

China Securities Depository
and Clearing Corporation Limited

China's Capital Markets: DVP Reform and the Practice of T+1 DVP

CSDC

www.chinaclear.cn





- established on March 30, 2001
- act as a Central Counterparty (CCP), Central Securities Depository (CSD), Central Registrar, and Securities Settlement System (SSS), play a pivotal role in China's financial market infrastructure
- services include securities account management, securities registration, securities deposit, securities settlement, and asset management

Trends of capital markets

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fit local realities and conventions.

ensure a secure environment for
securities settlement .

evolve in response to market shifts.

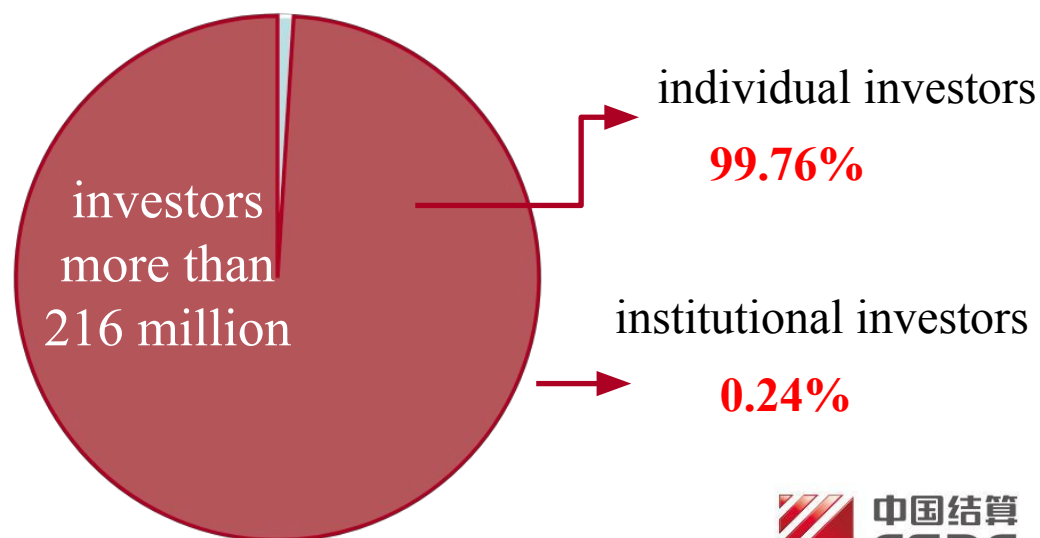
Settlement features of China capital market

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one structural feature of China securities market: individual investors make up the vast majority.

As of March 2023, there were more than 216 million investors in China, with individual investors representing more than 99% of that number.



Settlement features of China capital market

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ex-ante risk management measures with Chinese characteristics

- ❑ trade front-end monitoring : prevent naked short selling
- ❑ third-party fund custody : prevent securities companies from misusing clients' settlement funds
- ❑ full margin : safeguard against overbuying risks in brokerage trading


arrangements above in brokerage trading effectively achieve the same outcome as DVP in terms of principal risk prevention, contributing to the steady operation of China capital market.

Motivations for DVP reform


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strive for a more comprehensive settlement system.



enhance principal risk management in growing proprietary and custodian businesses.



better facilitate the opening-up of China's capital market.



align with the 2017 FSAP's recommendation that “China should adopt full DVP in CSDC”.

Three principles for DVP reform

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1

follow the core requirements of DVP principles, making the delivery of securities and that of cash mutually conditional, reducing principal risk.

2

draw on international experience, deeply analyzing and comparing the two most prevalent models "retaining securities disposal rights after delivery" and "securities delivery contingent on cash payment".

3

respect the history and current state of China's capital market. try to promote this reform in a cost-effective manner, with minimal market impact

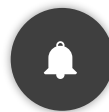
We listened to the suggestions

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listened to the suggestions of 262 market institutions, both domestic and foreign.

