

CONSULTATION PAPER

TRADING HALTS

July 2012



Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司

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How to respond to this Consultation Paper

We, the Stock Exchange of Hong Kong Ltd. (the Exchange), a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited, invite written comments on this paper no later than 8 October 2012. Responses should, if possible, be made by completing and returning the questionnaire which is available at: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201207q.doc> by one of the following methods:

By mail or hand delivery to: Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong
Re: Consultation Paper on Trading Halts

By fax to: (852) 2524-0149

By e-mail to: response@hkex.com.hk

Please mark in the subject line:

Re: Consultation Paper on Trading Halts

Our submission enquiry number is (852) 2840-3844.

We invite views on the proposals, and where appropriate, reasons for the answers. Respondents are reminded that we will publish responses on a named basis in the intended consultation conclusions. If you do not wish your name to be disclosed to members of the public, please state so when responding to this paper. Our policy on handling personal data is set out in Appendix IV of this paper.

Next Steps

We will carefully consider and analyse all the responses received, and as appropriate, implement the proposed trading halt model in accordance with the final agreed conclusions. As usual we will work with the Securities and Futures Commission to develop the consultation conclusions and any relevant rule amendments.

EXECUTIVE SUMMARY

This consultation paper seeks market views on a proposed model for implementing a trading halt that would allow publication of price sensitive information (PSI) announcements during trading hours subject to a short trading halt in shares of the issuer.

A summary of our key proposals is as follows:

1. To allow a listed issuer's PSI announcements to be released on the HKExnews website during the Exchange's trading hours and subject to a short trading halt, for the purposes of digestion of contents of announcements by the public.
2. The proposed duration of 30 minutes trading halt applies to all PSI announcements to be released during trading hours. Share trading will resume at least 30 minutes after the PSI announcement is published on the HKExnews website. Any trading resumption will take place on the quarter hour or the half hour.
3. To provide at least 30 minutes of trading (including 10 minutes auction session and 20 minutes of continuous trading) after lifting of trading halts.
4. All existing orders of the securities in the securities market entered before a trading halt or a suspension are to be cancelled automatically by the Exchange at the time of halt.
5. To facilitate price discovery, a single price auction will take place in the securities market for the relevant stocks and structured products upon lifting of a trading halt. The auction session will last for 10 minutes.
6. Results announcements will be published during the current publication windows as far as possible. The Exchange may grant a trading halt for the publication of results announcement if it is justified by the issuer.
7. The current practices of releasing non-PSI announcements outside trading hours will remain unchanged.
8. The maximum period for which a trading halt may be granted by the Exchange is two trading days. If the issuer fails to publish the PSI announcements within the proposed maximum period, the trading halt will lapse and its status will be changed to "suspension" automatically.

9. The current Exchange's stock options / futures order handling practices will remain unchanged (i.e. all outstanding orders will be purged automatically by the system at the time of trading halt of the underlying stocks).

There is no change to the existing suspension and disclosure principles under a trading halt regime. A trading halt is used to allow price sensitive information to be adequately disseminated during trading hours and assessed by the market in a timely manner. It will significantly reduce the duration of suspension. However, this may lead to a change of issuers' behavior regarding information dissemination. Since the trading of securities will resume after a short trading halt after the publication of PSI announcements, issuers may be more inclined to conclude the transactions or sign agreements that lead to the publication of PSI announcements during trading hours. Consequently, the number of trading halts that would be imposed in the average trading day may increase accordingly.

Since the operations of all market participants, and in particular Exchange Participants, have long been geared to the current suspension and resumption arrangements, the proposed change to the trading arrangements will have implications for them. We will take into account responses and further comments received from this market consultation before proceeding with our proposals. Implementation will be subject to market readiness. Accordingly, sufficient lead time would be provided to the market to ensure smooth implementation.

CHAPTER 1: INTRODUCTION

Purpose

1. This consultation paper seeks market views on a proposed model for implementing a trading halt that would allow publication of price sensitive information (PSI) announcements during trading hours subject to a short trading halt in shares of the issuer.
2. A trading halt is generally a temporary interruption in the trading of a security or group of securities in anticipation of or in reaction to, an unusual event or condition affecting a security or group of securities. It allows material information (i.e. PSI announcements) to be adequately disseminated and assessed by the market and allows a period for public evaluation of the information.
3. For the purpose of this paper, PSI is defined as any information that might be reasonably expected materially to affect market activity in the price of a listed issuer's securities. This would in general include notifiable transactions, fund raisings, general offers, results announcements and other disclosures of material information.

Background

Previous consultations and reviews of the trading halt policy

4. In March 2002, we consulted the market on a proposal to publish issuers' announcements on the HKEx website and abolish paid advertisements in newspapers, and to allow issuers' announcement publication during trading hours. A majority of the respondents supported the release of price sensitive information announcements during trading hours and trading halts. The proposal to abolish paid announcements was well supported and implemented in June 2007.
5. In June 2007, issuers' publication on the HKExnews website was implemented. Initially price sensitive information announcements could only be published during the evening publication window, while results announcements could also be published during the lunch time publication window. The publication of price sensitive information announcements during the morning and lunch time publication windows was implemented in steps in 2008.

6. In November 2007, the Listing Division of the Exchange proposed to proceed with a market consultation for the dissemination of price sensitive information during trading hours, with or without a trading halt. The Listing Committee of the Exchange resolved that we would study the experience of allowing price sensitive information to be published during the morning / lunch time publication windows, before determining a further course of action.
7. In May 2009, the Listing Committee further considered the desirability of dissemination of issuers' information during trading hours and short trading halts. It noted that allowing issuers to release price sensitive information during trading hours would leave investors, particularly retail investors with very little time to react to the news release. Further, mid-session resumptions would pose significant operational changes for equity securities with many related derivative products. It was decided that the current suspension arrangement would remain unchanged for the time being. To address the operational difficulties, the Exchange's trading system was subsequently enhanced to handle the suspension and resumption of an underlying stock and its related derivative products simultaneously.

Incident related to HKExnews website service interruption

8. In August last year, HKEx experienced a criminal hacking attack on the HKExnews website causing disruption of news dissemination and suspension of seven equity securities and their related derivative products including structured products, stock options and stock futures.
9. Since then, the Exchange has considered and implemented a number of measures (see Appendix I for details) to, as far as possible, ensure the continuous operation of the market in the event of a news dissemination disruption. Among other things, the Exchange further explored the feasibility of a trading halt policy that would allow publication of price sensitive information announcements during trading hours accompanied by a short trading halt.
10. In preparing this market consultation, we conducted a soft consultation to solicit views from interested parties, including Exchange Participants from the securities and derivatives markets, and industry associations. We thank them for sharing with us their views and suggestions in this exercise.

