

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.

HK is a developed market. Recent SFC rules re: governance and controls surrounding electronic trading have been extremely encouraging. Citi view this as a natural extension of these responsibility whereby an exchange also implements such measures to ensure that we maintain a fair and orderly market.

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.

Our preference is to extend to all securities if possible. However, at the very least we would want to see VCM measures applied to HSI and HSCEI 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 derivatives market?

Yes

No

Please give reasons for your view.

As above, we believe that it should extend 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.

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.

This is important so that realistic market environment is considered whilst utilising VCM bands to maintain a fair and orderly market

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.

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.

This makes sense and is inline with some other markets.

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: _____

Please give reasons for your view.

Consideration needs to be given to the illiquid nature of such instruments but, yes, this makes sense.

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: No limit

Please give reasons for your view.

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: auction

Please give reasons for your view.

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.

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

Use of an auction mechanism would be best practice

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 5 minutes window provides everyone with an adequate period of time to assess and respond

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.

this is required to adequately assess the market situation, however this is currently available today. we do not foresee any further enhancements.

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.

This dislocations in one instrument do not correlate with dislocations in other instruments. Those with market making obligations should be given consideration, as these may be affected.

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

This is a much needed mechanism and brings HK on par with other developed markets.

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.

This is probably the most important initiative that HKEx need to focus on. All other developed markets around the globe support a close mechanism. The current model has material limitations and introduces risk/error to participants.

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.

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.

There is no need to limit this feature and exclude 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: ASAP

No

Please give reasons for your view.

It is extremely important that the CAS is rolled out ASAP.

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.

While implementing the CAS is the first priority, HKEx may consider applying the CAS model to equity-linked products such as warrants.

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

Yes

No

Please give reasons for your view.

Limit introduce unnecessary restrictions and could potentially introduce volatility in the continuous trading session as participant may look to avoid the potential risk. If limits are introduced then we would suggest wide bands that won't be too restrictive.

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.

Our view is inline with the ASIMFA response. See below. Although a 5% range may be adequate following a continuous trading session, auctions are a more efficient, fair price discovery mechanism. Limits may push liquidity into the next continuous session. A 5% limit would already be triggered by the majority of index additions and deletions. There are overseas models which provides a useful model of balancing liquidity and volatility without resorting to price limits.

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.

this would impede price discovery

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

Yes

No

Please give reasons for your view.

This would aid and contribute to liquidity and price discovery, reducing potential risk/volatility into the auction

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 provides liquidity and therefore should not be restricted.

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.

All available liquidity, including short sells, should be allowed

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.

Other markets adopt this and it works well. It also provides another level of anti-gaming to balance the market out and put it on a level playing field.

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.

No more than 2 minutes and no less than 1 minute

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.

A short duration VWAP would make sense if it needs to go in that direction

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): _____

No

Please give reasons for your view.

Our view is inline with ASIFMA response. All CAS features are likely to benefit the POS, as it solves multiple inefficiencies in the POS mechanism. HKEx should also take into account exceptional cases, such as IPO names or stocks with material overnight news. Limits should be wider if implemented.

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 view this as a feature that is critical and needs to be implement ASAP.

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.

n/a

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.

the above makes sense

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.

Introducing the CAS and VCM is extremely important for all participants. It brings HKEx inline with other developed markets.

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 is #1 priority. This is critical to restore confidence and credibility to the HKEx close period. VCM is a natural extension of recently introduce SFC rules around electronic trading and provides that additional level of protection to ensure a fair and orderly market exists

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 would need to assigned resources and reassess all our trading platforms and algorithms.

(ii) CAS:

a). under 3 months;

b). 4-6 months;

c). 7-12 months

d). >12 months

Please give reasons for your view.

as above

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