

## 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: \_\_\_\_\_

[Please see discussion on pages 4-5 of this PDF.](#)

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

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2. Do you have any comments or concerns on:

a) the proposed trading arrangements?

[Please see discussion on pages 4-5 of this PDF.](#)

b) the proposed clearing arrangements?

[None at this time.](#)

c) the proposed risk management arrangements?

[None at this time.](#)

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

[None at this time.](#)

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

[Please see discussion on page 6 of this PDF.](#)

## **Response to questions 1 and 2a.**

This response references the associated May 2011 Consultation Paper on After-Hours Futures Trading published by HKEx (“201105CPAHFT”).

I am very pleased to see HKEx responding positively to feedback and taking the initiative to improve the quality of service provided to investors in Hong Kong. As I wrote in my earlier submission to the questionnaire regarding changes to trading hours, I firmly support 24 hour electronic trading for futures/options products. Any measure towards that end, such as the proposed AHFT, is certainly a step in the right direction. However, I believe this proposal does not go far enough to increase HKEx’s global competitiveness or the quality of service to investors.

Let us suppose HKEx’s current proposal for AHFT is implemented. In this event, HKEx would continue to lag far behind—in last place amongst exchanges with AHFT—the top three exchanges in terms of trading hours (see chart, page 22 of 201105CPAHFT). In fact, both HKEx regular session and futures sessions would trade for about half the time as the NYSE/NASDAQ and E-mini S&P 500, respectively. Moreover, our regional competitors would still offer greater trading hours. As one of two exchanges without AHFT (see point 15, page 5 of cp201105.pdf), HKEx is over twenty years behind the industry leader ASX (see point 13, page 5 of 201105CPAHFT).

One of the major objectives of AHFT would be to generate additional business for HKEx, so a more aggressive approach would be needed. To compete effectively in the global marketplace, it would make sense for HKEx to look to the top three exchanges as the benchmark. The AHFT of the top three exchanges range from twenty hours to twenty three hours and fifteen minutes (see chart, page 22 of 201105CPAHFT). Thus, HKEx should aim for a minimum of twenty hours a day. For example, twenty hours trading could be between 1645h to 0545h and 0915h to 1615h. This would capture the regular sessions of the major securities markets in the US, Europe, Asia, and Australia, providing the best platform for investors to respond in a timely manner to overseas developments that may impact the HSI index or the price of gold. Particularly in the case of gold futures, why would investors choose to trade in HKEx gold futures when CME Group offers 24 hour trading of gold futures?

While there will certainly be operational and/or business concerns with any AHFT proposal, the successful implementation of AHFT by the majority of the world’s exchanges indicates that these issues are not insurmountable. Those EPs of HKEx responsible for the majority of HKEx futures turnover already offer trading after-hours (see point 16, page 5 of 201105CPAHFT), and would experience little difficulty in any implementation of AHFT. In any event, EPs of HKEx can look to foreign exchanges and foreign EPs as a model for addressing their operational and/or business concerns. To cite operational concerns as a

reason to not aggressively implement AHFT is to ignore the way forward. Any obstacles are to be overcome, not avoided. Indeed, this may involve revolutionizing the way EPs of HKEx do business or run their operations, which will in turn increase their competitiveness. It makes little sense for progress to be impeded or the investors served by HKEx to be stuck with Stone Age service due to technical or operational difficulties.

Hong Kong is considered one of the centers of global finance, so it is an embarrassment that HKEx has done nothing in the AHFT area for the past twenty years. This is a wonderful opportunity for HKEx to propel itself back among the world's leading exchanges in terms of investor service and competitiveness by implementing trading of index and gold futures for at least twenty hours a day.

### **Response to question 3.**

This response references the associated May 2011 Consultation Paper on After-Hours Futures Trading published by HKEx (“201105CPAHFT”).

As one of the purposes of AHFT is to enable investors to hedge or adjust their positions (see point 16, page 5 of 201105CPAHFT), it would make sense that certain other classes of products, such as major securities and index ETFs, would be available for after-hours trading as well. For instance, HSBC (00005) trades in London and New York. Extended hours trading may help investors who do not trade futures to adjust their positions as well.