

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: _

████████████████████ are supportive of the HKEx initiative to extend the futures trading session in order to have a period where the Hong Kong, European and U.S markets are open. There is an increasing interest from international clients in the Hong Kong markets, the change in hours will make it easier to facilitate such business.

████████ will participate in the additional sessions and once the details are finalised, will take the necessary steps to ensure that the firm can meet all related obligations.

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?

██████ would access the market through their Hong Kong membership, via locally licensed premises, to the exchange system 'HKATS'. Although we appreciated that licensing is a matter for the SFC rather than the HKEx, we would respectfully request that consideration be given to the possibility of outlining an arrangement which could allow for remote access to HKATS.

To optimize the resources available in global institutions, it would be of benefit to allow some international traders, particularly those based in Europe, to have the ability to manage the client orders and monitor the risk from the time zone where the clients are based. This is where the client relationships are strongest and the ability to enter or amend orders would be enhanced.

We note that the Osaka Stock Exchange has recently agreed such a model with the Commodities Futures and Trading Commission to enable traders in the U.S remote access to the Japanese derivatives platform.

Another area that would be of benefit would be to allow block trading in the AHFT session as it can provide a hedge for OTC options. We note that the HKEx have considered this and will look to implement at such time as the options are included.

██████ would strongly support the inclusion of both options and blocks in the AHFT session so that hedging activity carried out in Europe could be cleared on exchange rather than OTC.

Given the client base that ██████ feel are most likely to want to participate in the additional session, it has been suggested that extending the closing time to be in line with the close of NYSE Liffe. We do however note that the cut off time has been suggested to allow time for overnight processing.

b) the proposed clearing arrangements?

The model being proposed by HKEx is similar to that employed by SGX with the AHFT trading session classified as the start of T+1. ██████ appreciate that there is currently a requirement to be able to meet a one hour deadline, however, would maintain that the mandatory requirement for collection of margin may be problematic for the target group of clients who will be interested in an extended session. Given funding would need to be in place by 11am the following morning, ██████ feel there may be some logistical issues securing this funding from international clients.

With the time difference, European will not be available in the Hong Kong morning. Some U.S operations may still be running but it will not have the same coverage as the U.S day time and so there may be issues contacting the people who placed the order for the trade if there are any issues. Pre funding will not be feasible as clients do not find this an optimal model and will consider it a prohibitive factor. The exchange member will not be able to cover the funding costs as client account segregation regulation would prevent firm funds being mixed with client funds.

It has been noted that the HKEx rules provide for the possibility that a firm can trade on

behalf of 'established clients' even though the collateral has not yet been received (as per Rule 617 (b), Chapter VI, 'Exchange Participants and their clients'). ██████ would like to use this provision as the basis for collecting margin from clients later in the day that the 11am time stated in the consultation. It would be appreciated if a additional clarification of this rule could be given, particularly of the following section:

- (i) if a new position is established on behalf of the established Client on any Business Day, the Exchange Participant must issue a call for the amount of minimum margin by the close of that Business Day;
- (ii) the Exchange Participant must advise the established Client that the minimum margin is due as soon as practicable after the call but in no event later than the next Business Day; and

██████ would like to understand what this rule would mean in the context of an AHFT session, specifically whether it can be applied given the 'mandatory' spirit of the requirement and if it can be applied, when the clock would start to roll. ██████ would suggest that it may be helpful to update this rule to explicitly include a comment on how it would work for AHFT. This certainty would be greatly appreciated and provide a clear platform upon which to communicate requirements to clients.

- c) the proposed risk management arrangements?

There is currently a limit in place of 10,000 futures contracts. ██████ would like to encourage discussion of this limit with either an increase being considered or the potential for a market maker exemption. This would allow for larger volumes while empowering the traders to ensure that they can manage their risk in times of volatility.

There has been a great deal of discussion internationally on the benefits of circuit breakers and price bands to prevent trades from executing at levels significantly away from previous prices. Although it is appropriate for large blocks to have more flexibility in pricing, ██████ would support the introduction of price bands to allow trading to pause while liquidity returns to the market rather than see a sharp spike in pricing.

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

The view of ██████ on this point will be effected by the final details surrounding the timing of the margin call. It is the timing which will be more operationally influential to the volume of trading that will be directed to the AHFT session rather than the method of calculating the opening price. ██████ would prefer it if there was no mandatory requirement to collect margins making the calculation method a by product of the margin requirement.

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

The implementation of an after hours session would involve a non trivial investment in terms of technology changes, personnel and data management. ██████ would encourage the HKEx to allow a reasonable time frame for introduction, once the requirements have

been confirmed, [REDACTED] would be able to commence trading in approximately six months if required.