

7 May 2007

By Hand and by email

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

Attention: Mr. Eric Yip  
Head of Cash Market

Dear Sirs,

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

We refer to the captioned Consultation Paper and set out our comments as follows.

### **General Comments**

We strongly support the HKEx's proposal to introduce a closing auction session. This is a positive move and improvement to current closing price calculation mechanism. We also agree with general market view as stated in the Consultation Paper that this auction mechanism could reduce trading volatility, enhance market liquidity and reduce the possibilities of market manipulation.

### **Proposed Features/Trading arrangements of the Closing Auction**

Under the proposal, the Order Input Period of the closing auction session will be from 16:00 to 16:05. We recommend that the duration of this Order Input Period should be extended from 5 minutes to 10 minutes.

We understand that, like the existing pre-opening session, orders cannot be modified and cancelled during the Pre-Order Matching Period of the proposed closing auction session. This may increase operational risks as incorrectly inputted orders could not be changed / deleted. Hence, we propose that cancellation of orders should also be allowed in the Pre-Order Matching Period.

### **Random Closing Alternative**

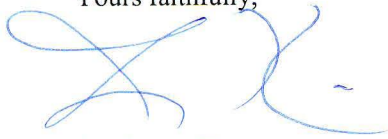
We believe that random closing alternative is effective in preventing market manipulation as this made it more difficult for market players to send orders immediately before the order matching period to affect the closing price. A number of overseas markets have been adopting random closing alternative mechanism.

### **Final Settlement Price for Derivative Products**

We think that existing methodology in calculation of final settlement price for derivative products (average of prices at 5-minute intervals during the last trading day) worked well. It is not necessary for the HKEx to introduce closing auction session for determining the final settlement price for

derivative products. For other exchanges such as Euronext.liffe, they adopt certain kind of average price method to determine the settlement price of derivative products.

Yours faithfully,



Jongbeum Kim  
Head of Equity Derivatives Trading  
SG Securities (HK) Ltd