
From: [REDACTED]
Sent: Wednesday, May 2, 2007 10:46
To: feedback
Cc: David Lo
Subject: Re: Closing Auction

Dear David,

In principle, Hang Seng supports the proposal to introduce a closing auction session.

However, after review, we note that the implementation has great impact to different products types as well as a number of our in-house systems. To ensure that the market participants like us with sophisticated systems can smoothly handle the securities trading in the new session and make reference to the closing price in determining the reference price for structured products, we strongly request for the provision of 9 to 12 months for enhancement of our systems accordingly.

Please also find some of our comments below for your kind consideration.

Impact to determine closing price to Structured Products

Since almost all equity linked structured products are referring to official market close price for coupons/ maturity determination, therefore, it is suggested HKEx to have a clear message on market close price determination once closing auction is adopted.

A standardized approach on market close price mechanism (i.e. for all stocks, warrants and ETF etc.) should be adopted in order to have a consistent message / arrangement for investors/ market participants. Potential market manipulation is another key concern. Please consider to have clear and reasonable rules on price setting related to new orders / amendments of outstanding orders in the closing auction session to prevent market manipulation.

CBBC

How about the rules to determine the residual values in the event of CBBC called at closing auction session or afternoon session.

Outstanding orders carried forward from Continuous Trading to Closing Auction

How to handle amendment and cancellation of outstanding orders in AMS/3 after 4 pm? For example, if an enhanced limit order is sent to AMS/3 before 4 pm and carried forward to closing auction session. During the order input period, please advise if we should send the amendment request on this outstanding order using enhanced limit order type or auction limit.

There are cases that the orders with order price less than HKD0.01 are outstanding. Please advise how AMS/3 will handle these orders in the odd lot board and if new orders of this type can be placed.

Besides, sufficient investor's education especially on the auto-carry forward mechanism has to be considered to avoid confusion and/or disputes. For questions, please feel free to call me at [REDACTED] or our Ms Jeannie Leung at [REDACTED].

Thanks and Regards,
YC