Reasons for Review

Enhancing market competitiveness

11. Given today's technological advances, the status of Hong Kong as an international financial centre and the increasing globalisation of share trading activities, there is a clear need for listed issuers' announcements to be more timely disseminated while the duration of any suspension should be kept as short as possible.
12. At present, issuers are not allowed to publish price sensitive information during trading hours. If a disclosure obligation is triggered during trading hours, trading must be suspended immediately and will only be resumed in the next trading session following the publication of announcement. Implementation of trading halts would allow price sensitive information to be adequately disseminated and assessed by the market in a timely manner. This would significantly reduce the duration of suspension.
13. Increasingly overseas issuers choose to list on the Exchange. An overseas issuer listed in Hong Kong and on another exchange, where the trading hours overlap with our own, may be required by the rules of the overseas exchange to disclose price sensitive information immediately, even during trading hours. Under our current arrangement, the shares will be suspended from trading on the Exchange until publication of price sensitive information during the next publication window. Trading then resumes in the following trading session.
14. However, investors trading on the overseas exchange may be able to read the announcement during trading hours and continue trading. The implementation of trading halts would avoid the disadvantages to Hong Kong investors in terms of information access and trading opportunity, enhancing our market competitiveness. Price sensitive information can be published in both markets simultaneously and trading can be resumed after a short trading halt.

Enhancing overnight risk management and prices discovery

15. The proposal may facilitate investors in derivatives products, including structured products, stock options and stock futures, to close out the opening position instead of bearing risk overnight.

16. In addition, allowing trading to resume after publication of announcements during trading hours would provide more accurate intraday prices in securities since price discovery would occur as soon as possible after all material information relevant to a security's value has been released.

Alignment with international market practices

17. The proposal will also bring Hong Kong in line with international market practices. All leading overseas markets reviewed allow publication of price sensitive information throughout the day. Trading will either continue without interruption or resume subject to a short trading halt after publication of announcements. Details on market practices of other major overseas exchanges are set out in Chapter 2.

Trading Halts versus Suspensions

18. As mentioned above, trading halts are used to allow material information to be adequately disseminated during trading hours and to allow adequate time for public to evaluate that information. A trading halt will therefore be imposed together with the disclosure of PSI announcements that can be released in a timely manner. A listed issuer may request a trading halt if the PSI announcement is ready for publication within a prescribed period.
19. However, if the issuer fails to publish the PSI announcements within the prescribed period, the trading halt will lapse and its status will be changed to "suspension" automatically. Details on the trading halt proposal are set out in Chapter 4.
20. In any event, the Exchange may suspend the trading of any securities in order to maintain an orderly market and protect the interests of investors.

CHAPTER 2: OVERSEAS MARKET PRACTICES ON TRADING HALTS

21. We reviewed the market practices on trading halts of other leading overseas markets, including Australia, Germany, Shanghai, Singapore, UK and the US. Major features are summarised below.
22. All exchanges reviewed allow trading suspension if the issuer is not able to announce price sensitive news. This is a tool to prevent a disorderly and uninformed market.
23. The majority of markets, except Hong Kong and Shanghai, allow publication of price sensitive information throughout the day. These markets allow trading of securities to continue after the issuer releases price sensitive information either immediately or after a short trading halt.
24. In Hong Kong, most issuer news can only be published outside trading hours. Trading continues in the next trading session after the release of the news. In Shanghai¹, issuers must publish material news announcements in newspapers which is once daily. For announcements of unusual price movement, trading is suspended for one hour in the morning to allow for the adequate dissemination of the information.
25. In UK, issuers can announce price sensitive information during trading hours and trading of their shares continues without any interruption. We understand this is because the UK investors, which are predominantly institutional, are expected to be able to access information quickly given the variety and breadth of media points that publish regulated information.
26. In Australia, Germany, Singapore and the US, a trading halt is required to allow investors to read and evaluate the information before trading resumes. The minimum time for lifting of trading halt varies from 10 minutes to 60 minutes after the publication of price sensitive information.
27. In Australia and Singapore, the maximum period for which a trading halt may be granted is two trading days and three trading days respectively. In fact, the trading halt may be lifted at a shortened duration following the release of PSI announcement. However, if an issuer fails to publish the PSI within the maximum duration of a trading halt, the

¹ However, in Shenzhen Stock Exchange, issuers may publish news announcements in newspapers or on designated websites outside trading hours.

issuer is required to request suspension.

28. In Australia, Singapore and the US, the existing orders entered before trading halts are maintained in the order book. However, investors may cancel their orders during the trading halt period. In Australia and Singapore, investors can also enter new orders during the trading halt. In Germany, outstanding orders entered before trading halts will be purged by the exchange before trading resumes.
29. All markets with trading halts “re-open” the halted securities with a single price auction. In Australia and Singapore, since the orders can be entered, amended or cancelled during the trading halt, orders will be matched at a single price auction algorithm upon lifting of a trading halt. In Germany and the US, a five-minute auction period will be provided for order input, modification and cancellation upon lifting of a trading halt.
30. Details of overseas market practices on trading halts are set out in Appendix II.

CHAPTER 3: EXISTING INFORMATION DISSEMINATION, SUSPENSION, RESUMPTION AND TRADING ARRANGEMENTS

Existing Information Dissemination, Suspension and Resumption Arrangements

31. Currently, issuers are in general required to publish their announcements on the HKExnews website during the three publication windows² – (i) 6:00 am to 8:30 am; (ii) 12:00 noon to 12:30 pm and; (iii) 4:15 pm to 11:00 pm (6:00 pm to 8:00 pm on a public holiday before the next business day).
32. If a disclosure obligation is triggered and an issuer fails to publish price sensitive information on the HKExnews website, trading in its securities will be suspended until publication of the announcement during the next publication window. Trading then resumes in the following trading session. This is to ensure the price sensitive information is disseminated in such a way that is equally available to all investors at the same time. In practice, there is at least 30 minutes (from the close of the publication window to the commencement of the trading session) to allow investors to digest the information.
33. While trading suspension can take place during mid-trading session, trading would only resume at the commencement of a trading session after publication of the announcement. Mid-session trading suspensions deal with unexpected events (usually for the avoidance of a false or disorderly market) and are avoided where possible. As a result, a planned trading suspension would generally last for at least half a day.
34. When the underlying stock is suspended, the related structured products and stock options and stock futures will also be suspended at the same time.
35. The vast majority of issuers' price sensitive information and results announcements are published during the evening publication window. In 2011, over eighty percent of price sensitive information and results announcements were published on the HKExnews website after trading hours.