- securities firms
- custodian banks
- fund managers
- QFIIs
- insurance asset management companies

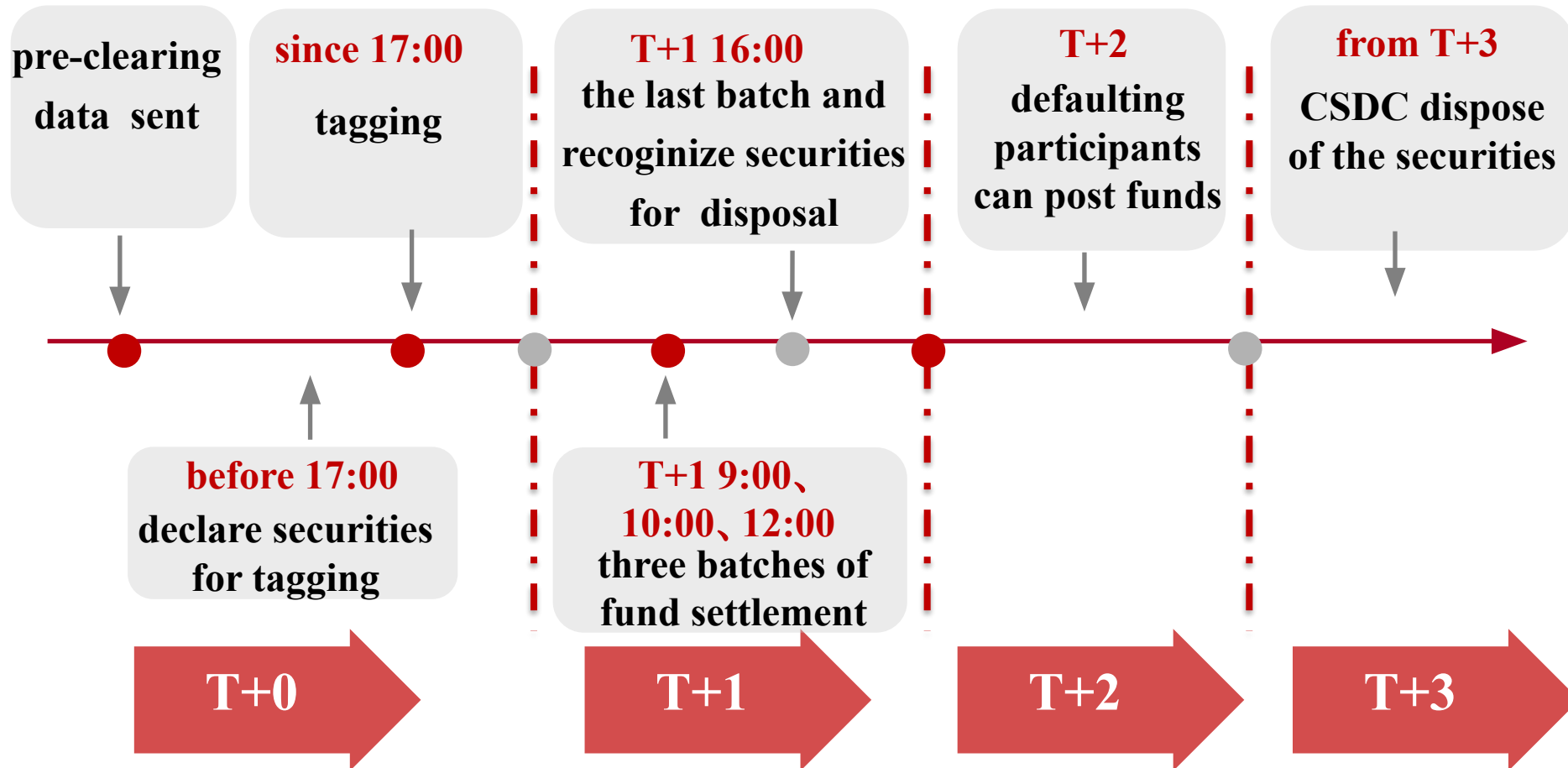


consulted with experts and renowned scholars from around the globe.

