

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:

We are supportive of the concept of after-hours futures trading. However, we believe some of the detailed arrangements included in the current proposal are not optimal, and may give rise to unnecessary interruption to an orderly market, or worse, rooms for potential manipulation (please see below)

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

2. Do you have any comments or concerns on:

a) the proposed trading arrangements?

The timetable contained in the proposal will create three distinct trading sessions within any trading day, with the proposed after-hour trading session operating independently of a cash market. This proposed arrangement creates unnecessary interruptions to smooth, continuous market trading by introducing artificial "gaps" to an otherwise orderly trading session. Further, because each of the individual trading session as currently outlined in the proposal do not coincide or overlap with other markets (eg: China, Europe and US) in an optimal fashion, it introduces additional "gap risk" to the overall trading environment whereby gaps of different duration exist between the trading hours of HK and other markets, and potentially subjugate the HK market to short-term intra-day volatilities from events or market movements from external markets while the HK market is not opened for trading. In particular, the proposed after-hour trading session will operate independently of a cash market, and as such raises concern for similar market behaviors witnessed during the previous, short-lived "closing auction" trading session, whereby sudden and volatile trading in derivative trading instruments with gearing leads to unnecessary and potentially artificial influence on the underlying cash market. We believe any proposed after-hour trading session needs to be looked at in conjunction with the existing primary trading sessions, with amendments to either or both trading sessions (primary and after-hour) in order to maximize the value-added to the overall trading within a trading day, rather than a simple "add-on" that operates independently of both the cash session and the primary sessions.

b) the proposed clearing arrangements?

c) the proposed risk management arrangements?

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

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

It may be worthwhile to consider combining the existing two primary trading sessions into one continuous trading session which concludes in-line with the Shanghai market (ie: 3pm), with the proposed after-hour trading session to commence from, say, 4:30pm and extend into past midnight HK time.