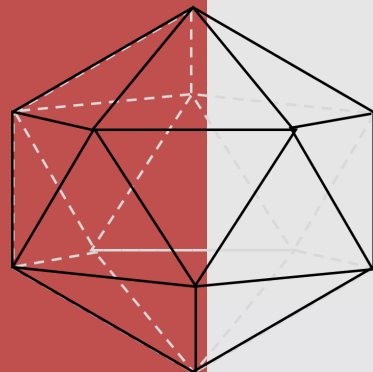


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China's Capital Market: DVP Reform and the Practice of T+1 DVP

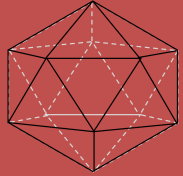


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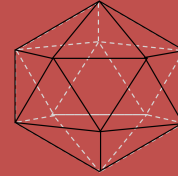
China Securities Depository and
Clearing Corporation(CSDC)



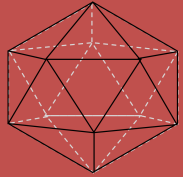
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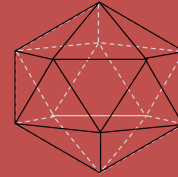
**The overview: China's
capital market**



**Faster and more secure
businesses**



DVP Model: the practice



Effects of DVP reform



The Overview: China's Capital Market

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China's Capital Market: Overview

China Securities Depository
and Clearing Corporation Limited



China's Capital Market: Settlement Pattern

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and Clearing Corporation Limited



99%

With 216 million retail investors, and over 520 thousand institutional investors, we can find that China's capital market is dominated by individual investors.

Settlement Pattern:

