

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.

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.

As a first step, limiting the VCM to index constituents allows the HKEx to de-risk the market with less impact to a broad array of smaller, more volatile stocks. The VCM could be extended to other listed securities later if it was felt necessary.

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.

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 would prefer that the protection is in place throughout the entire regular trading period but as an interim introductory measure, can accept that an uninterrupted period may be appreciated by some investors.

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.

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.

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.

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.

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.

We can accept that some investors may initially require a maximum of two VCM triggers per session (although this would seem to be more complex), but see no reason to limit the function to two occurrences.

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: No trading would seem to be more sensible but determining a reasonable re-opening mechanism might mean more delays so we can accept this proposal.

Please give reasons for your view.

The five minute cooling off period should give people time to re-evaluate the situation and allow market imbalance to ease.

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.

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

The current market open auction mechanism is suboptimal and should not be considered as a mechanism for any resumption after a cooling off period where there was no trading allowed.

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.

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.

If easily achievable, related instruments should also be halted (eg warrants, options and CFDs).

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.

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.

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.

We think it would be simpler to understand to implement the CAS across all securities, but can accept that some investors might prefer a more limited introduction.

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.

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.

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.

We think the idea of a limit is reasonable although not absolutely necessary, but if implemented a wide limit (similar to the VCM) should be adopted ie 10% if possible. If necessary a 5% should be the minimum reasonable limit acceptable to allow for normal market imbalances to clear.

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.

This limit is tolerable but would be the minimum acceptable as discussed above.

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.

Additional functional complexity with the CAS is unwelcome.

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.

Generally there should be no reason to limit short selling to the reference price or higher but this could be considered for later enhancement once CAS was stable and established.

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 seems to increase risk in case of incorrect entry of orders which cannot be amended or the inability to react to other movements in markets. The random auction should be sufficient to minimise gaming.

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: _____

Please give reasons for your view.

A shorter period (1 min) would also be reasonable, but 2 minutes is not unacceptable.

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.

The less complexity the better so a consistent auction process would be appreciated.

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.

CAS should have the highest priority, followed by VCM and 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.

(ii) CAS:

a). under 3 months;

b). 4-6 months;

c). 7-12 months

d). >12 months

Please give reasons for your view.

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