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.

A VCM would help the market avoid many obvious error trades at extreme prices.

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.

Yes, since the VCM is applied against a reference price that is the last traded price 5 minutes ago, it has to be only used in liquid names. In illiquid names where the last trade was an hour ago, the current proposed VCM would not make much sense.

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.

Same comment as above, the currently proposed VCM only works well in liquid names.

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.

An unexpected market interruption near the close can stop people from hedging their positions; therefore having a period of guaranteed uninterrupted trading is ideal.

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: Average trade price from the last 5 minutes

Please give reasons for your view.

Having the reference price dependent on one trade is too prone to noise/error. An average would better reflect true market price.

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: Average trade price from the last 5 minutes

Please give reasons for your view.

Same reason as question 5.

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.

The 10% threshold produced 40 triggers over the past 9 years. That seems to be a reasonable level to catch only extreme outliers.

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.

Same reason as question 7.

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: No Maximum triggers

Please give reasons for your view.

A simple rule with as few exceptions as possible is prefered. If the VCM is triggering too often, then increasing the threshold from 10% to 20% would be a prefered way of reducing the number of VCM triggers rather than a hard cap.

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.

This allows as few interruptions to trading as possible.

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: using the average trade price of the last 5 minutes as the reference price.

Please give reasons for your view.

An average trade price is prefered as the reference price to take into account all market information from the cooling-off period. The last trade 5 minutes ago would be right at the start of the cooling off period and could be not accurate representation of market clearing price.

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

N/A

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: 1 minute

Please give reasons for your view.

If the cooling off period is going to be the same for both securities and derviatives market, a shorter time frame is prefered. It is very difficult for a market instrument such as the HSI future to be under VCM for 5 minutes. Most international exchanges would not restrict their future trading for 5 minutes in today's high frequency world where a lot can happen in that time frame.

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.

Information dissemination seems reasonable.

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.

Minimizing market disruption and allowing continuous trading is prefered.

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.

However, option market makers need an automatic exemption from their quoting obligation. The current rule that allows for manual waiver requests may not be sufficient if there are many VCM triggers in a short time period. Global markets are getting faster everyday, giving option market makers an automated way of handling VCMs are prefered to manual waver submisions.

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.

Most international exchanges have a closing auction.

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.

it's a good first step to roll out to the most liquid names and then if sucessful, CAS could be rolled out to all names.

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.

Minimize exemptions unless absolutely necessary.

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.

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.

This can help avoid some of the large price jump issues seen in the last CAS attempt.

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.

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.

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
- [x] No

Please give reasons for your view.

Short selling reduces price volatility by meeting unmet demand on the buyside. Limiting this to be only above the reference price simply skews actual price upwards and prevents price discovery.

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

- [x] Yes
- [ ] No

Please give reasons for your view.

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

- [x] 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: ______________________

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: ______________________

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): ____________________

■ No

Please give reasons for your view.

Having an auction allows graceful recovery from trading halts.

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.

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.

N/A

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.

Mainly technical changes and implementation to the system and to allow for ample testing time to work out any bugs.

(ii) CAS:

☒ a). under 3 months;

☐ b). 4-6 months;

☐ c). 7-12 months

☐ d). >12 months

Please give reasons for your view.

We don't plan on participating in the CAS.

- End -