Part B Consultation Questions – Volatility Control Mechanism

Please indicate your preference by checking the appropriate boxes and provide reasons to support your views. Where there is insufficient space, please attach additional pages as necessary.

1. Do you support the introduction of an instrument-level VCM based on a dynamic price limit model in Hong Kong?

   ☒ Yes

   ☐ No

   Please give reasons for your view.

To alert investors when particular securities undergoing an unsual movement

2. Do you agree that the proposed VCM model should only be applied to the HSI and HSCEI constituent stocks in the securities market?

   ☒ Yes

   ☐ No

   Please give reasons for your view.

VCM should only apply to constituent stocks with broader investor base. Smaller capitalization stocks should not be included as they are more volatile in nature.

3. Do you agree that the proposed VCM model should only be applied to the HSI, HHI, MHI & MCH (spot month and the next calendar month) index futures in the derivatives market?

   ☒ Yes

   ☐ No

   Please give reasons for your view.

VCM should only focus on liquid contracts with large open interest.

4. Do you agree that the market should have a 15-minute uninterrupted trading period before the end of the last continuous trading?

☒ Yes

☐ No

Please give reasons for your view.

VCM should minimize trading interruption during continuous trading session.

5. Do you agree with the proposed reference price for the <u>securities</u> market, namely the price of last trade 5 minutes ago? If not, what would you prefer?

☒ Yes

☐ No, I would prefer: ____________________

Please give reasons for your view.

This is an appropriate level for constituent stocks

6. Do you agree with our proposed reference price for the <u>derivatives</u> market, namely the price of last trade 5 minutes ago? If not, what would you prefer?

☒ Yes

☐ No, I would prefer: ____________________

Please give reasons for your view.

This is an appropriate level for liquid derivative contracts

7. Do you agree with the proposed triggering level for the <u>securities</u> market, namely <u>10%</u> from the reference price across the proposed instruments covered by the VCM? If not, what level would you prefer?

☒ Yes

☐ No, level that I would prefer: ____________________

Please give reasons for your view.

This is an appropriate level for constituent stocks.

8. Do you agree with the proposed triggering level for the derivatives market, namely 5% from the reference price across the proposed instruments covered by the VCM? If not, what level would you prefer?

☒ Yes

☐ No, level that I would prefer: ____________________

Please give reasons for your view.

This is an appropriate level for benchmark futures contracts.

9. Do you agree that a maximum of two VCM triggers per trading session per instrument should be imposed to minimise market interruption?

☐ Yes

☒ No, I would prefer: One VCM per trading session

Please give reasons for your view.

Should minimize interruption during continous trading session, two VCM per day should be sufficient to alert investors on unsual price movement.

10. Do you support trading within a price limit during the cooling-off period? If not, do you prefer another approach?

☒ Yes

☐ No, another approach that I prefer: ____________________

Please give reasons for your view.

It should be traded within a price limit to avoid the underlying further deviate from price earlier while giving investors a chance reviewing their holdings during the cooling-off period

11. After the cooling-off period, do you support resuming the same dynamic price limit monitoring mechanism (i.e. ±10% (±5%) from the last trade 5 minutes ago in the securities (derivatives) market)? If not, do you prefer another approach?

☒ Yes

☐ No, I would prefer: ______________________________

Please give reasons for your view.

We are proposing one cooling off period in each trading session, we support using the same dynamic price limit mechanism for the second cooling-off period, if any.

12. Do you have any other suggestions on enhancing the resumption procedures?

No.

13. Do you agree that the duration of the cooling-off period should be 5 minutes for both the securities and derivatives markets? If not, what would you prefer and why?

☒ Yes

☐ No, I would prefer: ______________________________

Please give reasons for your view.

We should minimize interruption during continuous trading session and 5 minutes should be sufficient to alert investors on unual price movement.

14. Do you agree with the additional market data dissemination for the proposed VCM model? If not, what would you propose and why?

☒ Yes

☐ No, I would propose: ______________________________

Please give reasons for your view.

The proposed data covered essential information for investors to make an informed decision, providing overload information may confuse market participants.

15. If a VCM is triggered for a given instrument, should trading of related instruments (e.g. futures contract of different contract months) on the same underlying continue as normal?

☒ Yes

☐ No

Please give reasons for your view.

VCM should minimize trading interruption and focus on instruments with broad investor base. Restricting trading of the linked instruments may hamper investors' ability to manage their risk position.

16. If a VCM is triggered for a given instrument, should trading of derivatives (e.g. single stock options or warrants) of that instrument continue as normal?

☒ Yes

☐ No

Please give reasons for your view.

Options and warrants investors usually willing to take bigger risk, but market makers may have to take some judgemental views in pricing on top of normal pricing model.

17. Do you have any other comments on the VCM proposal?

No

Part C Consultation Questions – Closing Auction Session

18. Do you support the introduction of the new CAS model in the Hong Kong securities market?

☐ Yes

☒ No

Please give reasons for your view.

The CAS is subject to potential market manipulation. Participants can execute MOC orders on a best effort basis, we do not support the argument that tracking error for rebalancing portfolio may lead to the industry losing huge amount of money as indicated in Section 101 of the consultation paper, tracking error can be a gain or loss depending on market conditions. There is no strong demand from retail investors on CAS, unless the HKEX can produce factual examples and projected numbers to demonstrate the CAS would help to improve our market competitiveness, otherwise we do not see the mentioned benefits mentioned in Chapter 5 of the consultation paper could out-weight the potential risks.

19. Do you agree that the new CAS model should only be applied to the major index constituent stocks (i.e. Hang Seng Composite LargeCap Index and Hang Seng Composite MidCap Index constituents as well as other Stock Connect Securities for Southbound trading)?

