

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.

The proposed POS offers opportunity to market participants to rebalance and hedge their positions better, by allowing market participants to submit at-auction limit orders throughout the session and short selling orders.

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 depository 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.

The current POS includes structured products and other non-equities products, which allows opportunities to hedge or adjust overnight positions in these products at a single price. believes that the proposed POS mechanism is an improvement on the current model, however it should not take away existing functionalities that are currently used by market participants. As such, the proposed POS model should be applied to all securities, similar to the current POS, and should not exclude structured products or other non-equities products.

notes that KRX and ASX still provide for pre-open sessions in structured products.

Furthermore, believes that POS and CAS serve different purposes in market. While equities products should be included in both POS and CAS, derivatives products such as warrants and structured products do not require end of day fixing through CAS.

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

Yes

No

Please give reasons for your view.

A two-stage price limit helps stabilize the prices in the order book to form an IEP.

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.

agrees with HKEX's view that a price limit of $\pm 15\%$ from previous closing price would help prevent excessive price movement but not overly restrictive.

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.

Consistency across POS and CAS would simplify the mechanism and help market participants to adjust, especially those who are less sophisticated or new to the market.

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.

During POS, previous closing price may no longer be relevant to the market, considering price movement in other markets or company specific news.

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

- Yes
- No

Please give reasons for your view.

On short selling orders, we think that the price limit should not be limited to higher than previous closing price. Considering potential price movement due to overnight market move or news, we think its price limit should be relaxed to 3% below previous closing price. This will allow market participants to hedge their risk as liquidity may be dispersed immediately after market open and to hedge their risk at one price level.

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.

While is agnostic as to whether the VCM is expanded to all stocks, we note that disorderly markets are not caused solely by technology driven trading. We believe that exchange protections should be designed to deal with all types of disorderly conduct.

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.

These limits seem reasonable and not overly restrictive.

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

Yes

No

Please give reasons for your view.

does not have a strong view on this issue.

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.

supports the implementation of market-wide circuit breakers to prevent error trades and disorderly 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.

would support market-wide circuit breakers that initially forces a temporary pause in trading should there be a 15% drop in the value of the benchmark from the previous close. This may be in the form of an auction or trading halt for a certain period, after which trading would begin again. This would allow the market an opportunity to realign to fair value. Once trading recommences, if the benchmark continues to drop, it may be appropriate for HKEX to take further action.

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.

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.

- End -