

PART B: DETAILED QUESTIONS FOR RESPONSE

Please indicate your preference by providing comments as appropriate. Where there is insufficient space, please attach additional pages as necessary.

(1) Do you support Approach 1, Approach 2, Approach 3 or suspending the CAS as a whole? Please state.
Approach #1

(2) If Approach 1 is adopted,

(i) Do you prefer the price limit to be set at 5%, 10% or other percentages?
No preference.

(ii) How much lead time would your firm require for its implementation?
None – we are ready

(3) If Approach 2 is adopted,

(i) Do you prefer the price limit to be set at 10 spreads, 24 spreads or other spreads?
24

(ii) How much lead time would your firm require for its implementation?
None – we are ready

(4) If Approach 3 is adopted,

(i) Do you prefer the outstanding orders priced outside the pre-set range to be cancelled instead of carrying forward to the CAS?
Carry forward (resting retail orders should be allowed to participate)

(ii) For securities without the day high and day low prices at 4 pm, do you prefer disallowing order input during the CAS for these securities or not imposing a price control limit at all?

Disallow – but no real preference

(iii) Do you prefer the price control limit to be set at 0 spreads (i.e. simply using the day high and day low prices as limit), 10 spreads or other spreads above the day high and below the day low prices?

Prefer a % but 20+ spreads

(iv) How much lead time would your firm require for its implementation?

None

(5) If suspension of the CAS is adopted, how much lead time would your firm require for its implementation?

None but that would be a huge mistake (I've not read one valid argument on why the auction should be abolished – refined yes but abolished no). It's a shame that a vocal minority is given such clout at the exchange. Similar outcry was rampant when the exchange abolished minimum commissions – since then volumes have gone up and the average retail punter has benefited immensely. Ditto for the reduction of the minimum spreads – wasn't there huge outcry from the same vocal minority that volumes would drop because of a lack of liquidity – fortunately logic prevailed and the turnover has soared). The closing auction benefits both institutional and retail participants. It should not be removed.

- (6) Do you have other proposed measures to reduce price volatility during the CAS or other comments or suggestions regarding the CAS? Please state.

You need to allow short selling during the auction so imbalances can be efficiently handled by the market (would even be an improvement to consider allowing short selling to prices at or higher than the 4 PM cash close). First, there is a need to hedge Put warrant settlements. Second, if there is a large order to buy which artificially moves a price higher than what is perceived as fair value, the ability to short would help provide liquidity to avoid abnormally large up moves (this would be particularly helpful to the market on rebalancing days)

When the auction market was introduced, I was initially opposed as I thought warrant issuers would have free reign to mark settlement price – however I was wrong. The auction has provided the ability to hedge warrants efficiently and at much fairer prices (which obviously benefits the retail investor).

In regards to the abnormally large price moves – if you remove the auction, you'll shift those moves to the last minute of trading which slows down the system and actually provides retail less of an opportunity to participate on price imbalances.

One other possibility to limit excessive moves would be to require the market on close at auction orders to be submitted before say 16:06 thus allowing participants to recognize the imbalances and place orders against them until 16:08. Right now many of the large price movements are coming from at-auction orders placed after 16:08.

In summary, eliminating the auction will be a step backwards and only shift the issue of large price moves on the close to the final minutes of trading.

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