Settlement procedures after DVP reform

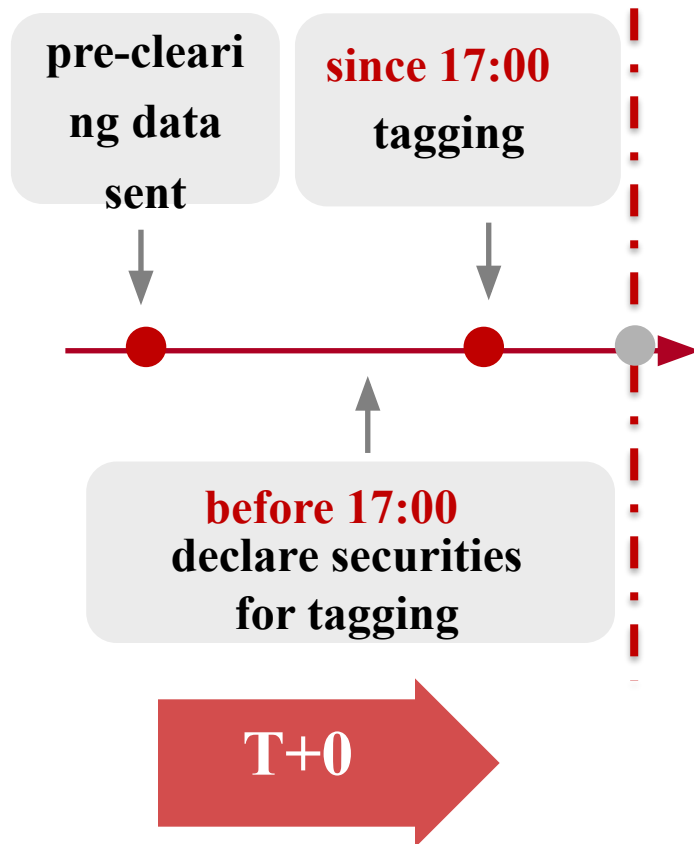
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- officially launched on Dec. 26th, 2022
- “retaining securities disposal rights after delivery”



Settlement procedures after DVP reform

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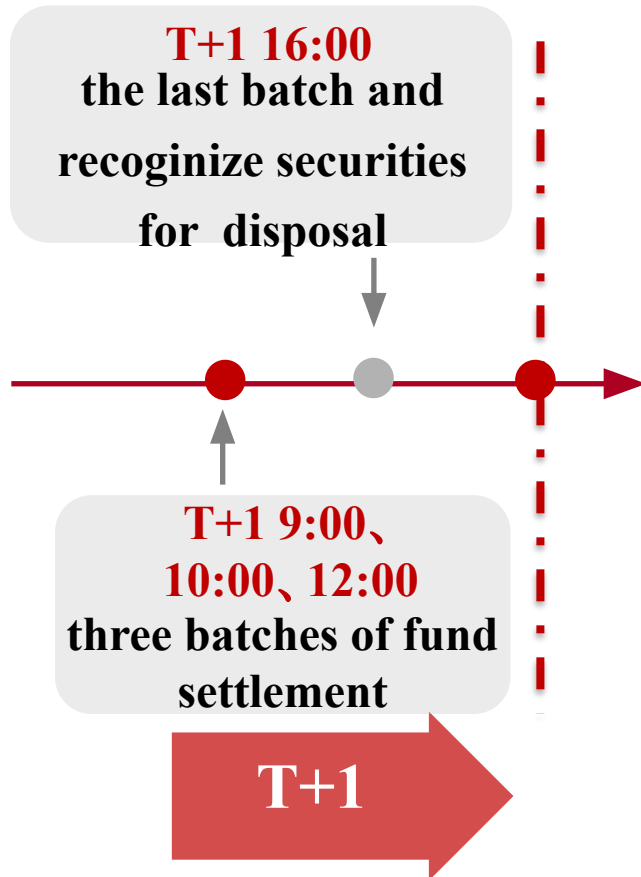


key point 1

- at the end of T+0 , if the net buying participant does not provide sufficient funds, CSDC will still transfer the securities into its account but will nonetheless tag the part with outstanding receivables.
- the tagged securities are still in the settlement process and cannot be used.

