

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:

As the major shareholder of a financial services group serving over 18,000 clients, I realize that it is always demanding for the salespersons to find more clients in order to generate more revenue in a mature business. Extending trading hours in futures is one successful way in other exchanges to guarantee increased business level without the necessity for more clients. Even McDonald's is expanding the number of its 24-hour fastfood restaurants in view of the heightened rents in HK. In terms of costs, extended trading hours can reduce rental cost/business hour, and the incremental staff expenses should be marginal and can be compensated by the reduced rental cost/business hour and increased commission. That's why the global hamburger chain decided long ago to expand their round-the-clock catering service.

Indeed, forex and gold trading are already done in the 24-hour manner. Overseas stock index futures are transacted continuously. Before the widespread of the Internet, overseas index futures were dominated by local players in the US and Europe. With the fast expanding trading networks, these 24-hour tradable contracts are available to traders worldwide. While HKEx is one of the top exchanges, its inability to provide continuous trading in index futures will only further lose the transaction volume to other exchanges which have the night trading facilities.

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?

The HKEx should review the Capital-based Position Limits (CBPL) for futures brokers which are able to collect sufficient margin or even excessive margin from clients. The rationale behind CBPL is to limit a broker's position so that when all the client margin is lost due to disastrous market movement, the exposure to that broker is restricted by the CBPL. The current practice is demanding for more margin deposit (25%) when either one of the limits is breached, but only for 10 business days; thereafter, the positions must be closed, regardless of the clients' ability to pay for the margin.

I suggest the alternative to the mandatory closing out action: demanding for more margin deposit, say 25% more, so that if the involved broker can pay for the extra collateral due to its stringent risk control policy on its clients, this will not hinder the ordinary expansion of that broker.

The extended trading hours will certainly increase the number of contracts traded and hence the open positions. If the HKEx is so restrictive for brokers to expand their business under the CBPL, the brokers have to either inject more capital to run the night business or reject the proposal.

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?

To have a great start for the extended trading hours, it is beneficial to the HKEx, brokers and their clients if the HKEx can consider reduced fees for the night trading. Transaction cost is always the barrier of active trading.

The introduction of the mini-index futures in the night trading should be earlier, or even on the same date of the normal size contracts. Retail clients are more interested in the mini-index futures.