² There are five issuers dually listed on the London Stock Exchange that have obtained waivers to publish price sensitive information announcements during trading hours. Please refer to paragraph 57 for further details.

36. In 2011, there were 483 issuer suspensions (i.e. on average, two issuers were suspended daily) of which around 60 percent with suspension duration no more than two trading days.

Existing Trading Arrangements

Securities Market

37. The Securities Market comprises two continuous trading sessions (i) 9:30 am to 12:00 noon; and (ii) 1:00 pm to 4:00 pm. There is a thirty-minute pre-opening session conducted before the morning session. All unfilled orders can be cancelled by Exchange Participants or investors between 12:30 pm and 1:00 pm. There is no auction session before commencement of the afternoon session.
38. The pre-opening session was implemented in 2002. It serves to prevent significant price fluctuations and possible manipulation at the commencement of the morning session. During the pre-opening session, Exchange Participants may input at-auction order (without specified price) and at-auction limit order (with specified price). The trading system calculates the indicative equilibrium price (IEP) based on the predefined algorithm. Orders are matched at the final IEP in order type, price and time priority.
39. Unfilled at-auction limit orders are converted to limit orders and carried forward to the continuous trading session while unfilled at-auction orders are cancelled at the end of the pre-opening session.
40. During the continuous trading session, only limit orders (limit, enhanced limit and special limit orders) are accepted and matched according to price and time priority. Any unfilled limit orders placed in the morning session are carried over automatically to the afternoon session, and unfilled orders are cancelled automatically at the end of each trading day.
41. The above trading arrangements apply to all securities traded on the securities market, including equities, structured products (i.e. derivative warrants and callable bull and bear contracts), debt securities and unit trusts.
42. When the securities are suspended from trading in the securities market, orders entered before trading suspension remain in the order book. Investors or Exchange Participants

can cancel their orders during the suspension period. If the securities do not resume trading on that day, all outstanding orders will be cancelled by the system after market close.

43. If trading is resumed at market open upon lifting of suspensions, there will be a pre-opening session for price discovery of securities. However, if trading is resumed at the commencement of the afternoon session, there will be no auction session and it will start with continuous trading.

Stock Options / Futures Market

44. The stock options / futures market comprises two continuous trading sessions (i) 9:30 am to 12:00 noon; and (ii) 1:00 pm to 4:00 pm, identical to that of the cash market. However, there is no pre-opening auction for the stock options / futures market. A pre-market auction is only available for the trading of Hang Seng Index-related futures contracts and H-shares Index futures contracts in the derivatives market.
45. During the continuous trading session, limit orders are accepted and matched according to price and time priority. In addition, Exchange Participants can also specify the date validity of each order (also known as “Good Till Cancel” order). That means unmatched orders will remain in the central order book until the market close of the business date specified in the system. The upper limit for the specified date is 255 calendar days from today’s date or the expiry day of the contract whichever applicable.
46. Unlike the order handling in the securities market, all existing orders of stock options and stock futures will be automatically cancelled by the system when the stock options and stock futures are suspended from trading due to the suspension of the underlying stock.

CHAPTER 4: MAIN FEATURES OF THE PROPOSED MODEL

47. This section sets out the proposed operating arrangements for trading halts. In developing the proposed model, we considered market practices adopted in overseas exchanges as described in Chapter 2. We also took into account the Hong Kong securities market characteristics particularly with a relative large retail investor base and the operational practices in both securities and derivatives markets, and comments received during our soft consultation with selected market participants and industry associations. Key comments received are set out in Chapter 5.

Proposals

Release of price sensitive information during the Exchange's trading hours subject to trading halts

PSI announcements

48. As mentioned in Chapter 2, in UK, issuers would be able to publish announcements, including PSI, during trading hours without a halt in trading. We understand this is because the UK investors are predominantly institutional investors who are expected to be able to access and digest information quickly. If the UK model is adopted, trading of securities on the Exchange would continue without interruption irrespective of the publication of PSI announcements. Under this arrangement, changes to the Exchange's systems, Exchange Participants' systems and operations would be minimal when compared to the changes required under a trading halt regime (described in more detail below).
49. However, the majority of markets reviewed, except UK, allow publication of price sensitive information during trading hours subject to a trading halt. The purpose of the trading halt would be to give investors time to evaluate the information. In particular, Hong Kong market has a relative large retail investor base. Unlike institutional investors, most retail investors may not be able to access issuers' news in a timely manner. During the soft consultation, most Exchange Participants consulted felt that sufficient time should be provided for the investing public to digest the content of the announcement after the release of PSI.

50. Taking into account comments received, we propose to adopt a trading halt regime for the Hong Kong market. A listed issuer will be able to release PSI announcements on the HKExnews website during the Exchange's trading hours and subject to a short trading halt, for the purposes of digestion of contents of announcements by the public. The Exchange may grant a trading halt at the request of a listed issuer for publication of PSI announcements during trading hours.

Consultation questions

Q1: Do you agree that the Hong Kong market should not adopt a model without a halt in trading after the release of PSI during trading hours (i.e. the UK model as described in paragraph 48)? Please give reasons for your views.

Q2: Do you agree with our proposal to allow publication of PSI announcements on the HKExnews website during trading hours subject to a short trading halt? Please give reasons for your views.

Maximum period for trading halts

51. As mentioned in paragraph 36, around 60 percent of suspensions lasted for two trading days or less in 2011. We propose that the maximum period for which a trading halt may be granted is two trading days. Depending on the time when the trading halt request is made, the duration of the halt may be less than two full trading days if the trading halt is put in place part way through a trading day. However, issuers requesting for trading halts should have their PSI announcements ready for publication as soon as practical. In any event, it should be published no later than the following trading day after the trading halt is imposed. If the issuer fails to publish the PSI announcements by end of the following trading day for whatever reason, the trading halt will lapse and its status will be changed to "suspension" automatically. Thereafter, the issuer has to follow the existing information dissemination arrangement to publish the PSI announcements during the publication windows. Trading of its shares will resume in the next trading session after publication of the announcement.
52. In Australia and Singapore, the maximum period for which a trading halt may be granted is two trading days and three trading days respectively.

Results announcements

53. Currently, issuers are required to publish their board meeting dates at least seven clear business days in advance. Investors would be well aware of the expected date of results announcements. Therefore, suspensions are in general not required for the publication of results announcements under the current arrangements.
54. Given the large volume of results announcements, in particular during certain periods throughout the year (a daily peak of 124 results announcements were published in March 2011), we propose that the results announcements should be published during the existing publication windows as far as possible. The Exchange may grant a trading halt for the publication of results announcement if it is justified by the issuer. This is consistent with the general principle that interruptions to trading should be kept to a minimum and only permitted in order to maintain an orderly and informed market.
55. In other overseas exchanges, the results announcements are in general published outside trading hours. If the results announcement is published during trading hours, a trading halt will be imposed.