☐ Yes

☒ No

Please give reasons for your view.

We do not support the CAS proposal.

20. Do you agree that the new CAS model should be applied to ETF? If yes, which type of ETF should be applied?

☐ Yes

☐ (i) Apply to all ETFs

☐ (ii) Only apply to ETFs with Hong Kong stocks as underlying

☒ No

Please give reasons for your view.

We do not support the CAS proposal.

21. Do you agree that at a later stage, the new CAS model should be expanded to other equity securities and funds as proposed? If so, when should the CAS be rolled out to these securities and funds?

☐ Yes, roll out time should be: ____________________

☒ No

Please give reasons for your view.

We do not support the CAS proposal

22. Do you agree that that the new CAS model should exclude structured products, equity warrants and debt securities?

☐ Yes

☒ No

Please give reasons for your view.

We do not support the CAS proposal.

23. Do you support introducing a price limit during the CAS?

☐ Yes

☒ No

Please give reasons for your view.

We do not support the CAS proposal.

24. Do you support a price limit of 5% during the Order Input Period for all CAS Securities?

☐ Yes

☒ No

Please give reasons for your view.

We do not support the CAS proposal.

25. Do you agree that a further price limit within the best bid and best ask should be applied during the No-Cancellation Period and Random Closing Period?

☐ Yes

☒ No

Please give reasons for your view.

We do not support the CAS proposal.

26. Do you agree that at-auction limit orders should be allowed throughout the CAS?

☐ Yes

☒ No

Please give reasons for your view.

We do not support the CAS proposal.

27. Do you think short selling orders with a tick rule should be allowed during the CAS?

☐ Yes

☒ No

Please give reasons for your view.

We do not support the CAS proposal.

28. If short selling order is to be allowed, should it be at or higher than the reference price?

☐ Yes

☐ No

Please give reasons for your view.

Not applicable, we do not support the CAS proposal.

29. Do you agree that order amendment and cancellation should be disallowed during the No-Cancellation Period and Random Closing Period?

☐ Yes

☐ No

Please give reasons for your view.

Not applicable, we do not support the CAS proposal.

30. Do you agree that random closing be adopted in the CAS to prevent gaming?

☐ Yes

☐ No

Please give reasons for your view.

Not applicable, we do not support the CAS proposal.

31. If random closing is to be adopted, should it be over a period of up to 2 minutes or would you prefer a different duration?

☐ Up to 2 minutes

☐ A different duration: ______________________

Please give reasons for your view.

Not applicable, we do not support the CAS proposal.

32. In the absence of a final IEP, do you agree that the reference price should be used as the closing price and for trade matching?

☐ Yes

☐ No

Please give reasons for your view.

Not applicable, we do not support the CAS proposal.

33. What would be the preferred duration of the CAS?

(i) Same as the proposed model, i.e. 7-minute Order Input Period to end the CAS at 16:12

(ii) 5-minute Order Input Period to end the CAS at 16:10

(iii) Others, please specify:

☐ Approach (i)

☐ Approach (ii)

☐ Approach (iii), please specify: ______________________

Please give reasons for your view.

Not applicable, we do not support the CAS proposal.

34. Do you agree that some features of the new CAS model may also be beneficial for the POS and/or the Trading Halts? If so, which feature(s)?

☐ Yes, the feature(s): ____________________

☒ No

Please give reasons for your view.

The proposed CAS has more drawbacks than benefits

35. Do you agree that any enhancements for POS and/or the Trading Halts should be implemented later rather than during the introduction of the new CAS?

☐ Yes

☐ No

Please give reasons for your view.

We do not support the CAS proposal, but could review propose enhancement for POS separately.

36. Do you foresee any issues with your day end processing such as margin calls in the cash market due to the extended trading time for 12 minutes? If yes, how may the issue be resolved?

☐ Yes, suggested solution: ____________________

☒ No

Please give reasons for your view.

Global equity markets are trading round the clock and lengthening cash market trading hours would not affect operations.

37. To maintain the 45 minutes break before the start of AHFT, do you agree that the start time of AHFT to be changed from 17:00 to 17:15? If not, what time do you prefer?

☐ Yes

☒ No, time that you prefer: Unchanged at 17:00

Please give reasons for your view.

HSI futures is closed at 16:30 and marginally extend the cash market trading hours would not affect resources planning

Part D Consultation Questions – Implementation Approach and Timeline

38. Which implementation approach for the securities market would you prefer:

(i) the development and testing of the VCM, CAS and Trading Halts functionalities are to be implemented together on the AMS/3.8 platform and be rolled out one by one; or

(ii) (1) the development, testing and rollout of VCM and CAS are to be implemented together on the AMS/3.8 platform, and (2) Trading Halts proposal is to be introduced as part of the Exchange's next-generation trading system, the Orion Trading Platform-Cash; or

(iii) Others, please specify.

☐ Approach (i)

☒ Approach (ii)

☐ Approach (iii), please specify: ____________________

Please give reasons for your view.

VCM and CAS (if supportive) shall be implemented together to maximize IT resources

39. What should be the implementation priority among the three initiatives (i.e. VCM, CAS and Trading Halts) in the securities market?

Please give reasons for your view.

No comment

40. How long do you need to prepare for the rollout starting from the issuance of the specification for each initiatives:

(i) VCM:

☐ a). under 3 months;

☐ b). 4-6 months;

☒ c). 7-12 months

☐ d). >12 months

Please give reasons for your view.

Project not under planned IT resources

(ii) CAS:

☐ a). under 3 months;

☐ b). 4-6 months;

☒ c). 7-12 months

☐ d). >12 months

Please give reasons for your view.

Project not under planned IT resources

- End -