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.

> We are supportive of the introduction of an instrument-level VCM to limit market disruption due to non-fundamental events such as trading errors by isolated market participants or investors. As outlined in the consultation paper, a VCM will provide a temporary cooling-off period for market participants and investors to adjust their trading activities and minimise the risks of market overreaction.

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

☒   Yes

☐   No

Please give reasons for your view.

> We think the proposed scope of securities is appropriate for the VCM, excluding penny and less liquid stocks which often exhibits higher volatility and may be overly restricted by the VCM trading band.

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 <u>derivatives</u> market?

☒   Yes

☐   No

Please give reasons for your view.

> We are generally supportive that the proposed VCM model should only be applied to the HIS, HHI, MHI and MCH (spot month and the next month) index futures in the derivatives market as some long-dated futures may be more volatile and overly restricted by proposed price limit.

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.

    > It is important for the price discovery process to unfold into the close to ensure that the closing price reflects market conditions and avoid overnight risks.

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.

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.

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.

```



```

8. Do you agree with the proposed triggering level for the <u>derivatives</u> market, namely <u>5%</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.

```



```

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: _____

Please give reasons for your view.

```



```

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.

> We support trading wihtin a price limit during the cooling-off period. We however suggest to implement an auction process for the cooling-off period for better price formation.

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.

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

> Referring to paragraph 68 of the consultation paper, if there is no trading in the cooling-off period, no price limit will be applied to the first trade. Price may gap up or down as a result. We suggest to put in place some control on the first print and believe an auction process for the cooling-off period is a desirable arrangement as suggested above.

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.

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.

> We support the dissemination of additional market data and prefer the reference price, price limits and trading state (i.e. whether VCM has been triggered) to be disseminated at all times for better transparency and the benefits of market participants and investing public.

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.

>

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?
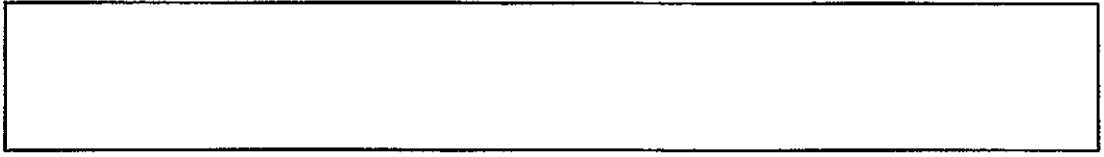
☒ Yes

☐ No

Please give reasons for your view.

> We support normal trading of derivatives of instruments under cooling-off. However, we suggest the market making obligations of those derivatives be suspended or modified during the cooling-off period.

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

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.

    > We strongly support the introduction of a CAS in the securities market.
    >
    > There are significant demands from managers of exchange traded and passive funds to execute at closing price which the current trading methodology does not effectively support. Inability to execute at closing price leads to tracking errors and undermines fund performance. The introduction of a CAS would mitigate the issue and benefits investors of these funds who are often pension funds and retail investors.

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.

    > The proposed scope does not fully cover constituents of other widely referenced indices such as MSCI and FTSE for which there are also significant demands for execution at closing price. We suggest the CAS to be applied to all stocks.

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

14

■ No

Please give reasons for your view.

> We do not see any good reason to limit the application of a carefully designed CAS model to a subset of ETFs.

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: As soon as practicable

■ No

Please give reasons for your view.

> Same as #20

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.

>

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

■ Yes

■ No

Please give reasons for your view.

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 suggest a wider trading band to allow sufficient room for price formation and align with the VCM with a 10% price limit.

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 believe the application of a single fixed-percentage trading band throughout the CAS suffices to contain volatility and allows simpler implementation. Hence we do not see the need for a further price limit with the best bid and ask.

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

   ▨   Yes

   ▨   No

Please give reasons for your view.

┌───┐
│   │
│   │
│   │
└───┘

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.

```
┌──────────────────────────────────────────────────────────────────┐
│                                                                    │
│                                                                    │
│                                                                    │
│                                                                    │
└──────────────────────────────────────────────────────────────────┘
```

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.

```
┌──────────────────────────────────────────────────────────────────┐
│ We suggest the short sell tick rule to reference the IEP if available. In the absence of │
│ which we believe referencing the reference price as proposed is justified.              │
│                                                                    │
└──────────────────────────────────────────────────────────────────┘
```

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.

```
┌──────────────────────────────────────────────────────────────────┐
│                                                                    │
│                                                                    │
│                                                                    │
└──────────────────────────────────────────────────────────────────┘
```

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

■ Yes

■ No

Please give reasons for your view.

```
┌──────────────────────────────────────────────────────────────┐
│                                                              │
│                                                              │
│                                                              │
│                                                              │
│                                                              │
└──────────────────────────────────────────────────────────────┘
```

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: <u>1 minute</u>

Please give reasons for your view.

```
┌──────────────────────────────────────────────────────────────┐
│                                                              │
│                                                              │
│                                                              │
│                                                              │
└──────────────────────────────────────────────────────────────┘
```

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.

```
┌──────────────────────────────────────────────────────────────┐
│                                                              │
│                                                              │
│                                                              │
└──────────────────────────────────────────────────────────────┘
```

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: _____

18

Please give reasons for your view.

```



```

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):   Ability to enter limit orders during the pre-order matching period of the POS

■ No

Please give reasons for your view.

```
We think allowing order entry throughout the CAS is a desirable design and may be extended to the POS.
```

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.

```



```

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.

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: _____

Please give reasons for your view.

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.

> Implementation of VCM and CAS, but especially the latter, are high priorities. They should be introduced as soon as reasonably practical.

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.

> 1. CAS, 2. VCM, 3. Trading Halts
>
> A CAS is the first priority. The introduction of a CAS allows execution at closing price and benefits exchange traded and passive fund investors who are often pension funds and retail investors.

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.

> Both VCM and CAS, but especially the latter, should be introduced as soon as practicable. However, market participants should be given adequate notice and preparation time once the details have been decided upon.

(ii) CAS:

☒ a). under 3 months;

☒ b). 4-6 months;

☒ c). 7-12 months

☒ d). >12 months

Please give reasons for your view.

> The introduction of a CAS should be a high priority while providing industry with adequate preparation time.

- End -