Non-PSI announcements

56. Non-PSI announcements (a daily peak of 235 non-PSI announcements were published in 2011) account for a significant number of total announcements published. Some Exchange Participants consulted during the soft consultation indicated that most investors, in particular retail investors are not used to constantly tracking the publication of announcements during trading hours. We propose that the existing arrangement for non-PSI announcements to be published outside trading hours should remain unchanged. We will study the experience of allowing price sensitive information to be published during trading hours before determining a further course of action.

Dually Listed Issuers on the London Stock Exchange

57. Currently, there are five issuers (HSBC Holdings plc (5), Standard Chartered PLC (2888), Prudential plc (2378), Glencore International plc (805) and Kazakhmys PLC (847)) dually listed on the London Stock Exchange that have obtained waivers to publish price sensitive information announcements during trading hours without a trading halt. These waivers are limited to circumstances where the issuer is obliged under Rule 2 of the Disclosure and Transparency Rules of the UK Financial Services

Authority to publish PSI as soon as possible. This means that, in certain circumstances, the PSI may be required to publish during the Exchange's trading hours without a trading halt.

58. If the trading halt were to be imposed, investors in Hong Kong would be denied the opportunity to trade in the securities of an issuer whilst trading in those securities was taking place in London. Therefore, no trading halts should be put in place in the circumstances as described in paragraph 57.

Consultation questions

Q3: Do you agree that the maximum period for which a trading halt may be granted is two trading days and the trading halt will be treated as suspension thereafter if the issuer fails to publish the PSI announcements by end of the following trading day after the trading halt is imposed? Please give reasons for your views.

Q4: Do you agree that results announcements should be published during the existing publication windows as far as possible? Please give reasons for your views.

Q5: Do you agree that the existing arrangement for non-PSI announcements to be published outside trading hours should remain unchanged? Please give reasons for your views.

Q6: Do you agree that the trading halt should not apply to dually listed issuers under the circumstances as described in paragraph 57 above? Please give reasons for your views.

Timing for lifting of trading halts

59. We propose that share trading will resume at least 30 minutes after the PSI announcement is published by the issuer on the HKExnews website, to provide investors time for digesting the contents of announcements. Details of the trading arrangements upon lifting a trading halt are set out in paragraphs 65 to 76 below.

60. The proposed duration of 30 minutes trading halt applies to all PSI announcements to be released during trading hours. Some Exchange Participants consulted during the soft consultation felt that different lengths of trading halts may cause market confusion. A

fixed length of trading halts for all PSI announcements would provide certainty. The majority of Exchange Participants considered a minimum of 30 minutes should be provided for digesting the contents of announcements. The proposal is also consistent with the current information dissemination practice which provides at least 30 minutes (from the close of the publication windows to the commencement of the trading session) to allow investors to digest the information and make informed investment decisions. A longer period to lift the trading halt would significantly reduce the opportunity of investors to trade. In overseas markets, the minimum time for lifting of trading halts ranges from 10 minutes to 60 minutes.

61. We also propose that trading resumptions will only take place on the quarter hour or the half hour for better market awareness and ease of administration. Investors would have an expectation and would be able to check at intervals for possible resumptions. As such, trading of securities will resume between 30 minutes to 44 minutes (i.e. on the quarter hour) or between 30 minutes to 59 minutes (i.e. on the half hour) after the publication of PSI announcement.
62. In addition, Exchange Participants consulted during the soft consultation indicated that there should be at least 30 minutes of trading (including 10 minutes auction session and 20 minutes of continuous trading) after lifting of trading halts. Under the proposed arrangement, the latest time for trading resumption before end of the trading day would be 3:30 pm for a normal trading day or 11:30 am for a half-day trading. There will be no trading resumption for the day if the PSI announcement is published after 3:00 pm for a normal trading day or 11:00 am for a half-day trading. In this circumstance, trading of the securities and their related derivative products (including stock options and stock futures) will resume at the commencement of the following trading day. For illustration, please refer to Appendix III - High level suspension and resumption flow under the proposed model.

Consultation questions

- Q7: What is the minimum period for a trading halt after the publication of PSI announcement, 30 minutes, 45 minutes or 60 minutes? Please specify and give reasons.*
- Q8: Do you agree that trading halts should be lifted at regular intervals on the quarter hour or the half hour? Please specify and give reasons.*

Q9: Do you agree that at least 30 minutes of trading should be provided after lifting of a trading halt? Please give reasons for your views.

Notification of suspension and resumption information

63. The proposed trading halts allow price sensitive information to be disseminated and published on the HKExnews website during trading hours. To enable the public to be more aware of the trading halt information including the release of any PSI announcement, it is necessary to have clear mechanisms as to when and where announcements are released, and the timing of any trading resumption.
64. Exchange Participants consulted during the soft consultation indicated that a separate information page will enable investors to check news releases in relation to trading halts much easier and faster and reduce risks that they may overlook the release of PSI announcements. We propose to provide information on those securities that are placed into a trading halt in a separate information page through different Exchange system channels including the HKExnews website. We will disseminate the required information (e.g. time of trading halt imposed, time of lifting of trading halt, etc.) in a separate information page on the HKExnews website as soon as we receive the same from issuers to ensure timely access by market users.

Consultation question

Q10: Do you agree with the proposed notification arrangements for the trading halt and resumption information? Please give reasons for your views.

Trading arrangements

Handling of outstanding orders entered before trading halts

65. Exchange Participants consulted during the soft consultation generally considered that leaving existing orders in the trading system would be unfair to investors as the order price may not reflect the newly disseminated information. However, some also felt that cancelling all orders would cause investors to lose their order priorities. Half of the investors would benefit at any time, to the detriment of the other half.

