



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C

27 March 2024

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Securities transaction settlement cycle in the US

I am writing to remind authorized institutions (AIs) to make preparations for the introduction of a shortened settlement cycle in the US starting from May 2024.

The US Securities and Exchange Commission (SEC) has amended the Exchange Act Rule to shorten the standard settlement cycle for most broker-dealer transactions from two business days after the trade date (T+2) to one business day after the trade date (T+1), with a view to reducing the risks associated with securities transactions faced by market participants. The shortened settlement cycle will become effective on 28 May 2024 and will apply to a broad range of financial products traded in the US, including equities, bonds, exchange-traded funds and options. Canada has also announced to make a similar move to shorten the settlement cycle to T+1 from 27 May 2024 onwards.

Shortening the settlement cycle to T+1 will compress the timeframe for market participants to undertake the post-trade settlement processes. While AIs which actively participate in these markets have indicated to the HKMA that they are well-prepared for the change, we see merits in reminding AIs of the need to make adequate preparations for the transition.

Specifically, AIs should carefully assess their capability in settling the in-scope transactions on a T+1 basis and, where necessary, enhance their operations, systems and infrastructure before the shortened settlement cycle commences. Given the standard settlement cycle for foreign exchange

transactions remains as T+2, AIs need to pay attention to their funding arrangements and ensure availability of sufficient funds for settling the affected securities transactions on time. The HKMA's standing US Dollar Liquidity Facility¹ is available for use by licensed banks in case of need. AIs should also raise their clients' awareness of the shortened settlement cycle and its potential implications for them. Consideration should be given to deploying additional staff and extending working hours across different functions to cope with a possible increase in workload during the initial period of implementation.

The HKMA will continue to monitor the developments and may approach individual AIs to understand their readiness for implementing the T+1 settlement cycle. Should your institution have any questions about this letter, please contact Mr Argus Leung on 2878 1626 or Mr Brian Lam on 2597 0413.

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)

¹ For details, please refer to the HKMA website: <https://www.hkma.gov.hk/eng/key-functions/money/liquidity-facility-framework/us-dollar-liquidity-facility/>