

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-Pre-sent/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 proposed features allow orders to be better managed in POS, and promote liquidity in the morning auction. The proposed features also minimise the potential for a single large order to dramatically impact the auction. Allowing Short Sell will enable liquidity providers to enter market and reduce volatility, and improve pricing quality.

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.

The list of products mentioned in general are traded very similarly, and hence the proposed POS features are applicable and beneficial to the price stability to all of them

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

Yes

No

Please give reasons for your view.

The Two-Stage price limit implemented within the POS does provide price stabilisation, and mitigates the impact of large off-market orders. Given user familiarity in CAS this new mechanism should not pose an implementation problem to participants.

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.

This is good for stock price / market stability.

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.

Enhanced POS would let the investors have more time for their investment decision making.

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.

***The previous close price is not always the most representative level, in the absence of an IEP;
There may be movement for the prevailing bid / ask even they're not being matched. To match at-auction orders at the previous close may not be able to reflect the existing change circumstance of market sentiment.***

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.

***Having a VCM in place across all HSCI stocks can help prevent the volatile swings that are occasionally happening among the small and mid-cap listed companies
More components of VCM stocks would make the mechanism working at a more orderly manner.***

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.

***Expansion to include all constituents for the VCM means that system implementation is easier - no need to keep separate lists of stocks, which have different VCMs applicable.
On the other hand, expansion of VCM to the stocks which are of low turnover and liquidity may trigger irrational behavior from investors in extreme situations.***

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.

Multiple trigger levels allows steady evolution of price, without excessive volatility that may threaten stability . As mid and small cap stocks have higher volatility, it makes sense to set higher threshold accordingly.

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

Yes

No

Please give reasons for your view.

It could improve the stability of market operation.

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.

***We have conflict views on this question.
One view is to make reference to other developed markets such as the US / which has implemented market-wide circuit breakers.
Another view is that less market intervention is more preferred as there are some potential negative impacts by the market-wide circuit breakers***

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.

Something similar that used for SPX in the US Markets - perhaps with slightly wider limits (as HK volatility tends to be naturally higher than US volatility) we feel t here should be formal rsearch into appropriate levels as well as market benefits to implementing market wide circuit breakers.

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.

We would need adequate time for testing - and we currently use two trading systems, so 7-12 months is a realistic timeframe to ensure smooth transition.

Also big brokers are under pressure to comply with new SFC requirement on order book data archive. It will consume a lot of resources.

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.

it is a suitable lead time for the implementation of system modify and comprehensive internal system testing