66. Some suggested that investors should be allowed to cancel their orders during the trading halt if the existing orders were left in the system. Any remaining orders should be carried forward and participated in the mid-session auction upon lifting of the trading halt. However, others felt that investors would complain to brokers if they were not informed or timely informed by brokers about the issuers' news and resumptions to allow them to withdraw or revise orders. In these circumstances, cancelling existing orders would minimise market disputes.
67. On balance, most Exchange Participants consulted preferred the Exchange to purge all outstanding orders to put investors on an equal footing. Compared to institutional investors, most retail investors are not used to constantly tracking the publication of announcements during trading hours and they do not have sophisticated information management systems to keep them informed of issuers' announcements and to react to newly disseminated information. Some participants felt that purging all orders before a trading resumption would serve as a precautionary measure. It is a simple mechanism and is easier to communicate with the investing public.
68. In order to maintain a fair and orderly market and to avoid any market chaos, we propose that all existing orders for the securities (including associated derivative warrants and callable bull and bear contracts) entered before a trading halt are to be cancelled automatically by the Exchange at the time of the halt.
69. The current Exchange's stock options / futures market practices remain unchanged since all outstanding orders of the related derivative products are presently purged automatically by the system at the time of suspension of the underlying stocks. Under the trading halt proposal, all outstanding orders of the related derivative products will be purged automatically by the system at the time of trading halt of the underlying stocks.

Consultation questions

Q11: Do you agree that all existing orders of the securities entered before a trading halt or a suspension be purged by the Exchange at time of halt? Please give reasons for your views.

Q12: Do you agree that all existing orders of the Exchange's stock options / futures market practices should remain unchanged (i.e. all outstanding orders will be purged automatically by the system at the time of trading halt of the underlying stocks)? Please give reasons for your views.

Mid-session auction for price discovery upon lifting of trading halts

70. To facilitate price discovery, we propose to implement a single price auction session lasting for 10 minutes upon lifting of a trading halt following the release of PSI announcements during trading hours in the securities market. This also applies to the commencement of the afternoon trading session upon lifting of a trading halt if the PSI announcement is released during the lunch publication window (12:00 noon – 12:30 pm).
71. For consistency, the single price auction will apply to trading resumption at the commencement of the afternoon trading session upon lifting of a suspension, following the release of PSI announcements during the lunch publication window. In 2011, ninety percent of shares resumed trading at market open (i.e. participated in the pre-opening session) while the remaining ten percent resumed at the commencement of the afternoon trading session.
72. If an issuer has not requested for any trading halt or suspension of its securities and is able to maintain the confidentiality of the PSI announcement before releasing it during the lunch publication window, in these circumstances the single price auction will also apply to the issuer's securities upon commencement of the afternoon trading session.
73. Since structured products are currently part of the securities market products which also trade in the pre-opening session, we propose to follow the same arrangement such that structured products would also trade in the mid-session auction upon lifting of a trading halt of the underlying stock. Currently, liquidity providers of structured products are not required to provide liquidity during the pre-opening session. Following the current practice, liquidity providers of structured products will be exempted from providing quotes during the auction session upon lifting of trading halt.
74. Similar to the existing pre-opening session, the proposed mid-session auction will comprise order input period of 7 minutes and pre-order matching period, order matching period and blocking period of 1 minute each.
75. Brokers may input at-auction orders or at-auction limit orders during order input period and at-auction orders only during pre-order matching period. Orders are then matched in order type, price and time priority. After order matching, all unmatched at-auction orders will be cancelled whilst unmatched at-auction limit orders will be converted into

limit orders and carried forward to the continuous trading session. The proposed mid-session auction is in line with the overseas market practices where trading usually resumes with a single price auction to determine a fair opening price.

76. Market makers of the Exchange's stock options / futures consulted during the soft consultation indicated that they will make a market upon completion of the price determination of the underlying stocks. Therefore, we propose the mid-session auction mechanism will not apply to the Exchange's stock options / futures market. The continuous trading of related stock options and stock futures will only be resumed upon the completion of mid-session auction of underlying stock. The arrangement is consistent with some overseas exchanges which offer similar products.

Consultation questions

Q13: Do you agree with the implementation of a single price auction upon lifting of a trading halt? Please give reasons for your views.

Q14: Do you agree with the implementation of a single price auction also applies for trading resumption at the commencement of afternoon trading session upon lifting of a trading halt following the release of a PSI announcement during the lunch publication window? Please give reasons for your views.

Q15: Do you agree that if an issuer has not requested for any trading halt or suspension of its securities and is able to maintain the confidentiality of the PSI announcement before releasing it during the lunch publication window, in these circumstances the single price auction will apply to the issuer's securities? Please give reasons for your views.

Q16: Do you agree that a single price auction will only apply to securities traded in the securities market upon lifting of a trading halt of the underlying? Please give reasons for your views.

Q17: Do you agree with the proposed duration of the mid-session auction (i.e. 10 minutes)? Please give reasons for your views.

Implementation schedule

77. During the soft consultation, the majority of Exchange Participants indicated that the proposed trading halt arrangements including mid-session auction trading and orders handling would require a significant change to their systems. Accordingly, sufficient lead time would be provided to the market for smooth implementation.

Consultation question

Q18: How much lead time would be required after the relevant system specifications were available to prepare for the implementation of trading halt, three months or six months? Please specify if you have alternative views.

CHAPTER 5: INITIAL MARKET FEEDBACK AND OTHER CONSIDERATIONS

78. Introducing the trading halt policy will have various implications to market participants. This section outlines some key comments and issues received during our soft consultation together with our analysis for consideration. We welcome further comments on these areas.
79. We conducted soft consultations with selected Exchange Participants from the securities and derivatives markets, and industry associations between October 2011 and March 2012 to gather their views on the proposal of trading halts. Most of the brokers consulted have a substantial retail investor base. We have also received views from the Hong Kong Institute of Chartered Secretaries (HKICS) representing issuers.

Comments from Issuers

80. **Views from the Hong Kong Institute of Chartered Secretaries (HKICS)** - The HKICS have repeatedly requested that we allow the publication of price sensitive announcements during trading hours and in the interest of the market, keep suspension to the absolute minimum. They are concerned that the lunch time publication window shortened to 30 minutes from 5 March 2012 may not provide sufficient time to publish their results announcements during the lunch time publication window³.

Comments from Exchange Participants / brokerage associations

81. **Concern that allowing issuers' news dissemination and trading resumptions during trading hours could be very confusing to the market.** Exchange Participants generally agreed that allowing issuers' information to be disseminated during trading hours would be the right direction for the Exchange. A trading halt is necessary to provide investors with sufficient time to digest the newly published information. However, there must be a very clear and simple mechanism to deal with the trading arrangements and issuer' information dissemination if a trading halt arrangement is to be implemented. Investors should not be caught by surprise by the trading resumption.

³ Currently, out of the 48 HSI constituent stocks, 20 (42%) published their results announcements during the lunch time publication windows.

