

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.

It is important to have circuit breakers to protect investors from price dislocation events which have occurred in global markets over the past few years. These thresholds do not currently exist with the Hong Kong market. The HKEx may also wish to consider absolute limits in addition to dynamic controls.

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 would like to see these measures applied to all securities however it is acceptable to start with index constituents and broaden out to a wider universe at a later date.

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.

We would like to see these measures applied to all securities however it is acceptable to start with index constituents and broaden out to a wider universe at a later date.

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.

The VCM should apply to all stages of trading throughout the session.

5. Do you agree with the proposed reference price for the securities 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 acceptable as a first step however we would like to see the VCM further refined to potentially include both dynamic and static reference prices. There are examples where dynamic limits alone have failed to adequately protect investors from sharp moves.

6. Do you agree with our proposed reference price for the derivatives 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 acceptable as a first step however we would like to see the VCM further refined to potentially include both dynamic and static reference prices. There are examples where dynamic limits alone have failed to adequately protect investors from sharp moves.

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

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.

Acknowledging the variety of opinions in the market, 10% is wide for a dynamic mechanism. During a major dislocation, markets may move significantly without triggering the dynamic 10% limit. If combined with a static limit, the dynamic limit could be reduced as far as 5% without causing excessive interruptions.

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.

No strong 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.

However, we would encourage the HKEx to consider perhaps no maximum number of triggers given under the current proposal the market could become vulnerable after two triggers are hit.

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.

However, the HKEx may want to consider full trading halts during the cooling off period which may stabilize the market in a more efficient manner.

11. After the cooling-off period, do you support resuming the same dynamic price limit monitoring mechanism (i.e. $\pm 10\%$ ($\pm 5\%$) 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.

While implementing the VCM is the first priority, extensions similar to those used by the LSE, may preserve market safety without causing additional interruptions. As was suggested in the response to Question 10, an auction price could be used as the reference.

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

Resuming trading post a cooling off period through an auction may be worth exploring as a more orderly method.

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.

5 minutes seems sufficient and there is no reason to halt trading for a longer period.

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.

Reference price, price limits, trading state and interruption times should be adequate market data for investors in these instances.

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.

Related instruments should also be halted in order to realize the full potential of the VCM.

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.

Related instruments should also be halted in order to realize the full potential of the VCM.

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

We support getting an initial VCM model in place now with improvements and enhancements added over time.

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.

Like many other global developed exchanges, we think a closing auction is an important feature of a well functioning market. Multiple assets track the Hong Kong indices via closing price and the CAS would significantly minimize tracking error.

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 important that the CAS be implemented now without further delay, however, we support broadening the universe of other stocks/instruments which the CAS covers in the future.

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 see no reason to exclude any 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: _____

No

Please give reasons for your view.

The CAS should be expanded to all equities and ETFs traded on the HKEx in the near future.

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.

Closing auctions typically do not apply to these type of securities based on our understanding.

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

Yes

No

Please give reasons for your view.

Equilibrium effects of a closing auction tends to be good at promoting price discovery with an outcome of a fair closing level.

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.

Equilibrium effects of a closing auction tends to be good at promoting price discovery with an outcome of a fair closing level. However, if a price limit must be used, we advocate using 10%. Tighter thresholds would be triggered too easily.

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 feel this is necessary and would add further constraint to the price discovery process.

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

Yes

No

Please give reasons for your view.

This will help the price discovery process during the closing auction period.

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.

This will help the price discovery process during the closing auction period

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.

In line with the uptick rule.

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.

This will help prevent gaming and allow the CAS to work efficiently. However, there needs to be a adequate process for allowing members to cancel orders which may have been submitted in error and could result in meaningful loss.

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

Yes

No

Please give reasons for your view.

This is an effective method to reduce (not prevent) gaming.

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.

2 minutes should be sufficient. Any longer will delay the CAS unnecessarily.

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.

Yes, this is acceptable.

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.

While implementing the CAS is the first priority, HKEx may consider tick controls in addition to limits and extensions as are practiced by the LSE.

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.

We would support an enhanced pre-opening session as the current model does not adequately promote price discovery.

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 would not like to see any further delays with CAS. Future enhancements should come at a later date.

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.

We do not see any material impact from the extended market hours as a result of the CAS.

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 see any issues with this.

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 support the method which would allow for the fastest implementation of VCM and CAS.

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.

All are high priority but we would like to see CAS, VCM then 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.

This will not be a meaningful impact to our workflow or require systems enhancements.

(ii) CAS:

a). under 3 months;

b). 4-6 months;

c). 7-12 months

d). >12 months

Please give reasons for your view.

This will not be a meaningful impact to our workflow or require systems enhancements

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