

## SECTION 2: QUESTIONS FOR RESPONSE

Please indicate your views by providing comments as appropriate. Where there is insufficient space, please use additional sheets of paper as necessary.

### HKEx's Proposal:

- HKEx is proposing an after-hours trading session for the futures market (T+1 Session). The opening time of the T+1 Session will be 30 minutes after the close of the regular trading session (T Session), i.e. 4:45 p.m. for Hang Seng Index futures and H-shares Index futures and 5:30 p.m. for gold futures. The T+1 Session will end at 11:15 p.m.
- All trades transacted in the T+1 Session will be registered as T+1 Trades and will be cleared and settled on the following trading day.
- At the initial stage, Hang Seng Index futures, H-shares Index futures and gold futures will be traded in the T+1 Session. Other derivatives products might be considered at a later stage.
- HKEx will manage the risk of after hours trading through appropriate regular, ad-hoc and/or real time monitoring during the T+1 Session and via a new mandatory variation adjustment and margin call following the market open of each T Session and payable by 11:00 a.m.

### Questions

1. Do you agree with the proposal to introduce after-hours futures trading?

Yes, please state your views: \_\_\_\_\_

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\_\_\_\_\_  
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No, please specify your concerns and impact to you or to the market:

- Additional cost in the man power

- Not much investors are interested in investing in the future market at night

- Additional resources are required to allocate on the front office trading system.

-Margin calls/ Settlement Cycle/ Hedging Activities -- See attached

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2. Do you have any comments or concerns on:

a) the proposed trading arrangements?

See attached

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b) the proposed clearing arrangements?

See attached

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c) the proposed risk management arrangements?

See attached

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d) the use of the Calculated Opening Price as the basis for the proposed mandatory variation adjustment and margin call?

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3. Are there any other issues regarding the Proposal that HKEx should consider?

See attached

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**Section 2: Question 1**

- i. **Margin calls:** Banking activities are not available during T+1 session, hence, clients will not be able to remit funding to meet margin calls. As a result, clients position will be liquidated (i.e. force sell) according to margin requirements set by HKEx and Participants internal policies. Clients will be deprived of the chance to meet margin calls and might suffer potential losses.
- ii. **Settlement cycle:** Settlement Departments of Participants must prepare two trade files to maintain settlement requirements for T and T+1 sessions, hence, duplication or overlap of data might occur if two trade files are maintained. As a result, the settlement cycle of Participants need to be altered to accommodate T and T+1 session.
- iii. **Hedging Activities:** There are no equities trading during T+1 session, hence, no hedging activities can be carried out (i.e. trading hours for Hong Kong equities do not coincide with T+1 session).

**Section 2: Question 2(a)**

- i. **Opening Time:** The opening time for T+1 session should be at least an hour after the close of T session, that is, 5:15 p.m. This is to allow more preparation work to be conducted before the start of T+1 session.

**Section 2: Question 2(b)**

- i. **Operation cost:** Additional funding for margin calls and re-schedule of staff for T+1 session will result in increase of operation cost for Participants.
- ii. **T and T+1 session:** It will be efficient and effective for Participants, if T+1 session be included/consider as part of T session, that is, clearing arrangements, margin calls, etc (next day) will be conducted in one session rather than two. These can enable Participants to manage internal and external arrangements in a more efficient and effective ways.

**Section 2: Question 2(c)**

- i. Compliance risks: Increase in compliance risk for Participants in case if clients fail to meet mark-to-market loss and margin calls of all positions (due to remittance restrictions imposed by foreign countries such as PRC) for T and T+1 session in the next day.
- ii. Operational risks: System downtime or failure to update mark-to-market loss and margin calls (the "Calls") for T+1 session in the next day might cause detection failure by Credit Control Department for Calls.

**Section 2: Question 2(d)**

- i. No comment

**Section 3**

- i. The consultation period too short.
- ii. T+1 session information are too complicated to be understood by Participants' clients.
- iii. HKEx did not indicate/highlight any disadvantages or potential problems which might be faced or anticipated by Participants in the Hong Kong environment.