

A-Share DVP Model Reform in China

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Dr. Wenhua Dai, ACG Chairman

CONTENTS

1 Background of A-share DVP Reform

2 Key Points of DVP Reform

3 Outlook of Post DVP-Reform Times

01

Background of A-share DVP Reform

Background of A-Share DVP Reform-What does DVP mean?

01

DVP, short for Delivery Versus Payment, means that securities delivery and cash payment shall be mutually conditioned

02

CSD settles transactions with its settlement participants

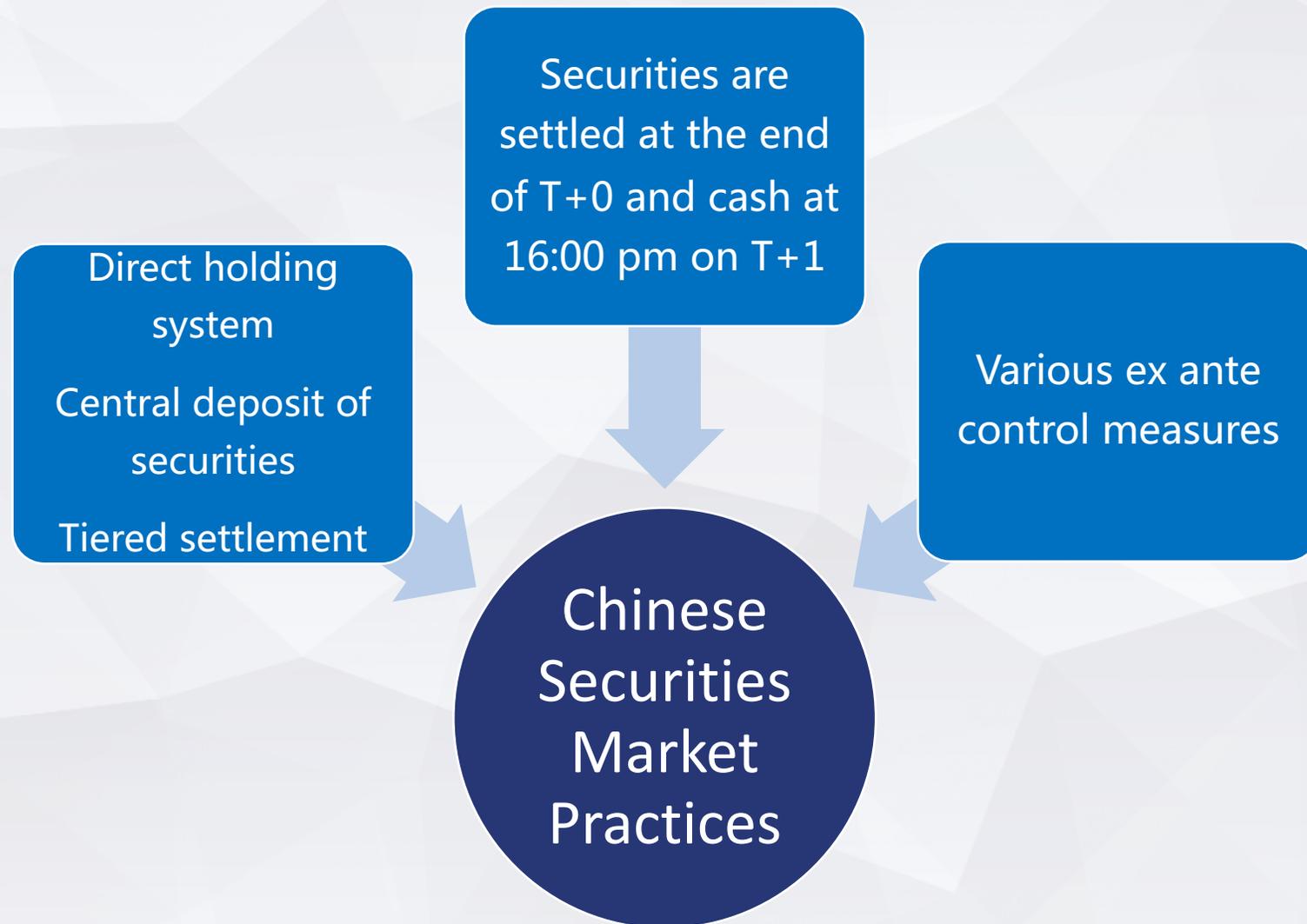
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PFMI states that FMIs shall adopt DVP settlement mechanism

04

DVP is a guarantee for FMIs to run their markets in a safe, efficient and stable way

What's the gap between the settlement model of Chinese securities market and standard DVP?



