

## 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 regards to the randomized auction time - this may be unnecessary given the structure and safeguards of the auction mechanism.***

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.

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

Yes

No

Please give reasons for your view.

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.

***Similar to ASIFMA's industry response - we find the +/- 15% price limit may be too narrow and may inhibit fundamentally driven price discovery (e.g. overnight news). While uniform and easy to understand, the initial limit (and subsequent limit via the lowest ask/highest bid) may be too narrow to support price discovery in smaller sized names or those with less liquidity.***

***As the proposed price limit would be applied during the opening auction, but not at the start of continuous trading (as the VCM would not apply during the first 15 minutes) this may merely shift large price movements into a period where there is traditionally less liquidity.***

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.

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.

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.

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.

***Notwithstanding our response in Question 8, we also suggest it would be expanded further.***

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.

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.

***With regards to Listed Structured Products, we encourage HKEX to consider explicitly including VCM and VCM cooling-off period as circumstances where Issuers are exempt from Quote Request obligations (HKEX Hong Kong listed structured products market FAQ 4.16) and Active Quote expectation (HKEX Hong Kong listed structured products market FAQ 4.35). After the VCM cooling-off period, issuers will use best efforts to meet Quote Request and Active Quote requirements for the remainder of the day. Separately, we noticed some inconsistency between the HKEX Hong Kong listed structured products market FAQ 4.16(j) and the HKEX Industry Principles on liquidity provision for listed structured products section 3.3(j). We understand that the FAQ should be aligned with the Industry Principles and request for any subsequent changes made to the FAQ to also be reflected in the Industry Principles (and vice versa)."***

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.

***We prefer the adjustments for Listed Structured Products occur at the same time.***

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.

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.

***Similar to ASIFMA's industry response - The thresholds for such should be wide enough such that the circuit breaker will only be triggered in rare and extreme cases.***

## 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 : \_\_\_\_\_

Please give reasons for your view.

- End -