82. **Concern that generally they have limited resources to deal with trading resumption during trading hours.** Account executives do not have the resources to call clients about a particular security's suspension, news and resumption during trading hours. This is different from lunch time as there is no trading. For Internet broking, it would be very difficult to contact the clients and inform them of trading resumption.
83. **Concern on the handling of orders entered into the system before the trading halt.** Purging these orders would cause investors losing their order priorities; if they remain in the system their pricing may not reflect the newly published information. Some considered that investors would complain to Exchange Participants if orders were left in the system and investors were not informed by their brokers of the issuer's announcements and resumption, leading to more market disputes.
84. Most Exchange Participants consulted preferred the Exchange to cancel all outstanding orders in order to put investors on equal footing. This can minimise market disputes and brokers' workload to individually deal with various clients' outstanding orders. Others were of the view that currently investors may cancel orders during lunch time and some stocks do resume trading at the commencement of the afternoon trading session. They suggested that their clients be allowed to cancel or amend orders individually in order to keep their order priority during the trading halt.
85. **Concern that a trading halt policy would involve significant costs but little benefit.** The Exchange's trading system currently does not support mid-session auctions of individual securities during trading hours. In addition, the current system requires outstanding at-auction limit orders to be converted to limit orders once the continuous trading session starts. In other markets such as the US, there is less complication as the order types for the auction period and for the continuous trading session are the same. The majority of Exchange Participants consulted indicated during the soft consultation that the proposed trading halt arrangements would require a very significant change to their systems. Additional resources would also be required to manage mid-session resumption during trading hours and service their clients who placed orders before trading halts. A few major software vendors that support brokers' trading systems indicated that the corresponding system enhancements would take around three to six months.

86. **Some considered there is no current need for mid-session trading resumption given each trading session is very short currently.** There may be a better case for this if the lunch break is cancelled, or if the trading hours are further extended. This is currently the situation in Australia, Germany, Singapore, UK and the US, where there is no lunch break and the trading session in these markets is between 6 to 8.3 hours long.
87. **Some considered that there should be a synergy developed between the trading halt implementation and the Exchange's major system releases such as the next generation trading system.** A more holistic approach should be taken. The mid-session auction mechanism for trading halts, different order types available in the pre-opening session and the continuous trading session as well as any upcoming system developments should be considered as a whole. Some Exchange Participants commented that the implementation of the next generation trading system would involve significant changes to their systems. They would prefer to consider the trading halt regime at the same time to have a better synergy. This would minimise their testing efforts, in particular tasks relating to system testing and market rehearsals.

Other Considerations

88. Since the operations of all market participants, and in particular, Exchange Participants have long been geared to the current suspension and resumption arrangements, any change to the trading arrangements will have implications for them. We will take into account responses and further comments received from this market consultation before proceeding with our proposals on trading halts. The following are our initial assessment on the general effect on various parties or areas resulting from the introduction of trading halts.

Listed issuers

89. The proposal set out in this paper will allow listed issuers to release PSI during trading hours subject to a trading halt. Consequently if an issuer is aware that it has information to announce then it should take into account the time required to prepare the announcement in both English and Chinese and prepare to announce that PSI immediately after it has been the subject of a decision. Issuers will also be required to notify the Exchange before the submission of a PSI announcement to the Electronic Submission System.

90. There is no change to the current suspension and disclosure principles. We anticipate that the procedure for requesting a trading halt will be similar to the current procedure for requesting a suspension of trading. Issuers need to liaise with the Listing Division of the Exchange and make a written request stating the specific reasons for requesting a trading halt. If approved, the Listing Division will arrange for trading in the issuer's securities to be halted. Share trading will resume at least 30 minutes after the PSI announcement is published by the issuer on the HKExnews website. Detailed operational procedures or guidance regarding the trading halt will need to be developed in due course.
91. Issuers need to choose a "Price Sensitive Information" headline category together with other relevant headline categories for an announcement to be disseminated during trading hours. The Exchange will continue to post-vet announcements following their publication.
92. As stated in paragraph 35, issuers currently to a large extent still publish price sensitive information after market close (over 80%) and there are around two issuers suspended daily on average in 2011. However, with the implementation of trading halts, the issuers' behavior on information dissemination may change. Since trading of securities will resume after a short trading halt (say 30 minutes as proposed) after the publication of PSI announcements, issuers may be more inclined to conclude the transactions or sign agreements that lead to the publication of PSI announcements during trading hours, leading to an increase in the number of these transactions or agreements. Consequently, the number of trading halts that would be imposed in the average trading day may increase accordingly. The market may be frequently disturbed by trading halts.

A & H share issuers

93. As at 31 March 2012, there are 72 issuers with shares listed on both the Exchange (H shares) and the Mainland market (A shares). If trading halts were implemented in the Hong Kong market, these issuers will be allowed to publish PSI announcements during trading hours and the trading of their shares will be resumed at least 30 minutes later.
94. However, under the existing disclosure requirements in the Mainland market, material announcements are to be published in pre-defined newspapers in Shanghai whilst material announcements are to be published in pre-defined newspapers or posted on designated websites outside trading hours (i.e. during lunch break or after market close)

in Shenzhen. The proposals set out in this paper to allow more timely dissemination of information during trading hours may not allow the alignment of our information dissemination model with that of the Mainland. Under the current practice, A & H share issuers may manage the publication of PSI announcements in such a manner that share trading will resume simultaneously in both markets.

Related issuers

95. An issuer's announcement is sometimes related to other issuers (a "related issuer"). For example, multiple listed issuers may make a joint announcement of an acquisition and a disposal. We anticipate that the current disclosure procedures for handling an announcement related to multiple issuers will follow under the trading halt regime.
96. In that case, each related issuer should indicate to the Exchange that the to-be-published PSI announcement is also relevant to another issuer which has its own obligation to separately disclose that information. The Listing Division of the Exchange will coordinate with all the related issuers to ensure that the trading halts are imposed for all affected securities.

Market participants

97. Market participants in the stock and stock-related futures markets, including Exchange Participants should review their trading and back office systems and procedures to assess possible changes including mid-session auction trading, orders handling during the halt period arising from the introduction of trading halts.
98. For client support, Exchange Participants should also review and determine whether their procedures for handling outstanding orders with their clients are properly disclosed or reflected in the client agreements including procedures to notify their clients and in case they cannot be contacted.

Information vendors

99. Under the proposals set out in this paper, information vendors will receive additional information arising from the implementation of the mid-session auctions and a higher volume of news during trading hours. These vendors may therefore have to change their system processes accordingly.

Investors

100. Trading halts are designed to give investors the opportunity to read and digest a PSI announcement prior to the resumption of the relevant issuer's securities. However, this assumes that all investors have the appetite to do so. It should be recognised that at all time, some investors, in particular retail investors, may always lag behind the flow of information. Under the trading halt proposal, investors are expected to take a more active role to monitor the dissemination of suspension and resumption announcements during trading hours to ensure all information they might need to make an informed investment decision.

