

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 proposal as it will attract more overseas investors to participate in HKEx's derivatives market as pointed out in your Consultation Paper. It will bring benefit to the Hong Kong futures industry and its participants as a whole.

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?

We do not have concern on the proposed trading arrangement since we are currently offering US and European derivatives trading for our clients by our night desk.

b) the proposed clearing arrangements?

Newedge from an operational standpoint is supportive of the clearing proposal for the after hours trading session. The one issue we have concern about, and we believe other global FCM could also have, is with the below process:

A mandatory variation adjustment and margin call to markets (based on the morning Calculated Opening Prices²) with T+1 Session will be introduced following the market open of each T Session to collect by 11:00 a.m. both mark-to-market loss and margin of all positions including that created by trades in T+1 Session. The Calculated Opening Price is the equilibrium market price derived from the price discovery period of thirty minutes before the opening of the morning trading session.

We will not be able to replicate this in our back office system. Our clients are executing and clearing on global markets and the constraints this presents us with in terms of processing this business means that it will impose additional financial burden to us when dealing with established clients and we will not be able to comply with any rules surrounding the replication of this process for our clients if any.

This issue has been discussed between our Operations and Risk Department and your Ms Vicky Chan recently. Further meeting can be arranged to discuss our concern further if necessary.

c) the proposed risk management arrangements?

Please see (b) above

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

Please see (b) above

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