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.

- Strongly support the HKEx proposal, please refer to ASIFMA commentary for additional details

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.

- Support the HKEx proposal to begin with a limited scope - Suggest future expansion to cover all 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.

- Support the HKEx proposal to begin with a limited scope - Suggest future expansion to cover all derivatives

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.

- Support the HKEx proposal to begin with - Suggest future expansion to cover the entirety of the trading session and allow unlimited triggers

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.

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.

- Support the HKEx proposal to begin with - Suggest in the future using yesterday's settlement price or T+1 session close price as reference would be more in-line with global markets

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.

- Support the HKEx proposal with initial instruments - Suggest if the instrument list is expanded, a different methodology (price bands, tick increments, etc.) may be beneficial, particularly for low priced stocks

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.

- Support the HKEx proposal with initial instruments - Suggest if the instrument list is expanded, a different methodology (price bands, tick increments, etc.) may be beneficial

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.

- Suggest that market protection and price discovery would be best served with unlimited halts

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.

- Support the HKEx proposal to begin with - Suggest an auction mechanism may support price discovery further as a future enhancement

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.

- Support HKEx proposal to begin with - Suggest an auction mechanism may support price discovery further as a future enhancement

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

No comment.

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.

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.

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.

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.

- Strongly recommend market maker obligations should be automatically suspended if the underlying instrument is under VCM

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

- Suggest CAS is a higher priority than VCM
- Suggest that market protection and price discovery would be best served with unlimited halts
- Strongly recommend market maker obligations should be automatically suspended if the underlying instrument is under 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.

- Strongly support the HKEx proposal, please refer to ASIFMA commentary for additional details

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.

- Support the HKEx proposal to begin with a limited scope - Strongly recommend CAS should apply to all securities soon after the initial rollout

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.

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 possible

☐ No

Please give reasons for your view.

- Strongly recommend CAS should apply to all securities soon after the initial rollout
- Suggest one of the key benefits of CAS relates to index rebalance events and by virtue of only including securities within an index, new index additions would not be CAS eligible as currently proposed.

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.

- Support the HKEx proposal to begin with a limited scope

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

☒ Yes

☐ No

Please give reasons for your view.

- Yes, in conjunction with an increase in the price limit referenced in question #24

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.

- Strongly recommend the CAS price limit should be wider, at least 7.5%, which our quantitative research team analysis shows would correspond to approximately four standard deviations of price movements on .

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.

- Support the HKEx proposal to begin with
- Suggest this should be removed in the future as it constrains the 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.

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.

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.

- Suggest the uptick rule is sufficient

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.

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

☒ Yes

☐ No

Please give reasons for your view.

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: Suggest 30 to 60 seconds

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.

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.

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

☐ 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.

- Strongly support the introduction of the CAS as the highest priority

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.

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.

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.

- Strongly support the introduction of the CAS as the highest priority

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 as the highest priority, followed by VCM and followed by 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.

(ii) CAS:

☐ a). under 3 months;

☒ b). 4-6 months;

☐ c). 7-12 months

☐ d). >12 months

Please give reasons for your view.

- End -