Ex ante Control Measures Applied in Chinese Capital Market

Front-end
monitoring

- preventing short selling

Third-party custody
of settlement funds

- preventing brokers from misappropriation

Full margin
requirement for
brokerage business

- preventing settlement default



A gap between China's DVP model and the globally-applied DVP practice

Proprietary and custody businesses are **not covered** by full margin requirement and third-party custody of settlement funds



**Lack of linkage between
cash and
securities settlement**



**Incomplete default
management mechanism**

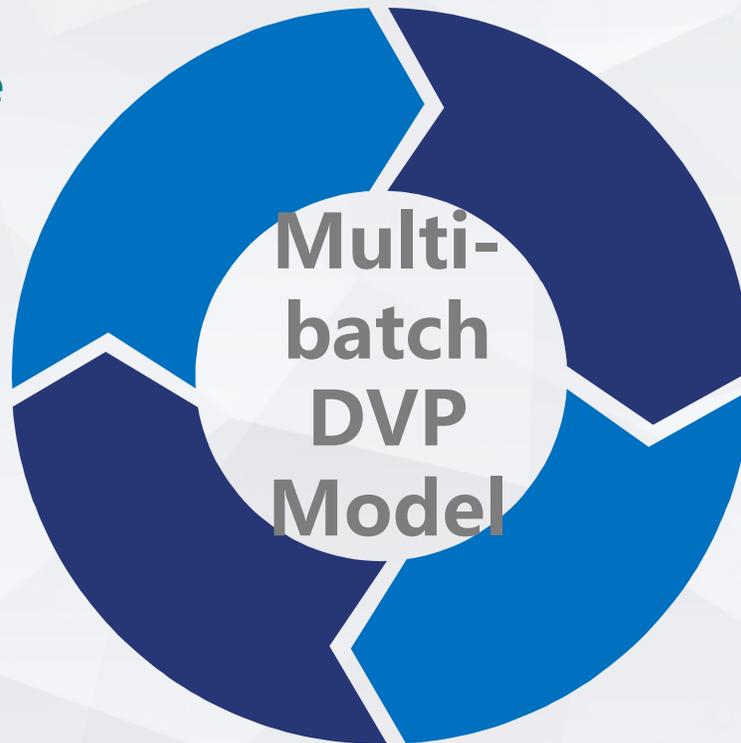
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Key Points of DVP Reform

2017 FSAP report recommended that CSDC shall adopt full DVP model.

Introduce a “**sellable settlement block**” on the receivable securities when the cash balance of settlement participant is insufficient

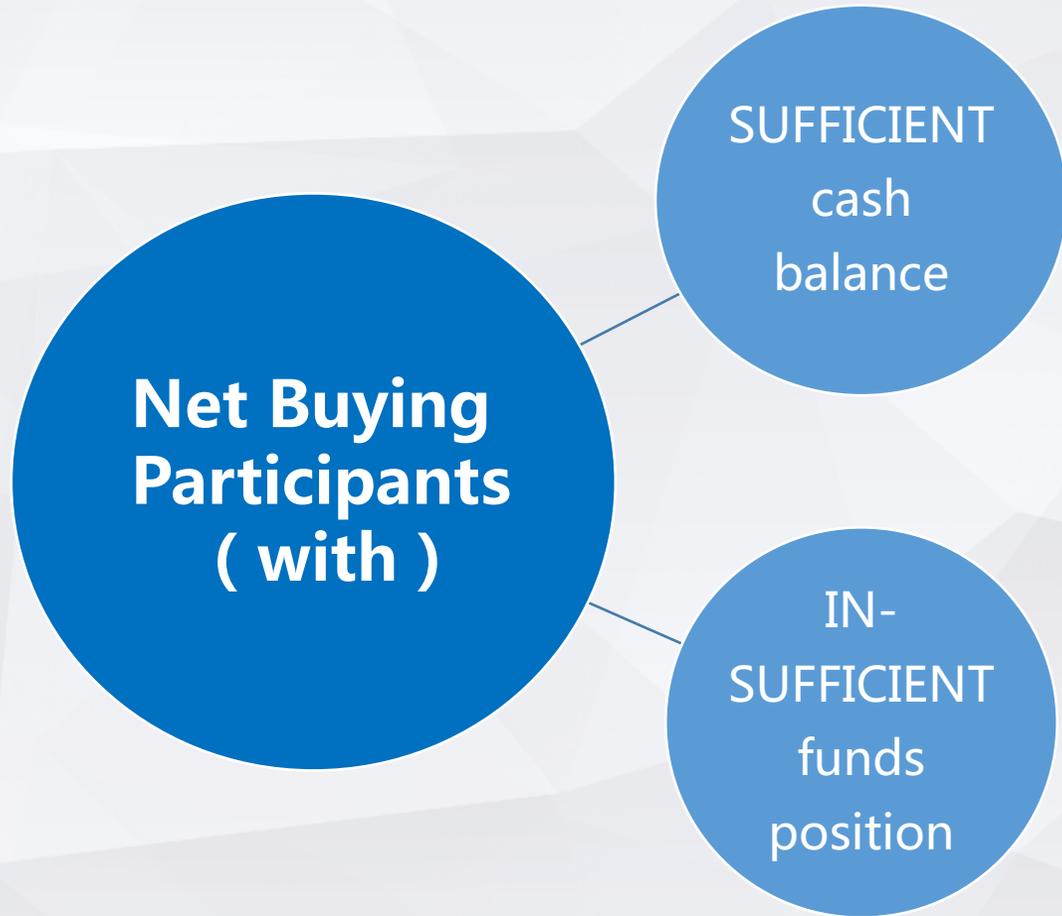
- Improve CSDC’ s risk prevention ability as a CCP
- Reduce the financial resources collected for settlement
- Improve market efficiency



