

## Part B Consultation Questions – Pre-opening Session Enhancement

Please indicate your preference by checking the appropriate boxes and provide reasons to support your views. Please reply to the questions below on the proposed change discussed in the Consultation Paper downloadable from the HKEX website at: <http://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/August-2019-Consultation-Paper-on-Market-Microstructure-Enhancements/Consultation-Paper/cp201908.pdf>

Where there is insufficient space provided for your comments, please attach additional pages.

1. Do you support using the following **auction features** in POS, similar to CAS:

- Randomised auction matching;
- Allowing at-auction limit orders throughout the session;
- Allowing short selling orders with a price not lower than the previous closing price; and
- Enhanced market transparency.

Yes

No

Please give reasons for your view.

***Randomised matching will limit gaming in the auction period. At-auction limit orders will improve price discovery. Allow short selling orders will improve liquidity and will help reduce price volatility on the upside.***

2. Do you agree that the enhanced POS model should **be applied to all equities and funds only** similar to CAS, with details as follows:

- Including equities (including depositary receipts, investment companies, preference shares and stapled securities) and funds (ETFs and REITs)
- Excluding debt securities, structured products, leveraged and inverse products, equity warrants and rights.

Yes

No

Please give reasons for your view.

***We agree POS should be applied to all equities and funds only, similar to CAS. Other securities classes may not be suitable to apply the same price limit, given their prices may move at wider range than their respective underlyings.***

3. Do you support applying a two-stage price limit during POS similar to CAS?

Yes

No

Please give reasons for your view.

***This will keep POS and CAS consistent.***

4. Do you support setting the price limits to be initially  $\pm 15\%$  from the previous closing price, and then to within the lowest ask and highest bid prices recorded at the end of order input period?

Yes

No

Please give reasons for your view.

***This will keep POS and CAS consistent.***

5. Do you support the proposed time periods in the enhanced POS, or would you prefer the alternative model with the No-cancellation period shortened by 2 minutes such that auction matching may occur latest by 9:20am same as today?

Support the proposed time periods

Prefer the alternative model

Not support

Please give reasons for your view.

***This will make it consistent with the existing model such that market participants will continue to have the same time period to input their orders, while will enjoy an additional 2 minutes to input orders if wish.***

6. Do you support the proposal of **not** matching at-auction order at the previous closing price when an IEP cannot be formed in POS?

Yes

No

Please give reasons for your view.

***Previous close is not a good reference if the bid-ask spread is wide in the opening auction. Should this situation arise, we suggest to adopt price monitoring extension mechanism like in many other major markets, this will improve price discovery.***

7. Do you have any other comments on the POS enhancement proposal?

Yes

No

Please give reasons for your view.

***Price monitoring extension may also be considered for the rationale in the answer of question 6 above.***

## Part C Consultation Questions – Volatility Control Mechanism Enhancement

8. Do you support the proposed expansion of VCM stocks in the securities market to all HSCI constituent stocks to safeguard market from possible disorderliness in trading caused by advances in trading technology?

Yes

No

Please give reasons for your view.

***We agree that non-HSCI stocks, which may only have a transaction every 3 minutes, will not be suitable. The proposed expansion, which will cover 90% of market capitalisation and 96% of equity turnover, we think will be good enough for the time being.***

9. If you prefer other expansion options, please indicate below:

Alternative Option 1: Expand to include constituents of Hang Seng LargeCap Index only

Alternative Option 2: Expand to further include all constituents of Hang Seng LargeCap and MidCap Indexes only

Alternative Option 3: Expand to all equities but with a higher triggering threshold for the non-HSCI stocks

Others. Please specify : \_\_\_\_\_

Please give reasons for your view.

10. Do you support the proposed trigger thresholds of 10%, 15%, and 20% for Hang Seng Composite LargeCap, MidCap and SmallCap stocks respectively?

Yes

No

Please give reasons for your view.

***Price volatility is often a function of market cap, therefore we agree to have different thresholds for different segments of market cap.***

11. Do you support the proposal to allow multiple triggers in the same trading session?

Yes

No

Please give reasons for your view.

***This will be inline with the practice of many other major overseas markets.***

12. Do you have other suggested enhancements or any other comments for VCM in the securities market?

Yes

No

Please give reasons for your view.

13. If your answer to Q12 is "Yes", would you support implementing the three enhancement features proposed first, as they can be implemented relatively quickly, before we move on to review or implement some other more complex features?

Yes

No

Please give reasons for your view.

14. On top of the proposed VCM enhancements, should we also consider a market-level volatility control (such as market-wide circuit breakers) for the Hong Kong market?

Yes

No

Please give reasons for your view.

***From the past experience and studies of overseas markets, we do not see this will benefit Hong Kong market unless there is a more refined model.***

15. If your answer to Q14 is "Yes", what kind of model would be suitable and when should we consider it?

Please give reasons for your view.

## Part D Consultation Questions – Implementation Approach and Timeline

16. How much lead time would you need for the proposed POS enhancements?

- Under 3 months;
- 4-6 months;
- 7-12 months
- Others. Please specify : \_\_\_\_\_

Please give reasons for your view.

***We think this is a sensible lead time for everyone to prepare their systems for the enhancements.***

17. How much lead time would you need for the proposed VCM enhancements?

- Under 3 months;
- 4-6 months;
- Others. Please specify : \_\_\_\_\_

Please give reasons for your view.

***We think this is a sensible lead time for everyone to prepare their systems for the enhancements.***

- End -