

Part B Consultation Questions – Volatility Control Mechanism

Please indicate your preference by checking the appropriate boxes and provide reasons to support your views. Where there is insufficient space, please attach additional pages as necessary.

1. Do you support the introduction of an instrument-level VCM based on a dynamic price limit model in Hong Kong?

Yes

No

Please give reasons for your view.

This is consistent to other major international markets. The introduction of VCM improves HK competitiveness in dealing with volatile market conditions and errors.

2. Do you agree that the proposed VCM model should only be applied to the HSI and HSCEI constituent stocks in the securities market?

Yes

No

Please give reasons for your view.

It should apply to all stocks listed on the Exchange, but this could be done at a later stage.

3. Do you agree that the proposed VCM model should only be applied to the HSI, HHI, MHI & MCH (spot month and the next calendar month) index futures in the derivatives market?

Yes

No

Please give reasons for your view.

It should apply to all types of futures contracts (excluding options), but this could be done at a later stage.

4. Do you agree that the market should have a 15-minute uninterrupted trading period before the end of the last continuous trading?

Yes

No

Please give reasons for your view.

We agree to have 15 minutes uninterrupted trading period before market close at 4 pm. A better option would be unlimited triggers and not to suspend the VCM in the last 15 minutes of trading, but this could be done at a later stage.

5. Do you agree with the proposed reference price for the securities market, namely the price of last trade 5 minutes ago? If not, what would you prefer?

Yes

No, I would prefer: _____

Please give reasons for your view.

This is consistent to other major international markets.

6. Do you agree with our proposed reference price for the derivatives market, namely the price of last trade 5 minutes ago? If not, what would you prefer?

Yes

No, I would prefer: _____

Please give reasons for your view.

Same to answer #5.

7. Do you agree with the proposed triggering level for the securities market, namely 10% from the reference price across the proposed instruments covered by the VCM? If not, what level would you prefer?

Yes

No, level that I would prefer: _____

Please give reasons for your view.

This appears to be a reasonable threshold.

8. Do you agree with the proposed triggering level for the derivatives market, namely 5% from the reference price across the proposed instruments covered by the VCM? If not, what level would you prefer?

Yes

No, level that I would prefer: 10%

Please give reasons for your view.

A consistent 10% should be adopted for all types of futures contracts (excluding options), same threshold as to the securities market to reduce complexity.

9. Do you agree that a maximum of two VCM triggers per trading session per instrument should be imposed to minimise market interruption?

Yes

No, I would prefer: Unlimited

Please give reasons for your view.

The principle of VCM is good. It should not have limit or maximum, but this could be done at a later stage.

10. Do you support trading within a price limit during the cooling-off period? If not, do you prefer another approach?

Yes

No, another approach that I prefer: _____

Please give reasons for your view.

We agree trading within a price limit during the 5 minute cooling-off period to accommodate a change in market sentiment.

11. After the cooling-off period, do you support resuming the same dynamic price limit monitoring mechanism (i.e. $\pm 10\%$ ($\pm 5\%$) from the last trade 5 minutes ago in the securities (derivatives) market)? If not, do you prefer another approach?

Yes

No, I would prefer: _____

Please give reasons for your view.

Same to answer #10

12. Do you have any other suggestions on enhancing the resumption procedures?

An action mechanism could be an alternative to facilitate price discovery.

13. Do you agree that the duration of the cooling-off period should be 5 minutes for both the securities and derivatives markets? If not, what would you prefer and why?

Yes

No, I would prefer: _____

Please give reasons for your view.

This is consistent to other major international markets.

14. Do you agree with the additional market data dissemination for the proposed VCM model? If not, what would you propose and why?

Yes

No, I would propose: _____

Please give reasons for your view.

This would increase market transparency and help market participants to make informed decisions.

15. If a VCM is triggered for a given instrument, should trading of related instruments (e.g. futures contract of different contract months) on the same underlying continue as normal?

Yes

No

Please give reasons for your view.

Market making activities on the same underlying will be affected if VCM is triggered on an instrument, and thus the related instruments should not continue to trade as normal.

16. If a VCM is triggered for a given instrument, should trading of derivatives (e.g. single stock options or warrants) of that instrument continue as normal?

Yes

No

Please give reasons for your view.

Same to answer #15.

17. Do you have any other comments on the VCM proposal?

The proposed VCM model is a good start to align with other major international markets.

Part C Consultation Questions – Closing Auction Session

18. Do you support the introduction of the new CAS model in the Hong Kong securities market?

Yes

No

Please give reasons for your view.

Given other major international markets have similar mechanisms, the introduction of closing auction will improve HK competitiveness, aligning with universally accepted reference price.

19. Do you agree that the new CAS model should only be applied to the major index constituent stocks (i.e. Hang Seng Composite LargeCap Index and Hang Seng Composite MidCap Index constituents as well as other Stock Connect Securities for Southbound trading)?

Yes

No

Please give reasons for your view.

CAS model should apply to all equity products but excluding listed structured products (e.g. equity warrants) and debt securities (e.g. listed Exchange fund notes / bills or corporate bonds), as these types of products have distinct features as compared to equity securities, but this could be done at a later stage.

20. Do you agree that the new CAS model should be applied to ETF? If yes, which type of ETF should be applied?

Yes

(i) Apply to all ETFs

(ii) Only apply to ETFs with Hong Kong stocks as underlying

No

Please give reasons for your view.

