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.

> VCM can prevent trading incidents such as the Flash Crash. The implementation can control the systematic risk caused by extreme price movement.

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.

> The VCM model should be broadly applied to all stocks in the securities market.

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.

> The VCM model should be broadly applied to all futures products in the derivatives market.

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.

> 15 minutes are sufficient to avoid potentially preventing investors from being forced to take overnight risks.

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.

> The price of the last trade 5 minutes ago is a moderate reference to control the volatility.

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 price of the last trade 5 minutes ago is a moderate reference to control the volatility.

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: _____

Please give reasons for your view.

10% from the reference price provides sufficient buffer for a stock in the securities market

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.

5% from the reference price provides sufficient buffer for a stock in the securities market

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: <u>4 VCM triggers per trading session</u>_____

Please give reasons for your view.

A maximum of 10 minutes cooling-off in total per trading session may not be sufficient for investors to digest news connected with fundamental price movements

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 within a price limit during the cooling-off period may control the extremely price of order placements before the news of the events is digested.

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: _____

   Please give reasons for your view.

   > The same dynamic price limit monitor mechanism can provide consistent trading environment to investors.

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

   > Our views on resumption procedures have been stated in the answers to Q10 and Q11.

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.

   > To prevent incident such as Flash Crash, 10 minutes will 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: _____

11

Please give reasons for your view.

> The additional market data dissemination provide transparency to the market participants and investors.

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 may be risk of abnormal trading in relation to futures if the trading of the underlying is restricted. VCM for the related instruments should be considered.

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.

> There may be risk of abnormal trading in relation to warrants, CBBC and single stock options if the trading of the underlying is restricted. VCM for the related instruments should be considered.

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

> We have no further comment 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.

> The new CAS model meet the market demand for execution at the closing price.
> Trackings funds will benefit from lower tracking errors.

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.

> The new CAS model should be applied to the all the stocks listed and traded on
> SEHK.

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.

> Applying the new CAS model to all ETF may prevent the confusion of investors.

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: 2 weeks after reviewed the implementation of CAS

☐ No

Please give reasons for your view.

> If the CAS launches successfully, the other equity securities and funds as proposed should be included. 2 weeks will be sufficient for the preparation.

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 structured products and equity warrants should not be excluded since the price if the underlying may still flutuate in the CAS.

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

☒ Yes

☐ No

Please give reasons for your view.

> Introducing a price limit during the CAS will prevent unexpected volitility near the end of the CAS.

14

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.

> It prevent unexpected volatility near the end of the CAS.

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.

> It prevent unexpected volatility near the end of the CAS.

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

☒ Yes

☐ No

Please give reasons for your view.

> It prevents the aggressive orders near the end of the CAS.

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.

15

> Short selling orders with a tick rule may help reducing price volatility.

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.

> The short selling order with a price not lower than the reference price may help reducing price volatility.

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.

> No price amendment and cancellation encourages participants to input orders at the earlier period.

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

☒ Yes

☐ No

Please give reasons for your view.

> It encourages participants to input orders at the earlier period.

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.

2 minutes is sufficient for an index constituent stock.

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.

The reference price will be a better reference when there is absence of final IEP.

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.

To accumulate adequate orders for IEP determination, Order Input Period less than 7 minutes may not be sufficient.

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 continuous trading session following the POS already provides sufficient time for orders matching.

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 responses of the market partcipants are important after the launch of the new 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.

> We can smoothly conduct the margin calls due to the extended trading time.

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.

The break is not necessary for that period. Lunch break also operatings smoothly although there is only 30 minutes break between the closing of securities market and auction opening of derivatives market

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.

> Market participant can get used to the numbers of implementations if they are rolled out one by one.

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.

> 1. VCM, 2. Trading Halts, 3. CAS
> Risk management should take precedence.

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.

3 months are sufficient for us to get prepared.

(ii)   CAS:

☒   a). under 3 months;

☐   b). 4-6 months;

☐   c). 7-12 months

☐   d). >12 months

Please give reasons for your view.

3 months are sufficient for us to get prepared.

- End -