

## 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.

***As these features are similar to those available in the CAS, ASIFMA members are largely supportive of the above proposed auction features in the POS.***

***However, members have noted that having both a randomised auction matching period of up to 2 minutes as well as a non-cancel period may be unnecessary; having either one or the other will sufficiently discourage gaming.***

***As the non-cancel period is in place, it is unnecessary to introduce a random matching period given that the preceding non-cancel period already encourages genuine order input and discourages gaming. The associated price certainty in the absence of such random matching may encourage further participation in the auction, particularly from those trading futures and options. Such would increase certainty for market participants, which will enhance liquidity.***

***If the randomised auction matching period is introduced, it may be unnecessary to have a non-cancel period given that randomised matching would sufficiently discourage gaming (e.g. marking the open).***

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.

***As this coverage is similar to that of the CAS, ASIFMA members are largely supportive of the proposed coverage for the POS.***

***Some members have noted the enhanced POS model should also be applied to stocks on their ex-dates (e.g. stocks on their ex-entitlement date), given that investors may inadvertently place orders with incorrect price limits at multiple levels above or below the previous close.***

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

Yes

No

Please give reasons for your view.

***While a two-stage price limit adds further complexity and may be confusing for investors, given that a two-stage price limit currently exists for the CAS, ASIFMA members are largely supportive of the two-stage price limit in the POS. Similar to the CAS, the lowest ask and highest bid recorded at the end of the order input period (i.e. the second price limit) should be published for market participants.***

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.

***The +/- 15% price limit may be too narrow and may inhibit fundamentally driven price discovery (e.g. overnight news). While uniform and easy to understand, the initial limit (and subsequent limit via the lowest ask/highest bid) may be too narrow to support price discovery in smaller sized names or those with less liquidity. Per ASIFMA's Minimum Standards, Guidance, and Best Practices for Exchange Controls, it may be helpful to incorporate a price limit matrix. As noted by IOSCO, given the difference in volatility profiles of small-cap issuers versus large-cap issuers, a one-size-fits-all model across all asset classes and jurisdictions is not suitable. It may also be helpful to incorporate an auction extension or a mechanism where the price limit can be relaxed, should there be significant demand and supply at the upper or the lower limit.***

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.

***ASIFMA members largely support the proposed time periods - however, as mentioned above, having both the randomised matching and the non-cancel period may be unnecessary. Provided one or the other is in place, such will be sufficient to discourage gaming.***

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.

***ASFIMA members largely support the proposal to not match at-auction orders at the previous closing price when an IEP cannot be formed in the POS because significant price changing overnight news may render the previous close price irrelevant/unrepresentative of the true market price at the open.***

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

Yes

No

Please give reasons for your view.

***As noted above, it would be helpful for stocks on their ex-dates (e.g. stocks on their entitlement date) to be included in the POS model, given that investors may inadvertently place orders with incorrect price limits at multiple levels above or below the previous close.***

## 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.

***Expanding the universe of stocks covered by VCM to include HSCI constituents is a positive enhancement which can help safeguard the market from possible disorderliness. However, per below, VCM coverage should be expanded to non-HSCI stocks as well.***

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.

***Per ASIFMA's Minimum Standards, Guidance, and Best Practices for Exchange Controls, the proposed minimum requirement is for a VCM which covers all stocks. To facilitate this, a price matrix would be helpful, as per IOSCO, given the difference in volatility profiles of small-cap issuers versus large-cap issuers, a one-size-fits-all model across all asset classes and jurisdictions is not suitable.***

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.

***As the industry has a diverse view on the specific thresholds, ASIFMA does not have a consensus view on the proposed trigger thresholds.***

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

Yes

No

Please give reasons for your view.

***ASIFMA members are largely supportive of multiple triggers of VCM in the same trading session, as it would be beneficial to remind investors if the security price breaches the triggering threshold again. Based on the consultation paper's backtests, allowing multiple triggers would not increase the number of triggers significantly.***

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.

***Please extend VCM coverage to the entire continuous trading session (currently excludes the first 15 minutes of the morning and afternoon session, and the last 15 minutes of the afternoon trading session). Given HKEX is expanding CAS coverage to all stocks, there shouldn't be volatility concerns by extending VCM coverage to the end of the continuous trading session.***

***Members also request HKEX to disseminate additional market data when a VCM is triggered and the cooling-off period ends (e.g. VCM triggered = y/n, reference price, upper and lower price limit).***

***With regards to Listed Structured Products, we encourage HKEX to consider explicitly including VCM and VCM cooling-off period as circumstances where Issuers are exempt from Quote Request obligations (HKEX Hong Kong listed structured products market FAQ 4.16) and Active Quote Expectations (HKEX Hong Kong listed structured products market FAQ 4.35). After the VCM cooling-off period, issuers will use best efforts to meet Quote Request and Active Quote requirements for the remainder of the day. Separately, we noticed some inconsistency between the HKEX Hong Kong listed structured products market FAQ 4.16(j) and the HKEX Industry Principles on liquidity provision for listed structured products section 3.3(j). We understand that the FAQ should be aligned with the Industry Principles and request for any subsequent changes made to the FAQ to also be reflected in the Industry Principles (and vice versa).***

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.

***The enhancements in 12 should be fairly simple to implement; ASIFMA is supportive of a phased approach if the below is included in Phase 1:***  
***a) Covering all equities with higher trigger threshold for non-HSCI constituents***  
***b) Disseminating the required market data for VCM***  
***c) Amend and align the Listed Structured Products FAQ with the Industry Principles***

***Phase 2: Extending the VCM to the entire continuous trading session***

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.

***A market-wide circuit breaker halting trading on the venue (e.g. if the index moves outside of a defined sensible range) will help control market-wide intraday price volatility and will protect the orderliness of the market.***

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.

***The thresholds for such should be wide enough such that the circuit breaker will only be triggered in rare and extreme market conditions.***

***The consideration of a market-level volatility control (i.e. circuit breaker) should not inhibit or delay the implementation of the aforementioned enhancements to the POS and VCM.***



## 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.

***Our members' preference is for the upper end of the range.***

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.

***Our members' preference is for the upper end of the range.***

- End -