

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.

Unexpected extreme volatility due to human or system error should be prevented. Instrument-level VCM should be appropriate (in comparing market level VCM).

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.

The purpose of the Introduction of Volatility Control Mechanism should be focused on the key stocks/products which their individual price movement will have significant impact on the whole market. Stocks other than HSI and HSECEI constituent stocks will have less systematic impact to whole market.

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.

The purpose of the Introduction of Volatility Control Mechanism should be focused on the key stocks/products which their individual price movement will have significant impact on the whole market. Futures products other than HSI HHI MHI & MCH (spot month and the next calendar month) will have less systematic impact to whole market.

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.

It is not necessary if the proposed Closing Auction Session be implemented. Day positions can still be unwinded in the proposed Closing Auction Session.

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.

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.

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.

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: _____

Please give reasons for your view.

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: _____

Please give reasons for your view.

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.

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.

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

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.

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.

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.

The main purpose of the VCM is to prevent unexpected extreme volatility due to human or system error. Such error should be considered as independent case only. Hence, it is not necessary to interrupt normal trading on linked instruments.

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.

The main purpose of the VCM is to prevent unexpected extreme volatility due to human or system error. Such error should be considered as independent case only. Hence, it is not necessary to interrupt normal trading on linked instruments.

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

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.

Understands that there are keen actual demand on market close executions. Also, new proposed CAS model can provide better closing price discovering mechanism in comparing current closing price mechanism (p.s. only use 5 price without considering trade quantity.)

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.

It should be applied to all stocks because current closing price mechanism should have room for improvement (p.s. it is comparatively easier to be manipulated which only depends on 5 prices without consider quantity)

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.

reason is same as the answer mentioned in Question 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: all at the same time.

No

Please give reasons for your view.

reason is same as the answer mentioned in Question 19.

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.

reason is same as the answer mentioned in Question 19.

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

Yes

No

Please give reasons for your view.

It can reduce the risk on extreme price movement.

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.

In most of the cases, the volatility of 5 % up and 5% down should be appropriate during such short matching period.

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.

In most of the cases, the volatility of 5 % up and 5% down should be appropriate during such short matching period. Hence, 1% or 2% further narrowing with no big difference but make the process being complicated.

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

Yes

No

Please give reasons for your view.

This allow day orders can be cleared at market closing price.

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.

The CAS session is for the purpose of finding a market closing price which can provide trade volume as well. Therefore, it should be treated as part of the normal market. Normal orders (such as normal short sell orders with tick rule) should not be ruled out.

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.

It should be at or higher than reference price (p.s. assume reference price is the point to consider in applying the tick rule)

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.

The matching period is short. Amendment and cancellation should be disallowed. Otherwise, there will be too many "unreal changing orders" which may give misleading message.

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

Yes

No

Please give reasons for your view.

It will further provide additional difficulty for anyone who wants to take advantage from CAS mechanism.

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: _____

Please give reasons for your view.

2 minutes should be appropriate.

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 is only a single price which is comparatively easier to be manipulated. Instead, suggested current closing price calculation method by the median of the 5 snapshot nominal prices may be used.

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.

both (i) and (ii) are acceptable

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): e.g. random market open price

No

Please give reasons for your view.

It will further provide additional difficulty for anyone who wants to take advantage from the determination of AO market open price.

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.

More experience earned from the proposed CAS can help all parties familiar with the new mechanism to be implemented to POS and/or the Trading Halts.

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: _____

Please give reasons for your view.

It will be more efficient.

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.

CAS, VCM, Trading Halts
CAS with keen demands
VCM and Trading Halts are preventive measures.

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.

need to arrange with System Vendor if necessary.

(ii) CAS:

a). under 3 months;

b). 4-6 months;

c). 7-12 months

d). >12 months

Please give reasons for your view.

need to arrange with System Vendor if necessary.

- End -