

## 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 agree Hong Kong market requires a suitable mechanism to effectively deal with potential inappropriate price fluctuations, and be in line with global market practices. As you outlined in the consultation paper background, most global exchanges have an instrument-level VCM, and there have been trading incidents caused by rapid market movements, whether due to errors, market disruptive events, or speculations, etc, hence it's important to introduce a VCM to contain such potential events in Hong Kong.

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 believe VCM should be applied to all Hong Kong listed stocks and not just to HSI & HSCEI constituents stocks to be consistent with global practices, and to reduce system-build complexities to the market participants. Although we understand HKEx prefers to initially focus on addressing instruments that pose systemic risk particularly with respect to index products based on IOSCO's guidance, we do hope the population can be extended to the all securities at earliest practical timeframe. Moreover, when extending to the smaller and/or less liquid stocks, we suggest applying different percentage price limits based on price bands, liquidity or product type, similar to the peer Asian markets.

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.

Similar to the response in #2, in principle, VCM should be applied to all instruments.

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.

Ideally there shouldn't be a maximum number of VCM triggers per session. However with the current proposed 4 maximum triggers per day (2 in AM CTS and 2 in PM CTS), it's important to have an uninterrupted trading period before the end of the last CTS to allow the market to find the balance and the clearing level.

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.

We agree with your view that the proposed dynamic reference price can capture both the magnitude and speed of sudden price changes of individual instruments, and it's simpler to implement.

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.

Please refer to #5

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.

Ideally we prefer different triggering levels for different instruments, (i.e. higher triggering level for less liquid or lower-priced instruments). However we understand that HKEx prefers a simpler approach at outset to smoother implementation. 10% triggering level for securities market appears to be a range that can constrain malicious activities yet relatively less inhibitive to the price discovery process.

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: 10%

Please give reasons for your view.

For simplicity and consistency sake, derivatives and securities markets should have the same triggering level. The triggering level should allow the market to find its balance.

However as expressed in #7, we prefer different triggering levels for different instruments, based on liquidity, price band, and product type.

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: Unlimited

Please give reasons for your view.

VCM mechanism should be continuous in order to effectively monitor and prevent volatile market conditions. A maximum of two VCM triggers per session per instrument appear to defeat this principle objective, and potentially allow room for manipulative behavior such as aggressive algorithms strategies.

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.

At the introduction period, we understand HKEx's concerns to introduce a more enhanced auction process for cooling-off period & trading resumption. It's acceptable to start with a light-touch and simple model, however we would expect enhancements to be introduced into the VCM as part of the post launch improvement phase.

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.

Please refer to #10

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

Please refer to #10

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-minute duration appears to be adequate duration to allow market participants to assimilate information and respond. It's also the most frequently adopted cooling-off period duration in major markets.

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.

As you rightly noted in the consultation paper, it's critical for market participants to receive relevant market data, including reference price, price limit, trading state and time of VCM expiry/resumption in order to make informed decisions and to provide better transparency.

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.

There's inter-connectivity between the trading of underlying stocks and its linked instruments such as warrants and single stock options. If a VCM is triggered for an instrument, HKEx should recognize and automatically waive or relax the impacted market-makers' and liquidity providers' obligations. The suggestion to have Market makers to submit a request every time an instrument triggers a VCM appears to be inefficient and onerous.

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.

Please refer to #15

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

We agree Hong Kong market requires a suitable mechanism to effectively deal with potential inappropriate price fluctuations, and be in line with global market practices. In our opinion, Hong Kong market is more comparable with the major Asian markets, hence it's more effective to analyze and identify improvement areas with reference to the success cases in other Asian markets.

Also, we appreciate HKEx's concerns and proposal to adopt a basic model at initial launch, but we do hope that HKEx can closely work with the market towards the enhancements and the post-launch improvement timeline when the market has gained experience of the basic model.

## 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.

We agree it's important for Hong Kong market to have an auction at the market close, a practice adopted by nearly all major securities exchanges in the world. Closing auction trading is well recognized as an efficient mechanism for price formation, effecting trade executions and generating liquidity. For a successful reintroduction, optimal control mechanisms need to be in place to ensure an orderly market.

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 believe CAS should be applied to all securities in principle.

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.

The same CAS principle applies to ETF as well, so we believe it should be applied to all 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: As and when practicable

No

Please give reasons for your view.

Please refer to #19, #20

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.

Though we believe CAS shouldn't be applied to structured products, warrant and debt securities instruments, the impact of the closing period, mechanism and trading limitation imposed on the underlying stocks is relevant and important.

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

Yes

No

Please give reasons for your view.

An optimal price limit can effectively contain volatility, however the range of the price limits should not be too narrow.