- Security delivery on T+0, and cash settlement on T+1.
- Timely delivery of securities and receipt of interest on T day upon purchase of securities.
- Funds payment is completed on T+1 day.

China's Capital Market: Risk Control

China Securities Depository
and Clearing Corporation Limited

- ✓ Prior to DVP reform, China Securities Depository and Clearing Corporation (CSDC) controls the principal risk through ex-ante risk control measures including:
 - Pre-funding reserve
 - Third-party custody
 - Full margin requirement for brokerage business



**DVP Reform: Faster
and more secure
businesses under high
volatility**

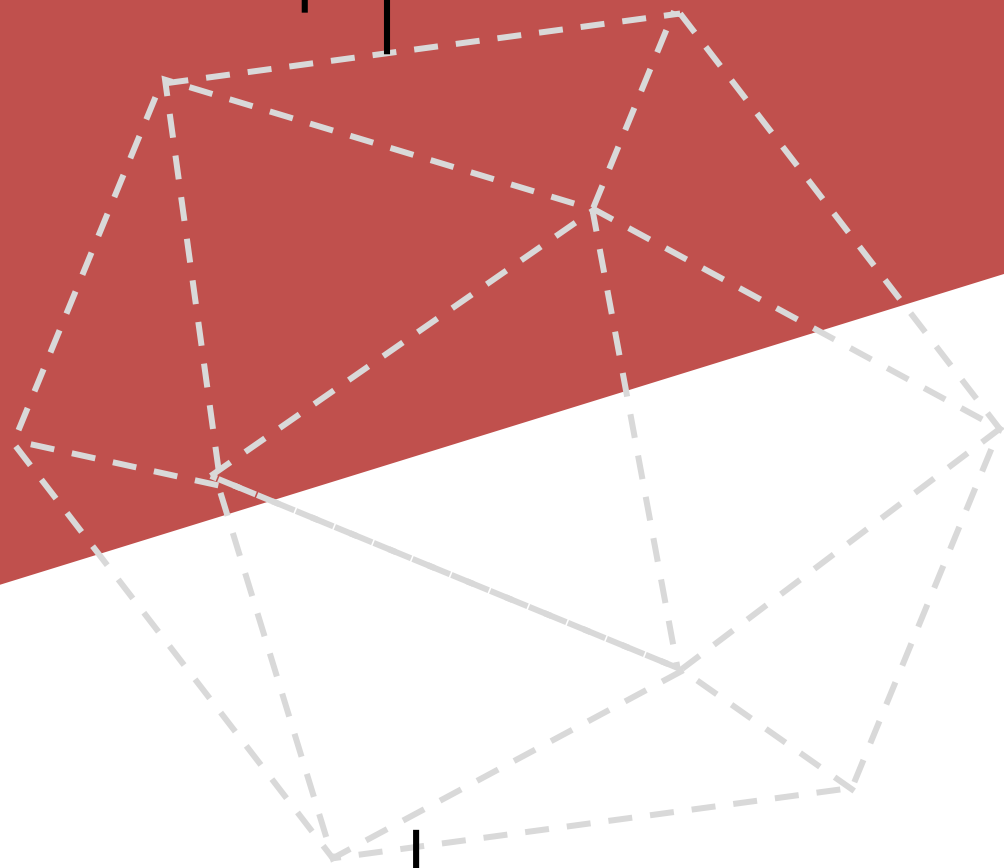
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- ✓ • **Delivery Versus Payment (DVP) Reform: Initiated in December, 2022**
- This transition made China the pioneer in adopting a T+1 DVP system.
- ✓ • As the Central Counterparty (**CCP**), Central Securities Depository (**CSD**), Central Registrar, and Securities Settlement System (**SSS**), CSDC plays a pivotal role in China's financial market infrastructure, and it's our responsibility to provide secure business.

