

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.

The measure is in line with IOSCO guidelines. There may be benefit in limiting extreme price movements. At the same time the right balance has to be achieved between limiting such extreme price fluctuations and intervention into natural market price discovery. Placing excessive restrictions on price movements may impact liquidity and result in index replication issues.

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.

While, it is important to to apply the VCM model for HIS and HSCEI index constituents, consistent application of the VCM model across total equity universe may be more appropriate.

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.

NA

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.

Artificial price limits may create liquidity issues, at the time when it may be needed the most for index replication, i.e. around market close.

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.

has not conducted a study on the most optimal time window for determining the reference price, hence does not have a view on this proposal. The time-window and the threshold should strike the balance between the objective of limiting extreme price fluctuation and efficient price discovery.

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.

NA

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.

_____ has not conducted a study on the most optimal threshold for triggering VCM, hence _____ does not have a view on this proposal. The threshold should strike the balance between the objective of limiting extreme price fluctuation and efficient price discovery.

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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.

NA

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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.

Multiple application of price limit during one day may impact liquidity, potentially making indexes less replicable.

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.

Such approach may be superior to suspending trading of a particular security, as it allows continuous trading. However, liquidity may still be severely affected during the colling-off period if the perceived fair price is significantly away from the allowed limits.

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.

has not conducted a study on the most optimal threshold for triggering VCM , hence may not comment on this proposal. The threshold should strike the balance between the objective of limiting extreme price fluctuation and efficient price discovery.

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

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.

has not conducted a study on the most optimal cooling off period, hence may not comment on this proposal.

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.

Any additional data transparency may be beneficial.

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.

NA

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.

NA

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.

Closing auction is an effective way to facilitate execution at market close, which is essential for index replication.

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.

Such model should be applicable to all equity securities.

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.

NA

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.

NA

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

Yes

No

Please give reasons for your view.

NA

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.

NA

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.

NA

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

Yes

No

Please give reasons for your view.

NA

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.

NA

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.

NA

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.

Such practice may lower the chance of price manipulation and hence improve the quality of the closing price.

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

Yes

No

Please give reasons for your view.

Such practice may lower the chance of price manipulation and hence improve the quality of the closing price.

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.

NA

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 is a clear and transparent approach.

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.

NA

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.

NA

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.

NA

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.

NA

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.

NA



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.

NA

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.

From index tracking perspective, CAS would have the highest importance.

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.

Introduction of VMC should not have impact on the index calculation process.

(ii) CAS:

a). under 3 months;

b). 4-6 months;

c). 7-12 months

d). >12 months

Please give reasons for your view.

Implementation of the new closing price in the indexes usually requires less than 3 months, following the official announcement by the Exchange, provided the price is available via relevant data vendors.

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