

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.

We generally supported adopting the same closing auction model of auction features in POS. However, we believe the previous close is less of a good reference price for the “tick rule”. Therefore, we propose short selling orders should be allowed to hit the bid at 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 supported POS model applies to all equities and funds.

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

Yes

No

Please give reasons for your view.

We support a two-stage price limit during POS in line with adopting the same closing auction model as in CAS.

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 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. However, we also propose a price limit extension period if the price limit of $\pm 15\%$ in the first period is reached. (Please see comment in Q7).

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.

We preferred the alternative model so that the matching time remains the same as today at 09:20. The order input period or non-cancellation period can be shortened by 2 minutes instead.

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 supported the proposal of NOT matching at-auction order at previous close price when an IEP cannot be formed. This is because the previous close is not a good reference price due to overnight activities.

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

Yes

No

Please give reasons for your view.

We proposed a price limit extension period similar to the opening price monitoring extension threshold mechanism in LSE.

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.

The proposed expansion of VCM stocks is a better way to manage systemic risks across market.

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 small cap stocks have higher volatility which requires larger thresholds.

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.

As small cap stocks have higher volatility which requires larger thresholds.

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

Yes

No

Please give reasons for your view.

We proposed to allow multiple triggers in the same trading session similar to other exchanges internationally.

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.

No comment

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.

The proposed VCM enhancements should achieve the objective of volatility control and there is no need for market level volatility control. This is also consistent with most developed markets having stock level volatility control mechanisms, and only emerging markets without volatility mechanism require market or board wise 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.

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.

6 months is an expected time period for impact assessment, implementation and related governance and other controls required to ensure satisfactory go-live. Furthermore, Barclays would like to suggest that the final changes are consistent with other markets where possible as this will facilitate a more expedient implementation and would respectfully request that test systems have the changes available for testing for a minimum six-month period.

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.

Same comment in Q16.

- End -