Settlement procedures after DVP reform

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key point 2

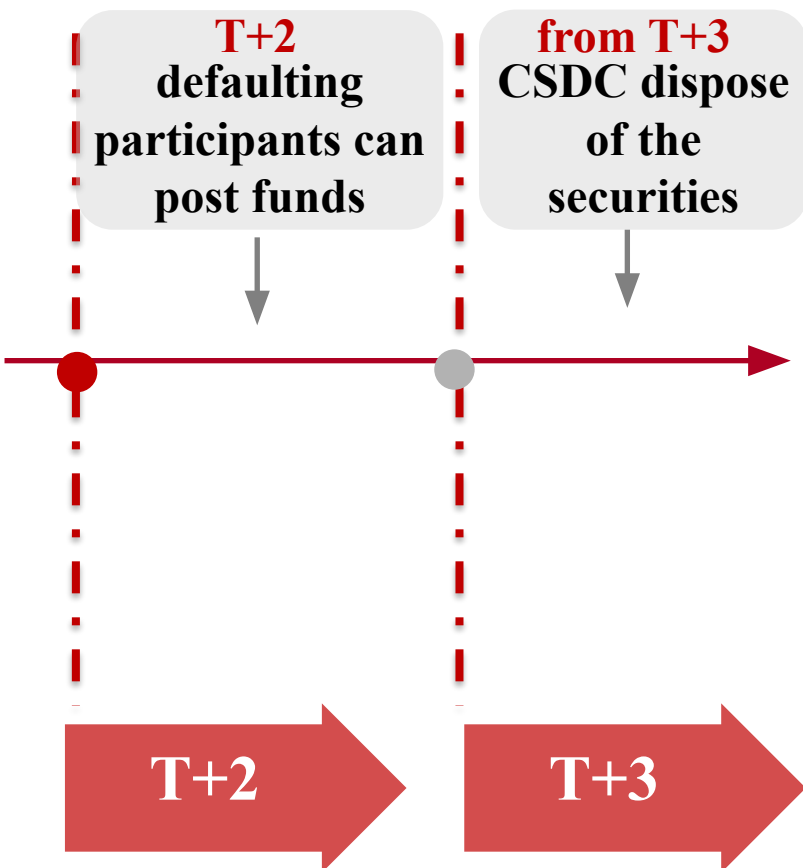
- establish four settlement batches at 9:00, 10:00, 12:00, and 16:00 on T+1.
- once sufficient funds are posted in any batch, the tags will be removed to complete the settlement.

Settlement procedures after DVP reform

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key point 3

- for defaulting participants, They must select securities that are equivalent to the defaulted amount from those previously tagged on trade day , and declare them to CSDC for disposal by 4:00pm on T+1. If they fail to make the declaration or if the declared securities don't cover the defaulted amount, CSDC has the right to earmark its proprietary securities and the securities tagged on trade day for disposal.
- If the defaulting participant posts enough funds by T+2, CSDC will return the securities earmarked for disposal on T+1. Otherwise, CSDC has the right to dispose of them since T+3.



Meet the requirement of DVP

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With these arrangements, the settlement system in China's capital market measures up to the requirements of DVP model, marking the official launch of DVP settlement model in China.

Key results of DVP reform

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1

China becomes the first country to adopt T+1 DVP settlement model in capital market, advancing both the safety and efficiency of securities settlement.

T+1 DVP is gaining momentum.



2

CSDC's capability to guard against principal risk of settlement system is remarkably enhanced.

establish a linkage between the securities leg and cash leg, introduce interim and ex-post risk control system

Key results of DVP reform

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3

reduce the liquidity risk of settlement system.

by introducing three more settlement batches per trading day, participants can now complete settlements earlier due to the increased flexibility on cash delivery time.



Key results of DVP reform

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4

when it comes to QFII business, CSDC now retains the disposal right to securities equivalent to the amount of cash default, instead of 120% of the default amount. This move is welcomed by international investors, as it releases a positive signal for them to participate in China's A-share market.



Final words

- there are many more major reforms and opening-up projects rolled out in China's capital market, including the Shanghai/Shenzhen-Hong Kong Stock Connect, the issuance of depositary receipts (DR), and the registration-based IPO system reform. many thanks for the support of international experts and related institutions.
- continue to build a standardized, transparent, open, dynamic and resilient capital market of China
- welcome to keep contact with CSDC for further exchanges



Thank you!

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