

Comments on the HKEx consultation paper
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The Introduction of A Closing Auction Session

We refer to the HKEx's consultation on the introduction of a closing auction session issued in March 2007.

1. Do you have any other comments on the application of a closing auction session?
2. Do you support the proposal to introduce a closing auction session?

Macquarie Equities (Asia) Limited ("MEAL") supports the introduction of a closing auction session. Under the current closing price calculation regime, the trader has to perform hedging activities at 15-second intervals during the last minute of trading if he needs to execute the trade as close to the closing price as possible. This is very resource intensive as the trader has to focus on that particular stock and very rarely the execution price of the trade is the same as the closing price for the day.

With the closing auction session, the trader has a much higher certainty to achieve the closing price across many stocks simply by placing an auction order during the closing auction period. MEAL concurs that a closing auction session, in lieu of snapshot/median approach, will produce much needed liquidity at the closing price and reduce last-minute volatility.

3. Are there any other suggestions to the proposed features / trading arrangements of the closing auction which we ought to consider?

MEAL concurs with provision 32 in the consultation paper that the last minute of the auction session should permit entering new market orders as well as order cancellation /amendment in case the IEP moves significantly. This should also be true for the last minute of the pre-opening session.

MEAL also recommends that warrant liquidity providers and ETO liquidity providers should be exempted from market making obligations during the closing auction period.

4. What would be the estimated lead time required for changes to systems and operations of your firm to cater for the proposed closing auction session?

Little change is required from our firm and the lead time is minimal.

5. Do you have any comments on the random closing approach?

MEAL does not support the random closing approach. We concur that a simple closing auction session, based on proven, existing pre-opening session, will minimize cost/time for Exchange and Participants to adapt to new session.

6. Are there any other issues regarding the introduction of a closing auction session not mentioned in this consultation paper that we ought to consider?

We have no comment on it.