

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:

The HKEx introduced CBBC as a new type of listed structured product in 2008. In our view, the product started as a success as investors were looking more for less risky and index-tracking products, and at the same time, issuers were also very positive on the product as it was a new product type different from the traditional optionality products.

The majority of the CBBCs issued and listed in Hong Kong are linked to HSI index. As we understand (and also as an issuer ourselves), issuers often use the HSI futures to hedge its exposure under such CBBCs. To manage these exposures, it is sometimes possible for issuers to accumulate to over 1,000 futures contracts within a range of a few hundred index points. Currently, issuers have limited alternatives to put-on or unwind their HSI futures exposure after the Hong Kong futures market closes, and are suffering from the full impact of the risk if there is any event that triggers HSI to open the next morning with gap up or down.

However, if there is an after-hours trading session for HSI futures, this would mean that, in our view, issuers may carry out their hedging activities more smoothly before the next trading day.

We consider that the proposal would have several benefits as follows when compared to the current arrangement:

1. Less gap risk for issuers as they can carry on trading / hedging in the after-hours trading session for the futures
2. Less execution risk for issuers as hedging activities are spread out, rather than concentrated at market open on the next morning
3. With more effective futures hedging means, issuers may potentially be able to offer CBBCs to investors with more competitive pricing
4. Enhancing further development of the CBBCs market with more effective hedging platform (As we understand, CBBCs market currently already accounts for 8-10% of daily market turnover on the main board)

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?

_____ No comment _____

b) the proposed clearing arrangements?

_____ No comment _____

c) the proposed risk management arrangements?

_____ No comment _____

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

_____ No comment _____

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

_____ No comment _____