101. Prior to introduction of trading halts, HKEx will coordinate with relevant market participants to educate investors about the changes arising from the proposals. These include information dissemination on suspensions and resumptions, outstanding orders handling, mid-session auction arrangements and trading arrangements during typhoons and black rainstorms.

CHAPTER 6: CONSULTATION QUESTIONS

The following is the complete list of consultation questions.

1. Do you agree that the Hong Kong market should not adopt a model without a halt in trading after the release of PSI during trading hours (i.e. the UK model as described in paragraph 48)?

Yes

No

Please give reasons for your views.

2. Do you agree with our proposal to allow publication of PSI announcements on the HKExnews website during trading hours subject to a short trading halt?

Yes

No

Please give reasons for your views.

3. Do you agree that the maximum period for which a trading halt may be granted is two trading days and the trading halt will be treated as suspension thereafter if the issuer fails to publish the PSI announcements by end of the following trading day after the trading halt is imposed?

Yes

No

Please give reasons for your views.

4. Do you agree that results announcements should be published during the existing publication windows as far as possible?

Yes

No

Please give reasons for your views.

5. Do you agree that the existing arrangement for non-PSI announcements to be published outside trading hours should remain unchanged?

Yes

No

Please give reasons for your views.

6. Do you agree that the trading halt should not apply to dually listed issuers under the circumstances as described in paragraph 57 above?

Yes

No

Please give reasons for your views.

7. What is the minimum period for a trading halt after the publication of PSI announcement?

- 30 minutes
- 45 minutes
- 60 minutes
- Other, please specify and give reasons

8. Do you agree that trading halts should be lifted at regular intervals?

- on the quarter hour
- on the half hour
- Other, please specify and give reasons

9. Do you agree that at least 30 minutes of trading should be provided after lifting of a trading halt?

- Yes
- No

Please give reasons for your views.

10. Do you agree with the proposed notification arrangements for the trading halt and resumption information as set out in paragraph 64?

- Yes
- No

Please give reasons for your views.

11. Do you agree that all existing orders of the securities entered before a trading halt or a suspension be purged by the Exchange at time of the halt?

Yes

No

Please give reasons for your views.

12. Do you agree that all existing orders of the Exchange's stock options / futures market practices should remain unchanged (i.e. all outstanding orders will be purged automatically by the system at the time of trading halt of the underlying stocks)?

Yes

No

Please give reasons for your views.

13. Do you agree with the implementation of a single price auction upon lifting of a trading halt?

Yes

No

Please give reasons for your views.

14. Do you agree with the implementation of a single price auction also applies for trading resumption at the commencement of afternoon trading session upon lifting of a trading halt following the release of a PSI announcement during the lunch publication window?

Yes

No

Please give reasons for your views.

15. Do you agree that if an issuer has not requested for any trading halt or suspension of its securities and is able to maintain the confidentiality of the PSI announcement before releasing it during the lunch publication window, in these circumstances the single price auction will apply to the issuer's securities?

Yes

No

Please give reasons for your views.

16. Do you agree that a single price auction will only apply to securities traded in the securities market upon lifting of a trading halt of the underlying?

Yes

No

Please give reasons for your views.

17. Do you agree with the proposed duration of the mid-session auction (i.e. 10 minutes)?

Yes

No

Please give reasons for your views.

18. How much lead time would be required after the relevant system specifications were available to prepare for the implementation of trading halts?

Three months

Six months

Other, please specify and give reasons

**APPENDIX I: A SUMMARY OF KEY MEASURES TAKEN IN
RELATION TO HKEXNEWS WEBSITE SERVICE
INTERRUPTION**

1. Installation of new intrusion protection system with customized filtering mechanism to fend off hacking attack traffic
2. A dedicated channel has been setup for activation during emergency situation for protection against new attacks
3. Additional pre-cautionary measures including detection and mitigation services have been taken to increase the vigilance of the HKExnews website
4. Set up additional bulletin boards to provide backup services on news dissemination
5. Conducted internal drill on the revised contingency procedures
6. Conducted review of information security of the Exchange's major systems
7. Continue to explore the feasibility of providing free issuers' news dissemination channels to the investing public
8. Consult the market to explore the feasibility of a trading halt policy
9. Continue to improve investor education including (a) dissemination of issuers announcements and suspension policy in the event of service interruption, (b) updated policies regarding investor access to listed company's regulatory information and trading and (c) posting FAQs on HKEx website to draw investors' attention to the new arrangements

