## 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 Hong Kong in line with other global developed markets. Hong Kong needs to ensure the integrity of the market and the introduction of a VCM would assist in achieving this objective. |

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.

   | |
   |---|
   | There is no reason to limit the VCM to just HSI and HSCEI. These measures should be uniform and apply to all listed securities. |

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.

   | |
   |---|
   | These measures should be uniform and apply to all listed securities. |

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.

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|---|
| Investors would be better protected by applying a measure such as the VCM at all stages of trading. |

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.

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|---|
| The proposed model may be enhanced by static price limits and 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.

| |
|---|
| The proposed model may be enhanced by static price limts and 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> 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: <10%

Please give reasons for your view.

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|---|
| A trigger level of 10% is very wide for dynamic measures and markets can move significantly in an orderly manner prior to triggering this threshold in periods of high volatility. However, it may be appropriate if combined with other static measures in which case this could be tightened to as much as 5% without causing excessive interventions |

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.

| |
|---|
| A 5% limit 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: no limitation on VCMs per trading session

Please give reasons for your view.

| |
|---|
| There should be no limitation to the number of VCM triggers and believe that the market is arguably more vulnerable post 2 VCMs than before the triggers. |

10. Do you support trading within a price limit during the cooling-off period? If not, do you prefer another approach?

☐ Yes

trading halts are as equally effective and auctions work efficiently to stabilise markets i.e. an opening auction post a

☒ No, another approach that I prefer: trading halt.

Please give reasons for your view.

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|---|
| |

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: an auction price be used as a reference price

Please give reasons for your view.

| |
|---|
| |

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

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|---|
| Unwinding market interuptions through an auction process have been proven to be the most effective way to achieve price discovery for trading resumptions as demonstarted by many developed global markets. |

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 should be sufficient |

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 HKEx 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.

| |
|---|
| Errors in one contract do not imply errors in others, such that an error in a security need not halt contracts that have a stock constituient. |

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.

| |
|---|
| Errors in one contract do not imply errors in others, such that an error in a security need not halt contracts that have a stock constituient. |

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

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|---|
| It is important to have a VCM in place in a developed market. Once operational it can be improved or reviewed to ensure it is evolving to market conditions. We would believe that none of the suggested enhancements in this response should be seen as an impediment to further 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.

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|---|
| As noted at HKEx briefing session the Hong Kong market is the "only" developed market without a closing auction session under MSCI classifications. Even the majority of emerging markets have a closing auctions. An efficient mechanism to establish the closing price of a security is important for all investors, large and small. Not having a closing auction mechanism leads to additional trading costs for all investors and uncertainty. |

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.

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|---|
| All securities benefit from having an efficient closing market mechanism. There is no reason to provide an advantage to large caps over small caps; all segments and sectors should be represented and treated equally and fairly. |

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.

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|---|
| 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: asap to all securities and ETFs

☐ 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.

| |
|---|
| The CAS should not be applied to the above as there is less market demand for these products. We also understand auctions are not commonly available for these security types. |

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

☐ Yes

☒ No

Please give reasons for your view.

The preference would be for "no price limitations". There are examples where markets allow for efficient price formation that have no price limits during a closing auction period. If a price limit was necessary we would like to see a wider limit (>10%) as this would allow for more efficient price formation and liquidity. Please do not consider a narrow a limit (<5%) as this may in fact have the opposite effect and could result in higher volatility at the end of the day. For example, if <5% was chosen many participants would simply begin trading prior to the CAS in an effort to avoid having unfilled orders due to the price limits.

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.

Closing auctions allow for all remaining liquidity to be cleared at the most efficient price and have been shown to be an efficient mechanism for price discovery and fair pricing. We would prefer no limit at all like other developed markets.

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.

This would simply add another friction point and is a further constraint to a widely market accepted 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.

At-auction limit orders aid price discovery and contribute to lower volatility when compared to market orders, which can in general significantly impact volatility during a closing auction.

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.

| |
|---|
| Short selling provides additional liquidty and should not be excluded especially with a tick rule in place. |

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.

| |
|---|
| Any additional liquidty should be allowed including short sells. |

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 strongly support both of these mechanisms as both work efficiently to limit gaming and volatility/adverse price movements in the final stages of a closing auction. Other developed markets have demonstrated the importance of this condition. |

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. We support these features as they aim to encourage participants to enter orders earlier and this assists in the price discovery process.

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.

This should be sufficient as the reference price mechanism is the median price. If that changes then this may need to be reconsidered.

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.

(i) We prefer a shorter time frame for the CAS order input by participants.
(ii). Other models with extensions should be considered like those that are successful in other developed 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.

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 and be implemented as soon as possible.

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 are not aware of any market practices that would be affected by extended market hours..

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: 17:00

Please give reasons for your view.

We do not believe it necessary to change 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 prefer the approach with the fastest and shortest time until 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.

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|---|
| 1. CAS is by far the most important and should be implemented without further delay.<br>2. VCM<br>3.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 already being used in most, if not all developed markets we would require very little lead time. |

(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 already being used in most, if not all developed markets we would require very little lead time. |

- End -