Same to answer #19

21. Do you agree that at a later stage, the new CAS model should be expanded to other equity securities and funds as proposed? If so, when should the CAS be rolled out to these securities and funds?

Yes, roll out time should be: as soon as practicable

No

Please give reasons for your view.

To align with other major international markets.

22. Do you agree that that the new CAS model should exclude structured products, equity warrants and debt securities?

Yes

No

Please give reasons for your view.

Same to answer #19

23. Do you support introducing a price limit during the CAS?

Yes

No

Please give reasons for your view.

Price limit is good but cannot be too narrow.

24. Do you support a price limit of 5% during the Order Input Period for all CAS Securities?

Yes

No

Please give reasons for your view.

To benchmark with the other major international markets and consistent with the VCM, a 10% price limit is desirable.

25. Do you agree that a further price limit within the best bid and best ask should be applied during the No-Cancellation Period and Random Closing Period?

Yes

No

Please give reasons for your view.

This will hamper market liquidity.

26. Do you agree that at-auction limit orders should be allowed throughout the CAS?

Yes

No

Please give reasons for your view.

Yes, this would improve market liquidity and facilitate price discovery.

27. Do you think short selling orders with a tick rule should be allowed during the CAS?

Yes

No

Please give reasons for your view.

Short selling will enhance market efficiency and liquidity, even during the CAS.

28. If short selling order is to be allowed, should it be at or higher than the reference price?

Yes

No

Please give reasons for your view.

The existing requirement for short selling with an uptick rule is sufficient and should be consistently apply during CAS.

29. Do you agree that order amendment and cancellation should be disallowed during the No-Cancellation Period and Random Closing Period?

Yes

No

Please give reasons for your view.

Yes, but this could be subject to further review after the CAS has been launched.

30. Do you agree that random closing be adopted in the CAS to prevent gaming?

Yes

No

Please give reasons for your view.

CAS should have some anti-gaming logics such as the proposed random close mechanism. Also, it improve price discovery by removing the incentive to delay displaying buying or selling interest, i.e. delay in order input.

31. If random closing is to be adopted, should it be over a period of up to 2 minutes or would you prefer a different duration?

Up to 2 minutes

A different duration: up to 1-minute

Please give reasons for your view.

Any random close window below 1 minute is sufficient.

32. In the absence of a final IEP, do you agree that the reference price should be used as the closing price and for trade matching?

Yes

No

Please give reasons for your view.

Reference price like the existing 5-minute median prints mechanism is needed and VWAP could be another alternative.

33. What would be the preferred duration of the CAS?

(i) Same as the proposed model, i.e. 7-minute Order Input Period to end the CAS at 16:12

(ii) 5-minute Order Input Period to end the CAS at 16:10

(iii) Others, please specify:

Approach (i)

Approach (ii)

Approach (iii), please specify: _____

Please give reasons for your view.

The proposed 7-minute is sufficient.

34. Do you agree that some features of the new CAS model may also be beneficial for the POS and/or the Trading Halts? If so, which feature(s)?

Yes, the feature(s): an auction process

No

Please give reasons for your view.

The auction process is the key feature of CAS and should also be used in pre-opening session.

35. Do you agree that any enhancements for POS and/or the Trading Halts should be implemented later rather than during the introduction of the new CAS?

Yes

No

Please give reasons for your view.

In order for the public to get used to the new mechanisms, we think it may be easier for HKEx to launch the new initiatives in phases, with first priority on CAS, followed by VCM, and enhanced POS and trading halt may come later.

36. Do you foresee any issues with your day end processing such as margin calls in the cash market due to the extended trading time for 12 minutes? If yes, how may the issue be resolved?

Yes, suggested solution: _____

No

Please give reasons for your view.

37. To maintain the 45 minutes break before the start of AHFT, do you agree that the start time of AHFT to be changed from 17:00 to 17:15? If not, what time do you prefer?

Yes

No, time that you prefer: _____

Please give reasons for your view.

Part D Consultation Questions – Implementation Approach and Timeline

38. Which implementation approach for the securities market would you prefer:
- (i) the development and testing of the VCM, CAS and Trading Halts functionalities are to be implemented together on the AMS/3.8 platform and be rolled out one by one; or
 - (ii) (1) the development, testing and rollout of VCM and CAS are to be implemented together on the AMS/3.8 platform, and (2) Trading Halts proposal is to be introduced as part of the Exchange's next-generation trading system, the Orion Trading Platform-Cash; or
 - (iii) Others, please specify.

Approach (i)

Approach (ii)

Approach (iii), please specify: CAS as top priority followed by VCM, and enhanced POS and trading halt may come later.

Please give reasons for your view.

We think the priority should be given to CAS, VCM, and enhanced POS and trading halt may come later.

39. What should be the implementation priority among the three initiatives (i.e. VCM, CAS and Trading Halts) in the securities market?

Please give reasons for your view.

Same to answer #38

40. How long do you need to prepare for the rollout starting from the issuance of the specification for each initiatives:

(i) VCM:

a). under 3 months;

b). 4-6 months;

c). 7-12 months

d). >12 months

Please give reasons for your view.

4-6 months would be a reasonable timeframe for HKEx to roll out, given sufficient time for the market to prepare.

(ii) CAS:

a). under 3 months;

b). 4-6 months;

c). 7-12 months

d). >12 months

Please give reasons for your view.

Same to answer #40(i)

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