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 like mechanism is implemented in developed Asian markets such as Japan, Singapore to prevent "fat finger" and to give investors sufficient time to react in the event of extreme volatility. This is a desirable feature. The mechanism of delivery needs to be simple and transparent, yet effective. Ideally, the VCM process is also a price discovery process which act as a liquidity event rather than just a volatility bump (ie intraday auction as a VCM).

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.

    > As an initial phase probably yes. But the spirit of the mechanism is to protect investors, not just investors who invests in big cap.

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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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.

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│ this is a bit inconsistent and can re-direct volatility towards the last 15 minutes.  E.g. │
│ Keiha in Japan doesn't automatically open up in the last 15 minute.                        │
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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: a median rolling defer reference price say 5 minutes ago.

Please give reasons for your view.

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│ a single print from 5 minute ago could be an outlier.  Using one sample that triggers │
│ the mechanism may generate some false starts.  Using median price that takes a        │
│ number of prints is a more reliable reference and subject to less noise.               │
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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: ditto

Please give reasons for your view.

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│ ditto                                                                  │
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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.

Yes, as long as the reference is a live market feed and hence the trigger is transparent.

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.

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: a price discovery process which attracts liquidity as
                        well _____

Please give reasons for
your view.

having 2 triggers per session is disruptive, and potentially have 4 triggers in a day can be even more disruptive. a mechanism that facilitates price discovery in one go is more effective. Something similar to the auction process in the morning but hopfully a bit simpler.

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: a price discovery process where the equibrilibrium price is determined by balanced volume

Please give reasons for your view.

using a price discovery process rather than a hard band has the benefit of bringing the number of VCM triggers down. it's a smarter and a more efficient process which helps HK to stay competitive and be a leader in the region.

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: a price discovery process

Please give reasons for your view.

If we use a price discovery process, then we do not need this question

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

Yes, when imbalance is matched, and equilibrium price obtained (like the opening auction).

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: a duration similar to the opening auction is ok

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?

11

☒ Yes

☐ No, I would propose: _____

Please give reasons for your view.

> Potentially there can be 4 VCM in the whole day. Would there be a field to indicate which VCM the current state is ?

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.

> that will create arbitrage opportunity and give advantage to professional investors or those with good access to market and monitoring tools.

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.

> ditto

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

> i would like to see the 10% band to be changed to a less rigid mechanism. An intraday auction until imbalance is matched when VCM is triggered is perhaps a smarter and more efficient mechanism to deliver VCM in my humble opinion.

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.

> HK, being the third biggest financial centre in the world, is severely lagging behind on a proper closing mechanism. A fair closing mechanism will help reduce wealth transfer from less sophisticated players to more sophisticated player. It will also promote our ambition in becoming a major ETF centre, and protect mass public (e.g. on their MPF which requires rebalances from time to time)

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.

> it should be consistent across all classes of stocks. but i agree that index constituients (or new addition/deletion) have a more burning urgency to have a fair mechanism sooner. So as a stage 1, i agree that CAS should apply to index constituients first.

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

14

Please give reasons for your view.

> the more consistent the treatment is, the better is for 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: within 6 months of initial roll out

☐ No

Please give reasons for your view.

> the more consistent the market is, the easier it is for investors.

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.

> this is probably an exception on the consistency point above. it is because those products are run by market makers anyway. but then again, there's not a lot of downside in being consistent. but to have CAS for these types of products is certainly not a priority.

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

☒ Yes

☐ No

Please give reasons for your view.

> as a safety valve, yes.

15

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.

> 5% seems not overly restirictive (based on Standard Deviation price move) yet provides some protecction on extreme price move.

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.

> i think the 5% is already in place, and with the random period, this extra restrictive measure is perhaps redundant and making things unnecessarily complicated. but i do not hold a strong view on this.

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

☒ Yes

☐ No

Please give reasons for your view.

> a fat fingered MKT order (fat finger in quantity) is irreversible in the no-cancel period. a concious price input is perhaps a compromise to safeguard such scenario (although not fool proof).

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.

> Absolutely. The tick rule protects amplified downside price move yet provide more liquidity. It helps with more efficient price discovery, gives better liquidity, and reduce auction volatility (given the downside restriciton with tick rule). And most exchanges with CAS allows for SS because of the above reasons.

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.

> Yes i agree, it's meant for better liquidity and lower auction volatility, not to increase 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.

> I am indifferent to this. I see pros and cons in arguing either way. Couple with random close, it discourages people from gaming the closing auction.

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

☒ Yes

☐ No

Please give reasons for your view.

> Absolutely, to discourage gaming, increase transparency and better price/liquidity discovery.

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?

17

☒ Up to 2 minutes

▨ A different duration: _____

Please give reasons for your view.

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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.

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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):   at auction limit to be allowed at all times is probably good for POS

☐ 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.

> I am indifferent to the timing. But would be nice to see some consistency in the closing auciton vs the POS.

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.

I don't have a strong opinion on this

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: __Implement CAS first, ASAP__

    Please give reasons for your view.

    > in my opinion, the CAS is the highest priority. We should not let other projects get in the way in rolling it out.

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, VCM, 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.

> Most other markets have CAS one way or another so to implement it shouldn't take a long time. the VCM is a bit more perculiar so might require more time.

(ii)   CAS:

☒   a). under 3 months;

☐   b). 4-6 months;

☐   c). 7-12 months

☐   d). >12 months

Please give reasons for your view.

> Most other markets have CAS one way or another so to implement it shouldn't take a long time. the VCM is a bit more perculiar so might require more time.

- End -