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Subject:
Attachments:

Dear HKEx Colleagues,

HKEx's Consultation Paper - Proposal for Introduction of Volatility Control Mechanism in the Securities and Derivatives Markets and Closing Auction Session in the Securities Market

Background:

HKEx proposes VCM cooling-off periods each lasts for 5 minutes for the underlying when the price of the underlying moves more than 10% from its traded price 5 minutes ago. A max of 2 VCM cooling-off periods per session in the morning and afternoon sessions. Underlyings applied are 81 constituent stocks of HSI and HSCEI.

1. Concerning Active Quote (AQ), which is a "Best Practice" and not an obligation to fulfill:

Pls see attached Excel for AQ details. For the entire period(s) when the underlying in VCM mode, we want to be exempted from AQ on all products based on that underlying. In other words, the time(s) when VCM mode is active for the underlying would not count as the "Qualified Period" for those products.

2. Concerning Quote Request (QR), which is an obligation to fulfill:

Pls see attached Excel for QR details. Pls see 3 separate cases of concern:

a. If we receive a QR when the underlying is under VCM mode, the 10-min response clock should start only after the underlying leaves VCM mode and trades normally.

Example: VCM for the underlying kicks in at 2:30pm. QR received at 2:33pm. VCM deactivates at 2:35pm. From 2:35pm we have the full 10 minutes until 2:45pm to provide qualifying quotes, and then regular 5-min quote holding period applies afterwards.

b. If we receive a QR less than 10 minutes before VCM mode, the 10-min response time should not count the 5 minutes when the underlying is in VCM mode.

Example: QR received at 2:26pm, and we have 10 minutes until 2:36pm to respond. However at 2:30pm VCM kicks in for the underlying. As such only 4 of the 10 minutes of response time elapsed and thus there are 6 minutes of response time left. After VCM deactivates at 2:35pm, we should have until 2:41pm to provide qualifying quotes, and then regular 5-min quote holding period applies afterwards.

c. If we receive a QR more than 10 minutes but less than 15 minutes before VCM mode, we may not be able to hold quotes for 5 minutes after qualifying quotes are provided before VCM kicks in. In that case, once VCM ends and normal trading resumes, we can hold qualifying quotes for the balance of the 5-min quote holding period.

Example: QR received at 2:16pm. We respond at 2:26pm, which is within the max response time of 10 minutes. We then have the intention to hold qualifying quotes for 5 more minutes until 2:31pm. However, VCM for the underlying kicks in at 2:30pm. After VCM deactivates at 2:35pm, within reason and if market allows with no trade done with us to cancel the QR, we provide at least 1 more minute of qualifying quote to satisfy the 5-min quote holding period.

QUOTE REQUEST

(Mandatory; More important)

Applies to: All CBBCs and Warrants

Observation period: 9:35am

Respond within: 10 min (*Some old products still show 5 min)

Max spread: 20 spreads

Min size: 20 board lots

Holding period: For 5 min after qualifying quote is provided

ACTIVE QUOTE

Applies to: All CBBCs and Warrants on actively traded underlyings in CBBC Eligible List

Product Eligibility: Outstanding < 50% (Warrants + CBBC)

Index: More than 1% to KO; SS: More than 2% to KO (CBBCs ONLY)

Maturity longer than 30 calendar days (Warrants ONLY)

Within 20% ITM and 20% OTM (Warrants ONLY)

Min daily service: At least 90% of Qualified Period, with breaks shorter than 10 min

Min realtime service:

Max Spread: 5 (Warrants on local index underlying)

10 (CBBCs on local index underlying)

10 (Warrants on actively traded stock underlying)

15 (CBBCs on actively traded stock underlying)

Min size: 20 board lots