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 support the introduction of the VCM. This would bring HK inline with global peers and would enable it too meet the expectations of the SFC, G20 and IOSCO. In order to grow as the regional hub and primary China access point Hong Kong needs to ensure the integrity of the market. A VCM would go a long way to ensuring this.

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.

> We do believe that a further enhancement would be to expand the model to include all securities. This would however require a "tick" control and as such we would like to see this as a stage II item.

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.

> There would be too much volatility in outer months in futures for the proposed VCM to be effective without limiting the market.

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.

> We believe that investors should be protected at all times. The integrity of the market would come into question regardless of the timing of the error.

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.

> We believe the proposed model would be enhanced by static price limits. We would like to see this considered for "Stage II" VCM.

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.

> We believe the proposed model would be enhanced by static price limts. We would like to see this considered for "Stage II" VCM.

7. Do you agree with the proposed triggering level for the <u>securities</u> market, namely <u>10%</u>

9

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.

> To futher enhance we would like to see limit decreasd to a level of less than 10% limit. We would encourage static limits to be introduced.

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.

> 5% is reasonable in derivative markets

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: <u>No limitation on VCMs</u>

Please give reasons for your view.

> We would like to see no limitation to the number of VCMs. We believe that the market is arguably more vulnerable post 2 VCMs than before and that the rationale for VCMs still stand post 2 halts. We also believe that this would aid to reducing the complexity of the VCM.

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.

> Yes we believe that under the proposed VCM trading should continue in 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.

> Yes we believe that under the proposed VCM this would be effective.

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

> We believe there are many markets that can demonstrate the effectiveness of trading halts with a suitable auction to restart.

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.

> All the information required for the VCM is provided in the proposal

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.

> We do not believe that an error in one contract can be extrapolated to other securities for that issuer or for contracts for which the security is a constituent.

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 do not believe that an error in one contract can be extrapolated to other securities for that issuer or for contracts for which the security is a constituent.

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

> As noted in Q1 a VCM is an important element to a developed market. We would like to see the VCM reviewed over time to ensure it is adapting to market conditions however please note that none of the suggestioned enhancements in this response should be seen as so important they delay the implentation of the proposed VCM.

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.

> As noted in the HK Exchange briefing session the HK market is the only developed market WITHOUT a closing auction session and out of line with even emerging markets where a majority of emerging markets even have a closing auction mechanism.
> An efficient mechanism to establish the closing price of a security is important for retail investors. An inefficient mechanism leads to additional trading costs for these 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.

> Once success is seen with the proposed CAS we would like to see this CAS applied to all securities regardless of size. All participants, no matter what stocks they are investing in deserve to have the most efficient closing mechanism available in an effort to lower their transaction costs.
> We would also like to see consideration of the use of the CAS for securities not captured by the proposed model but are to become additions into an index in a rebalance.

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 see any reason to exclude 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: after you are comfortable with the performance of the proposed model

☐   No

Please give reasons for your view.

> As noted above we believe that the CAS can be enhanced by applying to to all securities and would like this considered as a stage II initiative.

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 believe that CAS should not be applied to the above as there is less market demand for these products.

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

☐   Yes

☒   No

Please give reasons for your view.

15

> Our preference would be no price limitations during the closing auction. We believe
> that there are many examples where markets operate efficiently, allowing for efficient
> price formation, that have no limitation on prices during the CAS. See Singapore,
> Australia, London, Germany, France.
> Should a price limit be deemed necessary we would recommend a wider limit (10%
> or greater). This would allow for more efficient price formation than the current 5%
> limit will allow. We would caution that too narrow a limit (eg. <5%) could increase
> the volaitility of the end of the "continuous session". In this instance, due to the tight
> price limit many would begin trading prior to the closing auction in an effort to avoid
> having unfilled orders due to the price limit in the CAS.

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.

> As per the above, auctions have been shown to be an efficient mechanism for price
> discovery and fair pricing. We would prefer for the limit to raised or no limit at all
> when considering "Stage II" of the CAS.

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.

> As per the above, auctions have been shown to be an efficient mechanism for price
> discovery and fair pricing. We would prefer for the limit to raised or no limit at all in
> "Stage II" of the CAS.

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

☒ Yes

☐ No

Please give reasons for your view.

> At-auction limit orders have been shown to aid price discovery and contribute to reduced volatility when compared to market orders

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.

> All liquidity adds to price discovery and we do not believe short selling should be excluded (especially with the tick rule)

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.

> All liquidity adds to price discovery and should be encouraged. Limiting orders to at or higher than reference price would limit discovery.

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.

> We believe these are both necessary to limit gaming and volatility/adverse price moves in the final moments of an auction. There are many examples from other developed markets where these have been shown to be an important part of the CAS.
>
> We are however strongly of the opinion that should this form part of the implemented model that is imperative that the Exchange issue FAQs or guidelines on what Exchange Participants are required to do should an truely erroneous trade (participant enteres 100 000 instead of 10 000) be placed during this "No-Cancellation Period".

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

☒ Yes

☐ No

Please give reasons for your view.

> As per the above, this in conjunction with a No Cancellation Period are important in limiting the ability of participants to "game" the closing price.
>
> In addition, we support features that aim to encourages the early disclosure of orders aids in price discovery.

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: would prefer shorter

Please give reasons for your view.

> We believe that 2 minutes is not required. Many markets have CAS that can demonstrate that ~1 m is all that is required for price formation and an effective CAS.

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.

> We deem this to be appropriate.

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.

> We prefer a tighter time frame for the CAS/order input.
>
> For consideration for any "Stage II" CAS we would like you to consider an extension session(s) should be considered. These have been effective in other markets.

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):   all of the above _____

☐   No

Please give reasons for your view.

> We believe that any mechanism that supports price discovery should be used in all areas which would benefit from it.

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 believe that any mechanism that supports price discovery should be used in all areas which would benefit from it and should be implemented as soon as possible. We would like to see enhancements for POS and/or trading halts however do not support these enhancements delaying the implementation of the proposed CAS.

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.

> This would not impact our end of day by a material amount and it is not out of the ordinary for what we do for other markets.

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.

> We do not believe it necessary to change the time should the CAS/input time be ~10 minutes. We do not believe this change is significant enough to warrant changing the time.

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.

> We would prefer the approach with the shortest time till implementation.

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.

> CAS is by far the most important initiative of the three and we believe should be implemented without delay.
>
> The VCM is a far second to the CAS, followed by Trading Halts.

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.

Given VCMs are utilised in most developed markets little lead time is required

(ii)   CAS:

☒   a). under 3 months;

☐   b). 4-6 months;

☐   c). 7-12 months

☐   d). >12 months

Please give reasons for your view.

Given CAS are utilised in most developed markets little lead time is required

- End -