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Sent: Monday, May 7, 2007 17:53
To: feedback
Cc: Kam, Sunny; Kee, Jake; Chan, Teresa
Subject: Comments on Consultation Paper on Introduction of a Closing Auction Session

May 7, 2007

Hong Kong Exchanges and Clearing limited
12/F One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Dear Sirs,

Response to the Consultation Paper - The Introduction of a Closing Auction Session

Regarding the proposal to introduce a closing auction session, Lehman Brothers would like to submit the following comments.

We do not see an immediate need to adopt a closing auction session as our traders reckon that the current closing price calculation is already one of the most effective and efficient model in the global securities markets. The current methodology is simple to understand and fair to all market participants.

In the consultation paper, you discussed various concerns arising from the current methodology. For instance, you mentioned the difficulty of portfolio valuation and index rebalancing to match the closing price, and the difficulty for the public to understand how the closing price is derived. While these are valid issues, one also need to consider the potential impact of the new proposal to all market players. For instance, the new proposed model of a closing auction session may make the market more vulnerable to manipulation at the closing.

We need to balance the interest of all market participants. Our concern is that the closing auction session may introduce unwanted increased volatility and facilitate easier manipulation of closing price. It also inevitably introduces additional costs to market participants.

We hope that you find our comments helpful. If you have any questions on our comments, please feel free to contact us for further discussion.

Thank you for your attention.

Best Regards,

Lorraine Ng
Vice President
Lehman Brothers
[REDACTED]

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