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.

We believe the limit should be consistent with the VCM limit of 10% applicable to CTS for the same principle objective. Also, with reference to most global exchanges (developed / emerging markets), it's commonly 10% or no limits. Taiwan being an exception in Asian exchanges has a limit of  $\pm 7\%$  relative to the previous day's close, and is requesting an expansion as well. Hence a limit of at least  $\pm 7\%$ -10% is considered more optimal than the proposed 5% for Hong Kong in order to prevent excessive price movement but also not to be overly restrictive on major index rebalancing days.

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 agree that the proposed further price limit within the best bid & ask range is to prevent aggressive at-auction limit orders input before the end of the CAS, which can excessively widen the executable price range and lead to undesired price volatility. This is in line with the original objective to encourage market to submit offsetting orders during No-Cancellation and Random Closing periods in the case of an imbalance order book.

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 helps facilitate price discovery and improves liquidity with lesser price uncertainty.

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 contributes to better liquidity and price efficiency by offsetting surplus on the long demands, and preventing stocks to be overvalued under normal market conditions. It also provides a mechanism for hedging and risk management. So we believe it's important to allow short sell orders in CAS to improve liquidity and price efficiency. On the other hand, it's debatable if it's in the market's best economic interest to apply tick-rule during the CAS, we prefer a more in-depth analysis and consultation should be conducted in the post launch improvement phase.

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.

Please refer to #27. In addition, it could reduce the contribution of short sale order to the liquidity and price efficiency of the CAS, restricting the market's ability to find the economically efficient closing level.

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 agree this feature encourages market participants to enter orders in the earlier Order Input period and aim at preventing manipulative behavior.

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

Yes

No

Please give reasons for your view.

We agree with the reasoning presented in the consultation paper, and it is a good feature to have.

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.

Although we have no objection to the proposed 2-minute Random Closing period, we think the entire CAS with 12-minute is longer than necessary. The duration of each session can be reviewed and optimized to within 10-minute would be more preferable. This could be an aspect of the CAS subject to review once there has been experience with the CAS.

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.

Understand HKEx prefers a light-touch approach at initial launch, we can live with the proposed model for the short run.  
However, we think it's critical to point out that in the absence of IEP, whether due to the absence of at-auction limit orders (i.e. all are at-auction market order), or extreme imbalanced order book, current 5-minute median prints mechanism to determine reference price and used as closing for trade matching can mis-represent the market. It can also lead to more concerns for the inter-connected derivatives instruments.  
  
Hence we prefer a more in-depth analysis and improvement plan to be included in the post-launch enhancement phase once the market has experience with the CAS.

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.

Please refer to #31

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): The Auction process/mechanism

No

Please give reasons for your view.

For all the benefits discussed in the consultation paper, it would be beneficial to adopt the auction process/features in the Pre-Opening Session and Trading Halts.

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.

The enhancements for POS and Trading Halts should be later than the introduction of the new CAS in order to allow time for market participants and investors to be familiarize with the model and acceptance of the principle of CAS.

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.

Though it isn't necessarily a critical blocking issue, it does present challenges to the day-end processing, particularly for market participants like ourselves with global systems and support model. The extension would impact multiple systems and teams across multiple time-zones. The changes in system and business operating times including but not limited to system checks, hand-over agreements, etc., would need to be re-assessed and re-established. Also with the extended AHFT, corresponding systems and processes also need to be re-aligned. Hence it's would be preferable to minimize the impact by optimizing the CAS duration to within 10min.

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.

It's necessary to postpone the AHFT accordingly to 17:15 as a result of introducing the 12-minute CAS.  
Please also refer to #36.

## 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: All on Orion trading platform

Please give reasons for your view.

Although we understand HKEx may prefer implementing CAS and VCM as a priority, for market participants it may mean rebuilt of applications, monitoring & surveillance mechanisms as well as operating procedures. Ideally we prefer new developments to be implemented as and when reasonably practicable, and on the strategic platforms (Orion in the case for HKEx) to minimize throwaway system buildwork and human resources to re-model processes, internal training and client education on the market participant end.

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 first, then VCM and Trading Halts when practicable.

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.

Please refer to # 36.  
Additionally, both CAS and VCM are majors add-ons for Hong Kong to be a globally competitive stock market. Its introduction should be a high priority while providing the industry and investors with adequate preparation time.

(ii) CAS:

- a). under 3 months;
- b). 4-6 months;
- c). 7-12 months
- d). >12 months

Please give reasons for your view.

Please refer to #36.  
Additionally, both CAS and VCM are major add-ons for Hong Kong to be a globally competitive securities market. The introduction should be of high priority while providing the industry and investors with adequate notification and preparation time.

- End -