

9 November 2012

Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Dear Sirs,

Re: Consultation Paper on Trading Halts

We refer to the captioned consultation paper issued by the Exchange in July 2012. We do not hold a strong view on the said proposal and would like to remain neutral in the specific proposals that you are seeking our response to through the enclosed questionnaire. Hence, you will find that we have not provided any response to most of the questions except for specific comments concerning the potential issues, risks and preferable approach from trading and technological perspectives for implementing this proposal. Notwithstanding our neutral stance to the Exchange's proposal, we would like to point out to you the potential risk of causing market volatility, and disruption if trading halt occurs during option expiry date, end of month or index rebalancing day.

Please find enclosed questionnaire with our comments inserted under questions specific to our areas of concern.

Yours faithfully,

Part B Consultation Questions

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 agree that the Hong Kong market should not adopt a model without a halt in trading after the release of PSI during trading hours (i.e. the UK model as described in paragraph 48)?

Yes

No

Please give reasons for your views.

2. Do you agree with our proposal to allow publication of PSI announcements on the HKExnews website during trading hours subject to a short trading halt?

Yes

No

Please give reasons for your views.

3. Do you agree that the maximum period for which a trading halt may be granted is two trading days and the trading halt will be treated as suspension thereafter if the issuer fails to publish the PSI announcements by end of the following trading day after the trading halt is imposed?

Yes

No

Please give reasons for your views.

4. Do you agree that results announcements should be published during the existing publication windows as far as possible?

Yes

No

Please give reasons for your views.

5. Do you agree that the existing arrangement for non-PSI announcements to be published outside trading hours should remain unchanged?

Yes

No

Please give reasons for your views.

6. Do you agree that the trading halt should not apply to dually listed issuers under the circumstances as described in paragraph 57 above?

Yes

No

Please give reasons for your views.

7. What is the minimum period for a trading halt after the publication of PSI announcement?

30 minutes

45 minutes

60 minutes

Other, please specify and give reasons

8. Do you agree that trading halts should be lifted at regular intervals?

on the quarter hour

on the half hour

Other, please specify and give reasons

9. Do you agree that at least 30 minutes of trading should be provided after lifting of a trading halt?

Yes

No

Please give reasons for your views.

With respect to timing of when a trading halt takes place, on an index rebalance day, we are most concerned that there may not be sufficient remaining time to complete the executions for clients or brokers (more so if trading halt continues to the next trading day), leaving an un-hedged risk. Client or broker will be also at risk in cases where index providers have to use the last traded price for index calculation.

10. Do you agree with the proposed notification arrangements for the trading halt and resumption information as set out in paragraph 64?

Yes

No

Please give reasons for your views.

In addition to publication of PSI announcements on the HKExnews website, the trading halt need to be communicated to us through electronic signal when a stock enters/exits the trading halt and auction states. In particular, an electronic means to signal the trading resumption (i.e. auction) is crucial for us to build the relevant queuing mechanism in our systems. It is preferable that there is market data feed that consistently and accurately notifies us of each state change. Further, monitoring trading resumption through the Exchange website is not practically feasible, e.g. without electronic signals on trading resumption may cause a delay for to resume providing quote at least once in every 10 minute, which is a required obligation of warrant liquidity provider.

11. Do you agree that all existing orders of the securities entered before a trading halt or a suspension be purged by the Exchange at time of the halt?

Yes

No

Please give reasons for your views.

From a system standpoint, in the event existing orders are purged at time of a trading halt, there should be confirmation generated through exchange connections following the cancellation of existing orders to notify us of such cancellations (i.e. signalling cancelled orders as unsolicited cancels).

12. Do you agree that all existing orders of the Exchange's stock options / futures market practices should remain unchanged (i.e. all outstanding orders will be purged automatically by the system at the time of trading halt of the underlying stocks)?

Yes

No

Please give reasons for your views.

13. Do you agree with the implementation of a single price auction upon lifting of a trading halt?

Yes

No

Please give reasons for your views.

14. Do you agree with the implementation of a single price auction also applies for trading resumption at the commencement of afternoon trading session upon lifting of a trading halt following the release of a PSI announcement during the lunch publication window?

Yes

No

Please give reasons for your views.

15. Do you agree that if an issuer has not requested for any trading halt or suspension of its securities and is able to maintain the confidentiality of the PSI announcement before releasing it during the lunch publication window, in these circumstances the single price auction will apply to the issuer's securities?

Yes

No

Please give reasons for your views.

16. Do you agree that a single price auction will only apply to securities traded in the securities market upon lifting of a trading halt of the underlying?

Yes

No

Please give reasons for your views.

17. Do you agree with the proposed duration of the mid-session auction (i.e. 10 minutes)?

Yes

No

Please give reasons for your views.

18. How much lead time would be required after the relevant system specifications were available to prepare for the implementation of trading halts?

Three months

Six months

Other, please specify and give reasons

This is based on the assumption that there will be an electronic way for notifications (i.e. at trading halt, resumption, order cancellation etc.)

- End -