Link the securities leg with the cash leg by tagging the net receivable securities

Settlement default disposal covering all types of businesses: brokerage, margin trading, custody, QFII/RQFII and proprietary business

1. Link the securities leg with the cash leg by tagging at the end of T+0



CSDC will deliver all receivable shares to the buyer's securities account, and debit the balance of its settlement reserve account while crediting the seller's reserve account.

CSDC will still deliver the securities to the buyer's account, but will tag these securities as **"sellable settlement block"**, and block all the funds in its reserve account.



2. Multi-batch settlement on T+1.

The tag suggests:

CSDC still waits to receive the full amount of payable cash from the buyer and the settlement of the tagged securities is yet to be completed. .

Tagged securities can be sold on T+1

The proceeds thus obtained will be retained in the settlement system to fulfill the previous payment obligations

Multi-batch settlement on T+1

The tags will be removed once the buying participant finishes funds payment.

3. CSDC' s disposal of the tagged shares.

IF settlement participants fail to fulfill their payment obligation on T+1.

- CSDC has the right to change the tag from “sellable settlement block” to “to-be-disposed settlement block”

“To-be-disposed settlement block” suggests:

- the buying participant has defaulted on the cash settlement on T+1
- the tagged shares are not eligible for any kind of business

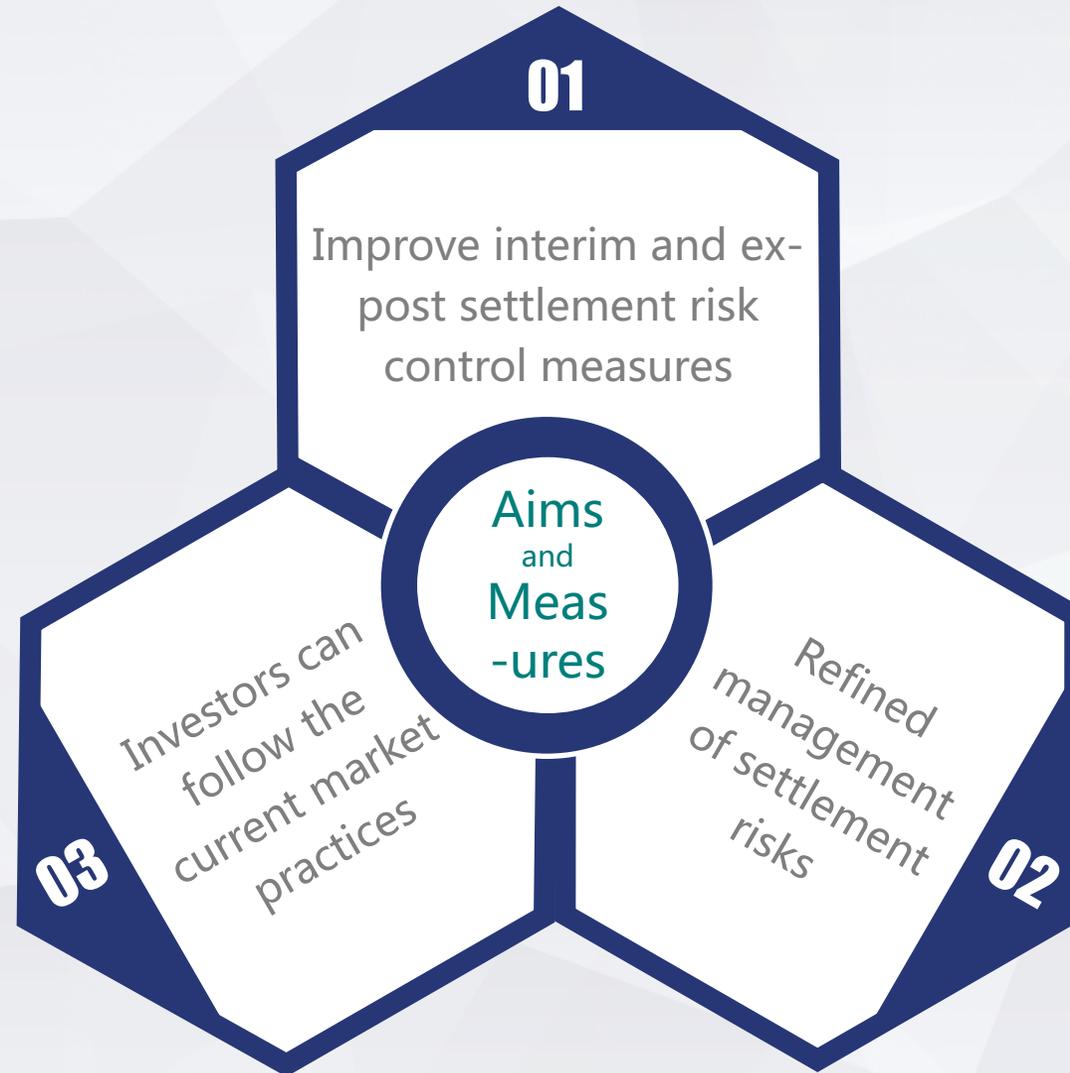
“To-be-disposed settlement block” will be removed.

