) in November 2026, with prescribed securities transitioning over five years. Under T+1, the shorter window between trade execution and settlement makes timely securities transfers into CCASS more important than ever. CPs remain responsible for ensuring securities availability in CCASS, and the move to uncertificated form will not diminish that obligation.

The Timeline

The indicative implementation date is Q4 2027, representing approximately 15 months from the publication of detailed technical specifications. The steps between now and then include publication of consultation conclusions, specification documents, industry engagement, market testing and simulation, a readiness assessment, regulatory approvals and, finally, launch.

The consultation closes on 18 May 2026. Responses should be submitted via the HKEX website.

This newsletter is for information purposes only

Its contents do not constitute legal advice and it should not be regarded as a substitute for detailed advice in individual cases. Transmission of this information is not intended to create and receipt does not constitute a lawyer-client relationship between Charltons and the user or browser. Charltons is not responsible for any third party content which can be accessed through the website.

If you do not wish to receive this newsletter please let us know by emailing us at **unsubscribe@charltonslaw.com**

CHARLTONS
易周律师行

Hong Kong Office

Dominion Centre 12th Floor
43-59 Queen's Road East Hong Kong

enquiries@charltonslaw.com

www.charltonslaw.com
Tel: + (852) 2905 7888
Fax: + (852) 2854 9596