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.

   Our Association has reservations about implementing all aspects stated above and do not want to outright support or object to the proposal. In particular, some of our members are unclear about the effects of short selling during this period. Overnight volatility is difficult to anticipate and prone to sudden changes and since POS may be exposed to higher risks than CAS, it is therefore suitable to implement new changes in stages to allow investors and exchange participants to gradually become accustomed to the new practices.

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.

As CAS will be expanded on October 8th, POS can similarly be expanded in stages to cover all equities and funds with the named exceptions to allow investors (especially for retail investors) to familiarize themselves with the new rules and HKEx can also monitor the effect of the new changes.

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

☑ Yes

☐ No

Please give reasons for your view.

See reply to Question 4.

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.

For the first stage, the +/- 15% should be sufficient considering overnight volatility. As for the second stage, our Association does not object to lowest ask and highest bid parameters.

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.

The proposed five minutes for no-cancellation period is more intuitive for investors preceded by fifteen minutes of Order Input Period and followed by zero to two minutes of Random Matching Period.

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.

Our Association supports the proposal for the reasons stated by HKEx in the consultation paper.

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.

Establishing VCM can help ensure an orderly market and minimize risks associated with error trades and computer glitches.

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.

N/A

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.

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

☐ Yes

☑ No

Please give reasons for your view.

One trigger per session should be a sufficient alert to the market. Multiple triggers may unnecessarily affect liquidity and investors should continue to have the ability to trade with minimal disruptions. Also, multiple triggers may restrict exchange participants' ability to implement forced liquidation.

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.

N/A

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.

Our Association believes VCM when implemented effectively can be sufficient to manage market level risks. Other regions like Europe rely only on VCM of individual securities to manage similar risks. Maintaining the market liquidity should be the most important objective for the Exchange.

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.

N/A

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.

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

☐ Under 3 months;

☐ 4-6 months;

☑ Others. Please specify : 7-12 months

Please give reasons for your view.

Our Association suggests consulting IT vendors as well to gauge time needed.

- End -