

## 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 would be less disruptive than a market-level model.

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.

It would avoid excessive trading interruption.

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.

It would avoid excessive trading interruption.

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.

It helps market participants to manage overnight risks.

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.

Based on precedent of developed financial market (e.g. US and SGX), it seems reasonable. Moreover, compare to other market using previous day price, it's more sensitive and timely.

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 inline with other developed market practices. And it also can accommodate model's simplicity.

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.

Based on your backtest, number of VCM trigger (e.g. 40) per year seems little bit frequent compare to korea (around 10 times price limit occurred in last year among the large cap stocks), however, to be in line with global market practice, 10% seems reasonable, convenient level and also inline with other markets in the region.

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.

5% is a convenient level.

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.

If VCM is triggered twice during one trading session, we believe market participants are alerted sufficiently.

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.

Trading should be allowed within the price limit, as it does not widen the intraday volatility. And also this is much lighter approach rather than suspension.

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.

Consistency is preferred, would be quite confusing if otherwise.

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

Not applicable.

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 is sufficient for most of the market participants, also in line with international practice.

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.

Not applicable.

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.

All instruments should be viewed independently.

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.

All instruments should be viewed independently, and VCM should be distinguished from suspension/trading halted.

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

Not applicable.

## 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.

It facilitates the MOC execution needs.

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.

Logical starting point, but HKEx may consider applied new CAS towards constituent stocks of MSCI Indices too.

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.

Rolling out in 2 phase would gives securities market maker more time to adjust to the new CAS regime.

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: 3-6 months after implementation of phase I

No

Please give reasons for your view.

We believe consistency in the treatment of all equity securities and funds is essential.

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.

It prevent excessive price volatility during 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.

5% price limit would offer protection against adequate price volatility while not confining liquidity.

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 believe some mock trading session maybe required to educate market participants, but its fair.

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

Yes

No

Please give reasons for your view.

It provides price protection.

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.

It is consistent with CTS.

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.

It is consistent with CTS.

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.

It deters gaming behaviour.

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

Yes

No

Please give reasons for your view.

It facilitates fair trading for all types of investors.

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.

As long as the matching happen in a truly random moment in the closing period, 2 minutes is sufficient.

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.

It improves matching opportunity.

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.

Not applicable.

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): POS

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.

It simplifies implementation.

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.

Not applicable.

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.

45 minutes is a meaningful break.

## 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 believe development and testing of the VCM, CAS and Trading Halts functionalities should be bundled together.

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.

Not applicable.

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.

Not applicable.

(ii) CAS:

a). under 3 months;

b). 4-6 months;

c). 7-12 months

d). >12 months

Please give reasons for your view.

Not applicable.

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