- ✓ • In essence, the DVP model has established the linkage between securities purchased on T day and cash to be paid on T+1 day.
- ✓ • Absorbing FSAP assessment's suggestions
- Meanwhile fitting local realities and conventions
- Continuously evolving in response to market shifts
- Minimal cost and market impact

- ✓ • The DVP reform has gained positive results with minimal cost and market impact.
- ✓ • FSAP Assessment (2017): “Adopting a DVP model” and “blocking the delivered securities in the buyer’s account till the settlement of the funds leg is completed” .
- ✓ • We once proposed a T+1 DVP model to realize delivery and payment on the same day (T+1). But it would significantly change trading habits and undermine efficiency, thus difficult to reach consensus.
- ✓ • After many years of policy evaluation and seeking advice from both domestic and international stakeholders, the reform was officially implemented at the end of 2022, with minimal cost and market impact.

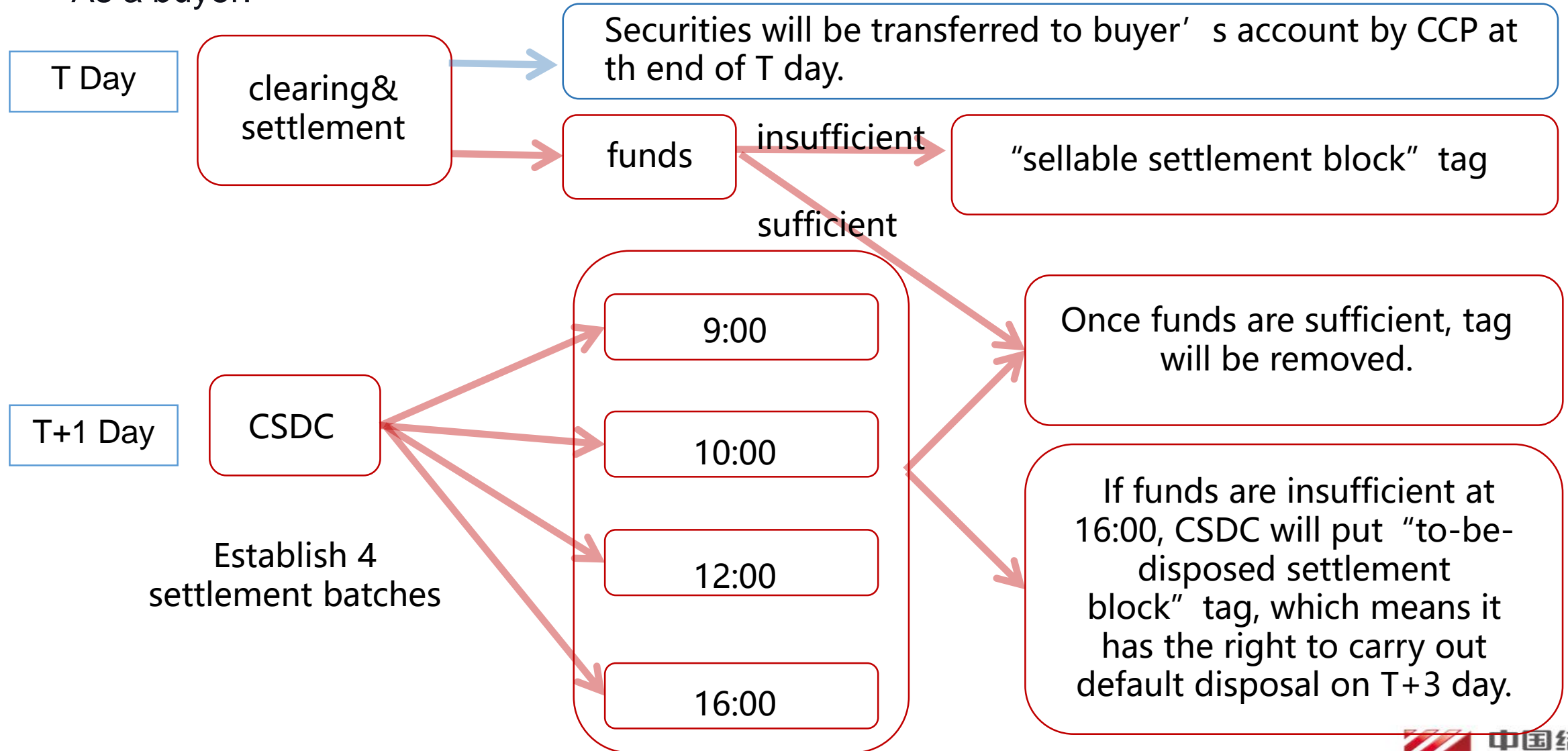


DVP Model: The Practice

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DVP Model: An Example

- As a buyer:



On the legal side, China Securities Regulatory Commission (CSRC), our regulator, amended relevant regulations to ensure CSDC's right of tag-putting and default disposal, by introducing rules to guide specific processes and disposal mechanism.