- If the buying participant posts sufficient funds on T+2 .
- Or CSDC will dispose of the securities on T+3 and beyond

03

Outlook of Post DVP-Reform Times

The DVP reform : a significant milestone in China' s capital market.



Boost the two-way opening up of the Chinese capital market.

Alignment with
Global Practices



Attract Foreign Capital

Chinese capital market is thus expected to be more attractive and competitive worldwide.



FMI's in Global Landscape

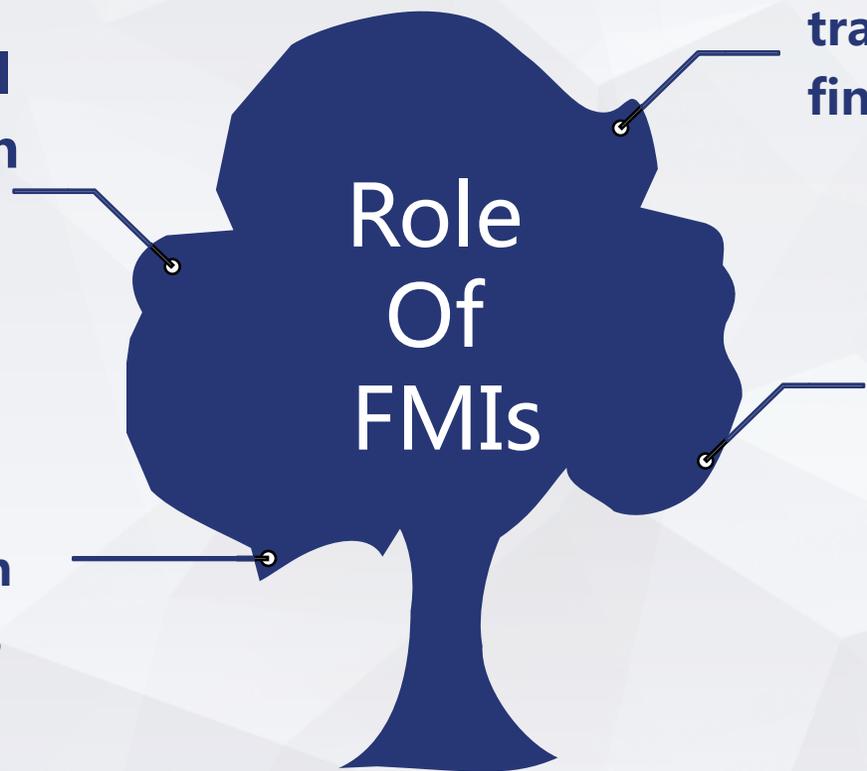
“Channeling” the global financial transaction chain

No engagement with non-transactional factors or financial sanctions

**Role
Of
FMIs**

Prevent settlement failures in cross-border trades

Play a constructive role in preventing systemic risks brought by financial sanctions



The background is a complex, low-poly geometric pattern in various shades of blue, ranging from dark navy to light sky blue. The pattern consists of numerous triangles and polygons of different sizes and orientations, creating a textured, crystalline effect. In the center of the image, there is a white rectangular frame. Inside this frame, the words "THANKS YOU" are written in a bold, white, sans-serif font. On either side of the frame, there are two vertical white bars, one on the left and one on the right, which are slightly taller than the frame itself.

THANKS YOU