

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.

We are generally supportive of the auction features in POS such as the allowance of short selling orders and at-auction limit orders during the session. We would like to highlight that ETFs should be exempted from the tick rule in POS in alignment with CTS currently (in accordance with the HKEX List of Designated Securities Eligible for Short Selling) and we appreciate HKEX's confirmation in this regard.

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 are not supportive of the exclusion of leveraged and inverse products during the POS session as this may hinder our trading activities and we fundamentally view L&I products to be similar to products included in POS and should be held to similar standards.

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

Yes

No

Please give reasons for your view.

We see the two-stage price limit framework during POS as being overly complicated in comparison to the frameworks of other exchanges.

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.

We are supportive of the price limits to be $\pm 15\%$ from the previous closing price. However, in alignment with our view on Q.3, we would like to suggest that the price limit be $\pm 15\%$ from the previous closing price across the entire POS.

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.

No comments.

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.

No comments.

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

Yes

No

Please give reasons for your view.

We would like to suggest that cancellation of remaining orders be allowed during the Blocking Period i.e. 9:22 to 9:30.

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.

No comments.

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.

No comments.

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.

No comments.

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

Yes

No

Please give reasons for your view.

No comments.

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.

No comments.

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.

N/A

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.

The introduction of a market-wide circuit breaker could potentially have a "magnet effect" where there are acceleration of price movements towards the preannounced limits as market participants trade in anticipation of a market halt, as seen during the introduction of such a mechanism in China.

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.

N/A

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 do not foresee the proposed POS enhancements to require substantial lead time for our firm.

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

- Under 3 months;
- 4-6 months;
- Others. Please specify : Please see response below _____

Please give reasons for your view.

Given our trading nature, we view that the proposed VCM enhancements would have minimal impact to us.

- End -