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.

> Similar mechanisms have proven to be effective in ensuring fair activity and removing unneccesary volatility in other regions where they have been introduced (eg. London) and we feel the spirit in which they are proposed to be introduced is in the best interest of all HK market particpants.

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.

> While it makes sense to launch VCM covering HSI and HSCEI constituent stocks at initial stage, we see it beneficial to apply VCM to all listed securities with possible introduction of differing price limits for securities trading within different price bands.

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.

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> We are of the view that VCM should be applied to all futures products to reduce unintended volatility.

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.

> We think this should promote an orderly close and would remove uncertainty regarding whether or not stocks would close if it was not put in place. Ie. without it, a stock could effectively be prevented from closing which may become particularly possible around index events.

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.

> This seems to be a fair window, not too far and not too close to last.

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.

> We are of the view that the proposed 5-minute window is a reasonable reference for the purpose of VCM.

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.

> We are of the view that the proposed 10% is a reasonable trigger level during the initial stage. We see if fit for the range to be tighted to 5% given a 5% move in 5 minutes is relatively drastic.

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.

> We are of the view that 5% is a reasonable level for HSI contracts. However, we see room for the limit to be relaxed to 7% for HSCEI contracts given the historically higher volatility vs. HSI.

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.

> The primary benefit of the VCM will be it's ability to allow market particpants opportunity to react to meaningful price fluctuations and thus reduce unneccesary volatily. But once a stock's VCM has been triggered the market has effectively been warned, so subsequent halts to continous trading will not be as effective or neccesary.

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.

> We agree this approach will serve to maintain orderly market, allow investors to digest the reasons, or the lackthereof, for the substantial move and to react and trade accordingly with minimal interruptions.

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.

> If trading is allowed to take place during the cooling-off period, investors are given time to react and hence stock price should advance or decline reasonably. Hence we are of the view that resuming the same dynamic limit monitoring mechanism from last trade 5 minutes ago is reasonable.

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

> N/A

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.

> A duration of 5-15minutes provide sufficient time for the market to digest the situation and to react accordingly.

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.

> We are of the view that additional market data dissemination can help enhance market 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.

> We are of the view that if the front month future is under VCM trigger, all other futures of the same underlying should also be subject to the same VCM trigger so as to prevent drastic price move from spilling over to other contract months.

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.

> During cooling-off period, market makers will be unable to hedge their products effectively. We believe brokers should not be held against market-making obligations upon VCM trigger, preferably for the remainder of the concerned session. Market-making should only continue on best-effort basis under the special circumstance. This is inline with practice of other markets.

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

> N/A

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.

> Trading targetting a close benchmark will be fairer, more orderly and will save both the buy side and the sell side in terms of slippage and execution costs.

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 think it should be applied to ALL securities on the HK Exchange excluding structured products, equity warrants and debt 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

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Please give reasons for your view.

> We think it should be applied to ALL securities on the HK Exchange excluding structured products, equity warrants and debt securities.

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: <u>As soon as practicable</u>

☒ No

Please give reasons for your view.

> As per response provided to Questions 19-20, we are in favour of CAS being introduced for all securities excluding structured products, equity warrants and debt securities..

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.

> We are of the view that structured products, warrants and debt securities may have different characteristics and hence may not be suitable for these products to be covered under CAS model.

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

☒ Yes

☐ No

Please give reasons for your view.

> We are of the view that price limit during the proposed CAS will help promote fair market and reduce volatility.

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.

> As per above.

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 are of the view that further price limit within best bid/offer may introduce unintended complications and also substantial effort by the stock exchange to ensure market participants understand the specifics of the mechanism.

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

☒ Yes

☐ No

Please give reasons for your view.

> We are of the view that at auction limit orders can serve to enhance liquidity and facilitate price discovery.

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.

> We are of the view that tick rule in CAS should be consistent with continuous trading session.

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.

> We are of the view that shortselling orders allowed in CAS should be at, or higher than, the reference price. However, we are also of the view that stock option market-makers should be exempted from the rule.

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 are of the view that such restrictions may not be necessary during the Random Closing period.

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

☒ Yes

☐ No

Please give reasons for your view.

> We are of the view that if random closing is to be implemented, then non-cancel period needs to be abolished in order to ensure anti-gaming effectiveness

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.

> We are of the view that it is reasonable to resume closing auction with a random closing period of up to 2 minutes. We have seen this implemented in other exchanges and working well.

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.

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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.

> We see it logical that the same mechanisms be implemented when resuming a stock the has had it's VCM triggered.

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.

> We are of the view that it is more critical for the stocck exchange to resume closing auction, especially given the increased index-related trading activities.

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.

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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.

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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.

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We aer of the view that CAS is the most important initiative followed by VCM and
trading halts.  Closing auction is particularly important for hedging warrants at
expiry.
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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.

> We are of the view that VCM is important and we shall allocate sufficient resource to endeavor to complete required changes.

(ii)   CAS:

☐ a). under 3 months;

☒ b). 4-6 months;

☐ c). 7-12 months

☐ d). >12 months

Please give reasons for your view.

> We are of the view that VCM is important and we shall allocate sufficient resource to endeavor to complete required changes.

- End -