

-----Original Message-----

From: [REDACTED]

Sent: Wed 4/4/2007 11:34 AM

To: [REDACTED]

Cc: [REDACTED]

Subject: RE: Consultation Paper on the Introduction of a Closing Auction Session

Dear Eric,

Subsequent to my e-mail yesterday, my colleagues in charge of the "on- line trading" has come up with the following operational issues that he would like HKEx to consider.

1. Possibility of abnormal closing price - In case of illiquid stocks or warrants (when market makers generally do not make prices at the close), an "at auction price " order can create a closing price which can deviate substantially from the last traded price before the close (hitting whatever bid or offer in the market). As a broker , we are suppose to monitor the orders to ensure an orderly market (like in the opening auction) but given the structure and the time window of the closing auction, this will pose a challenge to the brokers.

2. Window of time for order entry - As the HKEx's price warning mechanism only allows orders within a "20 spread" of the last traded price into the market, orders from clients away from the market is usually held by brokers and released to the market at the appropriate time. As described in the proposal, the IEP during the closing auction will change depending on the order inflow at the time, this in turn may trigger the release of clients orders held. If the movement within the Closing auction session is big, then there is a chance that there is not sufficient time for all the "on hold" orders to be released to the market. This will create a problem for the intermediaries and give rise to client complaints.

3 As the computer logic for processing "Opening Auction Session" and the "Closing Auction Session" is quite different, a substantial lead time would be needed for system change if the proposed changes were to be implemented.

Regards

Edward Kwan

-----Original Message-----

From: [REDACTED]

Sent: Tuesday, April 03, 2007 4:31 PM

To: feedback

Cc: [REDACTED]

Subject: Re: Consultation Paper on the Introduction of a Closing Auction Session

Dear Sir,

With regard to the above captioned Consultation Paper, I would like to express our support for the proposed initiative in principle.

After going through the Paper, our colleagues has come up with the following comment..

- Under item 34 "Orders gathered during the order input period and the pre-order matching period are matched by order type, price and time priority as is done in the pre-opening session. Note that an at-auction order has higher matching priority than other orders." As limit orders in the normal session are carried forward into the closing auction period, would it be equitable for at-auction orders entered after the normal session to take priority over these "limit orders" carried forward ?

- As this will be something new for the Hong Kong market, extensive investor education will be required to inform the public of the mechanics as well as operation implications of the initiative before its' implementation.

Regards

Edward Kwan
CEO
HSBC Broking Services (Asia) Ltd

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