

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.

The suggested improvements to the Pre-Opening Session (POS) are welcomed. Improving liquidity and price discovery while also reducing price volatility benefits all long-term market participants. Establishing an efficient market equilibrium price is key to execution confidence. Allowing orders to be entered up until the random matching time should encourage more participants to be active in the POS.

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.

We do not trade the proposed excluded securities

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

Yes

No

Please give reasons for your view.

Having a two-stage price limit creates unnecessary complexity for market participants. A single stage price limit is a simpler model to implement and understand.

4. Do you support setting the price limits to be initially $\pm 15\%$ 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.

We generally support the implementation of price limits however $\pm 15\%$ is a fairly narrow boundary. Potentially this should be wider to account for fundamental security price movements. As the proposed mechanism allows a security to find its natural price level immediately following the POS in continuous trading, artificially stopping a security trading outside $\pm 15\%$ in the auction only may cause unintended consequences. While the $\pm 15\%$ price limit may only be hit once a day on average, a balance needs to be found between instances of "fat finger" errors and fundamental price moves.

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

Prefer the alternative model

Not support

Please give reasons for your view.

Allowing all participants as much time as possible to react to volume and price formation is the preferred scenario. A random matching time reduces the opportunities for market participants to "game" the order matching.

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.

We agree with the reasons suggested: 1. Price-changing events could have occurred overnight and 2. Limited requirement for investors to complete their order in POS.

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

Yes

No

Please give reasons for your view.

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.

Expanding the list of stocks eligible for VCM, given the underlying reasons for VCM, is a sensible approach. As an owner of over 700 different stocks in HK, we believe all equities should have a VCM level. The approach to stagger the VCM level from 10% for Large Cap securities up to 30% for Micro Cap (non-HSCI) would be appropriate.

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.

As per response above

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.

A staggered implementation by market cap segment is a sensible approach given the variations in volatility exhibited between these.

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

Yes

No

Please give reasons for your view.

If the VCM is triggered by systematic disorderliness, priority must be given to resolving the underlying issue causing this. If the disorderliness continues once trading re-commences, the VCM should continue to be triggered until the underlying issue is resolved.

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.

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 features?

Yes

No

Please give reasons for your view.

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.

Implementing VCM controls at stock level is a suitable measure to control price volatility. The implementation of market-wide circuit breakers should not be done without very serious consideration for possible negative consequences. As mentioned in the consultation paper, the risk of exacerbating market panic and price movement is a very probable risk.

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.

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.

As an asset manager we rely on our brokers to implment appropriate technology solutions for our trading requiriements.

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.

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