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.

    > *As these features are similar to those available in the CAS, is largely supportive of the above proposed auction features in the POS.*
    >
    > *However, with the introduction of the randomised auction matching we believe the preceding non-cancel period may be unnecessary given the randomised match would be sufficient to discourage gaming.*

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 this coverage is similar to that of the CAS, is largely supportive of the proposed coverage for the POS.***
>
> ***However, believes the enhanced POS model should also be applied to stocks on their ex-dates (eg stocks on their ex-entitlement date) given that investors may inadvertently be placing orders with incorrect price limits at multiple levels above or below the previous close.***

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

☑   Yes

☐   No

Please give reasons for your view.

> ***Given the two-stage price limit currently exists for the CAS, is supportive of the two-stage price limit in the POS. Similar to the CAS, the lowest ask and highest bid recorded at the end of the order input period (i.e. the second price limit) should be published for market participants.***

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.

> *believes the +/- 15% price limit may be sensible for common stocks but may be too narrow to support price discovery in small cap names or those with less liquidity. For example there are ~15 constituents of the Hang Seng Small Cap Index that trade below 50cents. The 15% limit may catch a few of those small caps that wish to move by more than 2 spreads at open vs previous close which may cause more volaility in the continous session.*
>
> *Per ASIFMA's Minimum Standards, Guidance, and Best Practices for Exchange Controls, it may be helpful to incorporate a price limit matrix (eg a wider limit for the Hang Seng Small Cap Index constituents). Per IOSCO, given the difference in volatility profiles of small-cap issuers versus large-cap issuers, a one-size-fits-all model across all asset classes and jurisdictions may not be suitable.*

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.

> *supports the current proposed time periods, however as discussed above we believe the non-cancel period may be unnecessary given the randomised match being introduced would be sufficient to discourage gaming.*

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.

> *supports the proposal to not match at-auction orders at the previous closing price when IEP cannot be formed in the POS because significant price changing overnight news may render the previous close price irrelevant/unrepresentive of the true market price at the open.*

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

☑ Yes

☐ No

Please give reasons for your view.

> *is also supportive of the proposed order input rejection during the POS for Non-POS securities (debt securities, structured products, leverage and inverse products, equity warrants, rights). is also supportive of trading of Non-POS securities to commence in CTS.*
>
> *However, as discussed above, believes stocks on their ex-dates (eg stocks on their ex-entitlement date) should be included in the POS model given that investors may inadvertently be placing orders with incorrect price limits at multiple levels above or below the previous close.*

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.

> *is supportive of the proposed expansion of VCM stocks to include all HSCI constituents as well as non-HSCI stocks to safeguard market from possible disorderliness.*

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.

> *Per ASIFMA's Minimum Standards, Guidance, and Best Practices for Exchange Controls, is supportive of a VCM which covers all equities. To facilitate this, a price matrix would be helpful, as per IOSCO, given the difference in volatility profiles of small-cap issuers versus large-cap issuers.*

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.

> *believes a simpler model may be easier to remember and understand. proposes a 15% trigger threshold for Hang Seng Composite LargeCap, MidCap, SmallCap constituents.*
>
> *In addition (as per question 9), is supportive of expanding the VCM to cover Non-HSCI securities with a higher triggering threshold of 30% - double the HSCI securities threshold. Based on consultation paper backtests this would only trigger ~7 times per month.*

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

☑　　Yes

☐　　No

Please give reasons for your view.

> *is supportive of multiple triggers of VCM in the same trading session as it would be beneficial to remind investors if the security price breaches the triggering threshold again. Based on consultation paper backtests allowing multiple triggers would not increase the number of triggers significantly.*

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.

> *is supportive of extending the VCM coverage to the entire continuous trading session (currently excludes the first 15 minutes of the morning and afternoon session, and the last 15 minutes of the afternoon trading session). Given HKex is expanding the CAS coverage to all stocks shortly, there shouldn't be volatility concerns by extending VCM coverage to the end of CTS.*
>
> *would require HKex to disseminate the additional market data when VCM is triggered and cooling-off period ends (eg VCM triggered=Y/N, reference price, upper and lower price limit)*

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.

> *believes the enhancements described in 12 should also be relatively simple to implement. However, is supportive to have a two phase approch if it saves implementation time. We recommend*
> *Phase 1)*
> *a) Covering all equities with higher trigger threshold for non-hsci constituents*
> *b) have a standardized 15% trigger threshold for Hang Seng Composite LargeCap, MidCap, SmallCap constituents for simplicity*
> *c) Disseminating required market data for VCM*
>
> *Phase 2)*
> *1) Extending the VCM to the entire CTS session*

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.

> *believes the proposed VCM enhancements (and suggestions outlined in 12/13) should be prioritised before market wide circuit breakers. The VCM enhancements (and suggestions in 12/13) are relatively simple to implement and would improve the existing VCM model to strengthen the market safeguards against extreme price volatility.*
>
> *As a future enhancement is supportive of a market-wide circuit breaker halting trading on the venue (e.g. if the index moves outside of a defined sensible range) as it will help control market-wide intraday price volatility and will protect the orderliness of the market.*

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.

> *The thresholds for such should be wide enough such that the circuit breaker will only be triggered in rare and extreme market conditions.*

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.

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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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- End -