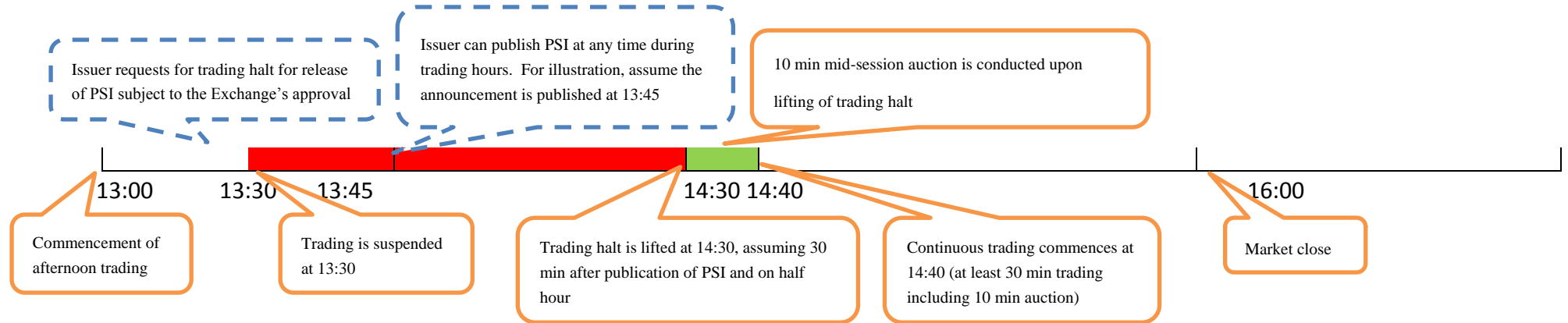
APPENDIX II: OVERSEAS MARKET PRACTICES

	Australia (ASX)	Germany (Deutsche Bourse)	Singapore (SGX)	United States (NYSE / NASDAQ)
Trading hours (equities market)	10am – 4pm	9am – 5:30pm	9am – 5pm	9:30am – 4 pm
Minimum time for lifting of trading halt (after publication of announcement)	10 minutes	60 minutes	30 minutes	30 minutes
Order Handling during trading halt	Existing orders are not purged; Orders can be entered, amended or cancelled	Existing orders are deleted for suspension related to price sensitive information; New orders cannot be entered	Existing orders are not purged; Orders can be entered, amended or cancelled during trading halt	Existing orders are not purged; Orders can be cancelled or reduced in quantity; New orders cannot be entered
Price discovery at resumption	Upon lifting of trading halt, orders will be matched via single price auction	Upon lifting of trading halt, an auction will be conducted after a 5-minute Pretrading period (orders can be entered, modified and cancelled)	Upon lifting of trading halt, orders will be matched via single price auction	NASDAQ - a “quote only window” of 5 minutes will be provided, during which orders can be entered, amended or cancelled. Orders will then be matched based on a Halt Cross process (i.e. single price auction).
Arrangement for related derivatives products (warrants / options)	The trading of derivatives is halted and resumed simultaneously with underlying stock; An auction will be conducted for warrants but not for stock options	The trading of derivatives is halted and resumed simultaneously with underlying stock; Both structured products and options will be resumed with an auction	The trading of derivatives is halted and resumed simultaneously with underlying stock; An auction will be conducted for structured products (no stock options in SGX)	The trading of derivatives is halted and resumed simultaneously with underlying stock; All single stock derivatives will be resumed with an auction
Notification of suspension and resumption information	Trading halt indicator appeared on trading screen	Notification on suspension of trading is published on Xetra Newsboard (with RSS feed)	Investors / traders are alerted to both trading halt and material information through SGXNet / SGXNews	Current trading halts and 30 days of historical information are available on NASDAQ website (with RSS feed)

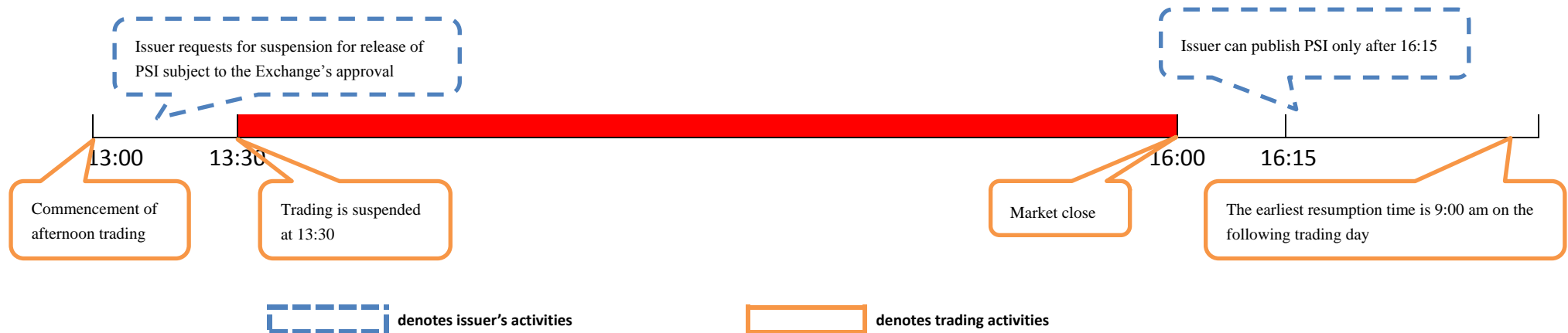
*Material contained in this Appendix is for background and reference purposes only. This information was compiled on a best-effort basis through desktop research and discussion with overseas exchanges.

APPENDIX III: HIGH LEVEL SUSPENSION / RESUMPTION FLOW UNDER THE PROPOSED MODEL

Proposed flow - Suspension / Resumption



Existing flow - Suspension / Resumption



APPENDIX IV: PERSONAL INFORMATION COLLECTION AND PRIVACY POLICY STATEMENT

Provision of Personal Data

1. Your supply of Personal Data to HKEx is on a voluntary basis. “Personal Data” in these statements has the same meaning as “personal data” in the Personal Data (Privacy) Ordinance, Cap 486, which may include your name, identity card number, mailing address, telephone number, email address, login name and/or your opinion.

Personal Information Collection Statement

2. This Personal Information Collection Statement is made in accordance with the guidelines issued by the Privacy Commissioner for Personal Data. It sets out the purposes for which your Personal Data will be used after collection, what you are agreeing to in respect of HKEx’s use, transfer and retention of your Personal Data, and your rights to request access to and correction of your Personal Data.

Purpose of Collection

3. HKEx may use your Personal Data provided in connection with this consultation paper for purposes relating to this consultation and for one or more of the following purposes:
 - administration, processing and publication of the consultation paper and any responses received;
 - performing or discharging HKEx’s functions and those of its subsidiaries under the relevant laws, rules and regulations;
 - research and statistical analysis; and
 - any other purposes permitted or required by law or regulation.

Transfer of Personal Data

4. Your Personal Data may be disclosed or transferred by HKEx to its subsidiaries and/or regulator(s) for any of the above stated purposes.
5. To ensure that the consultation is conducted in a fair, open and transparent manner, any response together with your name may be published on an “as is” basis, in whole or in part, in document form, on the HKEx website or by other means. In general, HKEx will publish your name only and will not publish your other Personal Data unless specifically required to do so under any applicable law or regulation. If you do not wish your name to be published or your opinion to be published, please state so when responding to this paper.

Access to and Correction of Data

6. You have the right to request access to and/or correction of your Personal Data in accordance with the provisions of the Personal Data (Privacy) Ordinance. HKEx has the right to charge a reasonable fee for processing any data access request. Any such request for access to and/or correction of your Personal Data should be addressed to the Personal Data Privacy Officer of HKEx in writing by either of the following means:

By mail to: Personal Data Privacy Officer
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong
Re: Consultation Paper on Trading Halts

By email to: pdpo@hkex.com.hk

Retention of Personal Data

7. Your Personal Data will be retained for such period as may be necessary for the carrying out of the above-stated purposes.

Privacy Policy Statement

8. HKEx is firmly committed to preserving your privacy in relation to the Personal Data supplied to HKEx on a voluntary basis. Personal Data may include names, identity card numbers, telephone numbers, mailing addresses, e-mail addresses, login names, opinion, etc., which may be used for the stated purposes when your Personal Data are collected. The Personal Data will not be used for any other purposes without your consent unless such use is permitted or required by law or regulation.
9. HKEx has security measures in place to protect against the loss, misuse and alteration of Personal Data supplied to HKEx. HKEx will strive to maintain Personal Data as accurately as reasonably possible and Personal Data will be retained for such period as may be necessary for the stated purposes and for the proper discharge of the functions of HKEx and those of its subsidiaries.