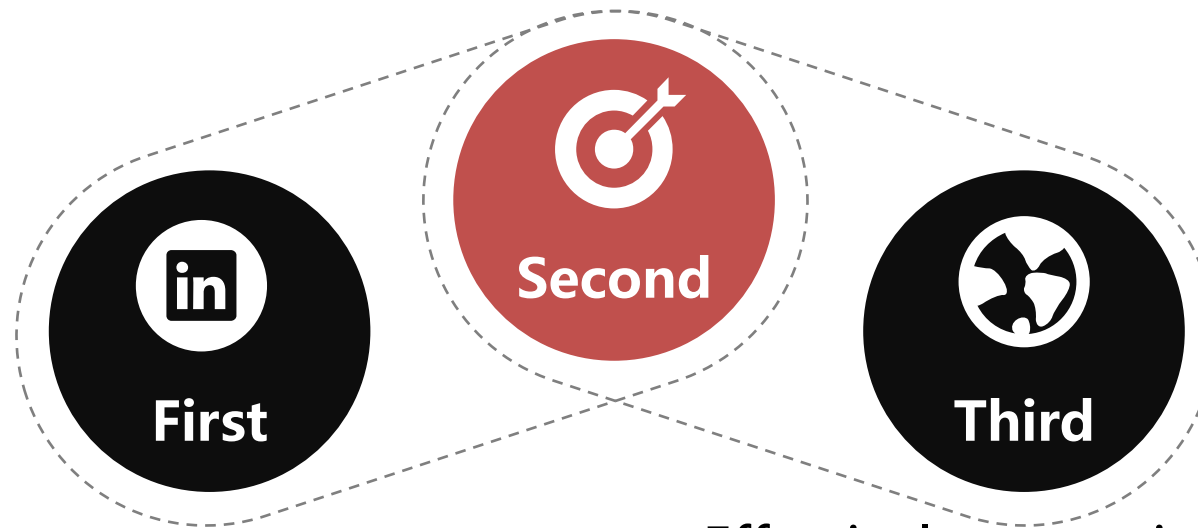
The Effects of DVP Reform

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Effects of DVP Reform

China Securities Depository
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- Further strengthening the safety and efficiency of security settlement.
- Significantly reducing CCP's principal risk: pre-trade, mid-trade and post-trade.

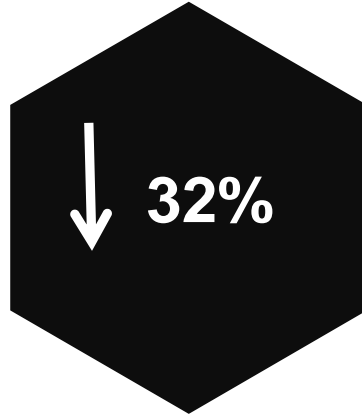


- Effectively managing the liquidity risk of the settlement system and increasing the flexibility on cash delivery.

Effects of DVP Reform

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Number of tagged accounts



Settlement of funds completed before 12:00



- ✓ This is a significant improvement over the single settlement batch per trading day we had prior to the reform. In practice, since the DVP reform implemented, settlement participants' funds arrive much earlier than expected. No default has ever happened. Hence, I am glad to say that the DVP reform has been successful so far and received widespread support from the market.

Major reforms and opening-up projects

China Securities Depository
and Clearing Corporation Limited



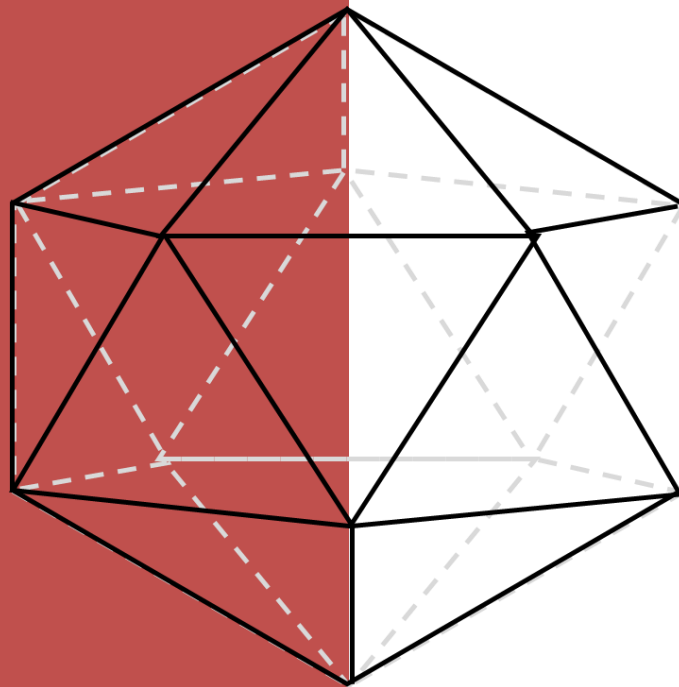
**The Shanghai/Shenzhen-Hong Kong
Stock Connect**



**The issuance of depositary
receipts (DR)**



**The registration-based IPO system
reform**



Thank you ☺

Presented by: Yanru Ge

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