Part B   Consultation Questions – Pre-opening Session Enhancement

Please indicate your preference by checking the appropriate boxes and provide reasons to support your views.   Please reply to the questions below on the proposed change discussed in the Consultation Paper downloadable from the HKEX website at: http://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/August-2019-Consultation-Paper-on-Market-Microstructure-Enhancements/Consultation-Paper/cp201908.pdf

Where there is insufficient space provided for your comments, please attach additional pages.

1. Do you support using the following **auction features** in POS, similar to CAS:

- Randomised auction matching;
- Allowing at-auction limit orders throughout the session;
- Allowing short selling orders with a price not lower than the previous closing price; and
- Enhanced market transparency.

☑   Yes

☐   No

Please give reasons for your view.

> *With 3 years of experience since CAS was introduced, this call auction mechanism has proved to be a stable and reliable addition to the HK market.   It is important that HKEx provide these additional features in order to bring trading transparency in the HK open auction to comparable standards on other international exchanges.*

2. Do you agree that the enhanced POS model should **be applied to all equities and funds only** similar to CAS, with details as follows:

- Including equities (including depositary receipts, investment companies, preference shares and stapled securities) and funds (ETFs and REITs)
- Excluding debt securities, structured products, leveraged and inverse products, equity warrants and rights.

☑   Yes

☐   No

Please give reasons for your view.

> *Existing CAS mechanism has proved to be stable, effective and efficient at matching opposing liquidity at the close benchmark. It has also helped to grow liquidity at the close with lower volatility as market participants have gained confidence in the mechanism and its consistent outcome. During the last 3 years since CAS was implemented, there has been no change in the perception of the non-CAS mechanism. Non-CAS outcomes still vary significantly with close benchmark tracking error and lower confidence completing orders being the greatest concerns. As a result · fully supports extending the CAS mechanism as has been proposed.*

3. Do you support applying a two-stage price limit during POS similar to CAS?

☑ Yes

☐ No

Please give reasons for your view.

> *For consistency reasons only. The two-stage approach appears not to have hindered the exisiting CAS mechanism although it should not really be necessary to maintain a two-stage approach going forward.*

4. Do you support setting the price limits to be initially ±15% from the previous closing price, and then to within the lowest ask and highest bid prices recorded at the end of order input period?

☑ Yes

☐ No

Please give reasons for your view.

> *The proposed two-stage approach is reasonable based on back-testing of market moves at the open. The limits should be reviewed at regular intervals to ensure they remain relevant to future trading conditions.*

5. Do you support the proposed time periods in the enhanced POS, or would you prefer the alternative model with the No-cancellation period shortened by 2 minutes such that auction matching may occur latest by 9:20am same as today?

☐ Support the proposed time periods

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☑ Prefer the alternative model

☐ Not support

Please give reasons for your view.

> *Do not have a strong view for or against the proposal. It would make sense that the gap between the open auction and continuous market was shortened. In fact the POS and CTS should be seemlessly linked*

6. Do you support the proposal of **not** matching at-auction order at the previous closing price when an IEP cannot be formed in POS?

☑ Yes

☐ No

Please give reasons for your view.

> *Participants should be given an opportunity to only trade market order when there has been sufficient price discovery. If no IEP has been formed then these orders should be cancelled after the POS so that participants can re-assess and set the limit price for their order in the continuous market.*

7. Do you have any other comments on the POS enhancement proposal?

☑ Yes

☐ No

Please give reasons for your view.

> *The gap between the POS and CTS should be closed so the POS seamlessly starts the market and links directly into CTS.*

Part C   Consultation Questions – Volatility Control Mechanism Enhancement

8. Do you support the proposed expansion of VCM stocks in the securities market to all HSCI constituent stocks to safeguard market from possible disorderliness in trading caused by advances in trading technology?

    ☑   Yes

    ☐   No

    Please give reasons for your view.

    > *This would ensure additional and consistent guard-rails for the market which can only add to market integrety*

9. If you prefer other expansion options, please indicate below:

    ☐   Alternative Option 1: Expand to include constituents of Hang Seng LargeCap Index only

    ☐   Alternative Option 2: Expand to further include all constituents of Hang Seng LargeCap and MidCap Indexes only

    ☑   Alternative Option 3: Expand to all equities but with a higher triggering threshold for the non-HSCI stocks

    ☐   Others. Please specify : _____

    Please give reasons for your view.

    > *Providing a tailored VCM solution for all stocks is better than excluding certain stocks or segments because they don't happen to be included in an index.   It should be is noted that stocks that are candidates for index inclusion can often be subjected to volatity so inclusion in a VCM regime would be an appropriate safeguard.*

10. Do you support the proposed trigger thresholds of 10%, 15%, and 20% for Hang Seng Composite LargeCap, MidCap and SmallCap stocks respectively?

☑ Yes

☐ No

Please give reasons for your view.

> *Trigger thresholds seem appropriate and reasonable*

11. Do you support the proposal to allow multiple triggers in the same trading session?

☑ Yes

☐ No

Please give reasons for your view.

> *The reality is that a volatility situation could occur at any time and on any schedule. It does not make practical sense to restrict a VCM trigger arbitrary to once per session.*

12. Do you have other suggested enhancements or any other comments for VCM in the securities market?

☑ Yes

☐ No

Please give reasons for your view.

> *There should be further consideration on how the market restarts post a VCM trigger.   believe that the best mechanism to restart the market would be via call auction (e.g. leveraging CAS mechanism). This would benefit participants by providing real time information on IEP during the 'cool down' period that will result in more confident price discovery and a greater share of participants achieving a fair outcome post this period. It is on this basis that a restart mechanism based on a call auction is more likely to determine a clearing price more quickly and effectively which could realistically lead to less volatility afterward.*

13. If your answer to Q12 is "Yes", would you support implementing the three enhancement features proposed first, as they can be implemented relatively quickly, before we move on to review or implement some other more complex

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features?

☑ Yes

☐ No

Please give reasons for your view.

> *would support implementing the enhancements proposed for the VCM. VCM adds additional and consistent guard-rails that are of benefit to all participants.*

14. On top of the proposed VCM enhancements, should we also consider a market-level volatility control (such as market-wide circuit breakers) for the Hong Kong market?

☑ Yes

☐ No

Please give reasons for your view.

> *A market-level volatility control is not necessary if there are sufficient VCM arrangements at stock level. However it may be sensible to consider a market volatility control in conjunction with the futures market in index stocks*

15. If your answer to Q14 is "Yes", what kind of model would be suitable and when should we consider it?

Please give reasons for your view.

> *If there was a market level trigger then it would sensible to put both futures and index constituents into a simultaneous auction to determine fair price discovery.*

Part D Consultation Questions – Implementation Approach and Timeline

16. How much lead time would you need for the proposed POS enhancements?

☑ Under 3 months;

☐ 4-6 months;

☐ 7-12 months

☐ Others. Please specify : _____

Please give reasons for your view.

> *would be relying on its brokers to prepare for the enhancements. Therefore please consider the view of exchange participants in this matter.*

17. How much lead time would you need for the proposed VCM enhancements?

☑ Under 3 months;

☐ 4-6 months;

☐ Others. Please specify : _____

Please give reasons for your view.

> *would be relying on its brokers to prepare for the enhancements. Therefore please consider the view of exchange participants in this matter.*

- End -