

## 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.

While we feel a dynamic price control is important for the integrity of the market, we also feel that a static price component is important.

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.

Overtime we feel the VCM should be extended over the entire securities market. It should take into account both ticks and percentage moves according to the stocks involved.

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.

As above, although consideration must be given for the longer maturities and any other derivatives not presently covered.

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.

The integrity of the market can be compromised at any time. The whole of the market hours should be covered.

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.

We believe this is a good starting point and helps the VCM, however we also believe that in the long term the incorporation of a static reference price would be very useful

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.

As above.

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.

We believe 10% would be a good starting point for the VCM implementation. Over time we would like to see a change in the level to the larger of 5 ticks or .5%.

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.

As above.

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.

We believe that the price movement in any given instrument can happen multiple times a day. Limiting the trigger to just two may affect the efficiency of the market.

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.

This would work fine for the VCM. Longer term, we would like to see an auction based unwinding of the VCM. This would work similarly to other auction mechanisms providing transparency and price discovery.

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.

Longer term auctions with extensions may be more efficient. Static reference price measures may also be helpful..

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

As above, reiterating auctions/static pricing and tick pricing as key.

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.

Five minutes would be plenty of time for the market to reassess.

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.

We have no issues with the market data dissemination model.

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 VCM should assess the integrity of the given instrument. If related instruments trade differently, the market will decide.

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.

As above

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

VCM is important for the integrity of the Hong Kong market place. Suggestions of static and tick pricing and an extended auction should be considered as they are widely used amongst developed market peers.

## 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.

It is important that a developed market like Hong Kong has a transparent CAS mechanism in line with its peers that the investment community can rely on. Liquidity at an important benchmark like "the close" is an important service. Major index rebalances like HSI, MSCI and FTSE can be very challenging for large investment managers like under present conditions. Transparent pricing would benefit both large and small investors with regards to price stability and discovery. The Tracker Fund, an instrument familiar to the small investor, would benefit from a CAS.

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.

However long term, the new CAS model should include all securities. One important consideration should be given to index additions and deletions which are historically flagged by the relevant index provider well ahead of time so that inclusion in the CAS universe should be possible.

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.

There is no reason to exclude ETFs

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: \_\_\_\_\_

No

Please give reasons for your view.

The new CAS model should be rolled out as early as possible, but not at the expense of any delays to the CAS implementation.

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.

As above, if applicable.

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

Yes

No

Please give reasons for your view.

We would prefer no price limit longer term, a view in line with many other developed CAS. We believe that the lower the price limit, the more inefficient the CAS will become.

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.

As above. Data recently compiled for... would suggest that a 5% limit would mean that 2/3 of adds/deletes on rebalance days would not complete, forcing the market to trade early. However if 5% is a starting point to be revised up then that would be a good start.

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.

The price discovery band should be whatever the auction limit is.

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

Yes

No

Please give reasons for your view.

Limit orders protect the integrity of the auction. They allow the market greater control over their pricing points in the auction.

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.

All good liquidity should be allowed to participate in the closing auction. Increasing the number of participants improves auction liquidity and transparency . .

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.

Short selling is subject to the uptick rule so it would naturally sit higher in the auction.

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.

This period is important to prevent gaming, however, errors do occur and the exchange has to be transparent about how they will action these.

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

Yes

No

Please give reasons for your view..

This is an excellent way to prevent gaming and adds to an orderly auction before the closing price. It is used widely amongst developed peers.

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.

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.

For large significant securities the CAS will always be activated. In the absence of no activity the 5 print method should be fine.

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.

We feel the timing periods stated are adequate for participants to execute orders.

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): All

No

Please give reasons for your view.

The CAS structure could be applied to both the POS except price limits and the VCM.

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.

As stated, however it should not delay initial implementation.

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.

processes can handle any small extension to Hong Kong trading hours.

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.

We do not see any reason to change the 45 minute break period.

## 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.

Fastest possible implementation of the CAS is preferred.

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.

1 CAS  
2 VCM  
3 Trading Halt

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.

(ii) CAS:

a). under 3 months;

b). 4-6 months;

c). 7-12 months

d). >12 months

Please give reasons for your view.

- End -