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.

   > *supports:*
   > - *Allowing at-auction limit orders throughout the session*
   > - *Enhanced market transparency*
   >
   > *does not support:*
   > - *Randomised auction matching*
   > - *Allowing short selling orders with a price not lower than the previous closing price*
   >
   > *Reason: is of the view that in order to maximise the provision of liquidity to the market (and hence improve market efficiency), Market makers should be able to short sell at any price (subject to the usual disruptive trading restrictions)*

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)

10

- Excluding debt securities, structured products, leveraged and inverse products, equity warrants and rights.

☑ Yes

☑ No

Please give reasons for your view.

> *believes that greater uniformity and consistency of rules is prefereable and reduces operational complexity. Hence, a well-defined working market function that acts uniformly is preferred to an array of rules per equity classes. Furthermore,   is of the view that the POS model should be applied to L&I ETFs.*

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

☐ Yes

☑ No

Please give reasons for your view.

> *is of the view that a one stage process is sufficient, whereas a two-stage pricing creates additional complexity/monitoring requirements for market participants.*

4. Do you support setting the price limits to be initially ±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.

> *believes such a restriction may have an inadvertent impact. Specifically, price limit in the POS may prevent legitimate trades from being executed when a security has a large overnight price change.*

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.

> *support a model with shortened No-cancellation period such that the auction matches no later than 09:20. Having a No-cancellation period is a deterrent to any gaming/non-genuine trading behaviour and allows for genuine orders and transparency.*
>
> *At the same time, if the No-cancellation period is overly prolonged, it can act as a trading deterrent in itself. Specifically, placing orders that cannot be cancelled but which need to be monitored for a prolonged preiod of time would expose firms to hightened risk. Hence, is of the view that 3 minutes is a sufficient No-cancellation period.*

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.

> *is strongly supportive of the proposal. believes that this proposal will work to prevent matching at an unfair price. If the liquidity is not present to form an indicative price, this is precisely the circumstances whereby there is enough uncertainty regarding the true market price for a security and hence applying a previous closing price will likely disadvantage one of the parties to a trade.*

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

☐ Yes

☑ No

Please give reasons for your view.

12

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.

   > *is supportive of develoments that enhance market operations and reduce chances of a disorderly market. Disorderely markets can be caused by advanced trading technologies, as well as by the manifestation of operational risks, including risks arising from systems, processes, human errors or extrernal events.   is supportive of the expansion of the VCM as a positive market development.*

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 :   N/A

   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?

14

☐　Yes

☑　No

Please give reasons for your view.

> ***is of the view that 10 % in 5 minutes provides a sufficient bandwidth.***

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

☑　Yes

☐　No

Please give reasons for your view.

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 refer to question 10***

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.

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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.

> *does not support a market-wide Circuit Breaker for the cash market. The key reasons for this view are:*
> * *The existing VCM provides an adequate solution to prevent adverse conditions affecting the market on a security by security basis.*
> * *The suspension of trading for the rest of the day can result in exchange participants being unable to hedge positions. This may result in market participants existing the market during periods of hightened volatility, thereby exercebating market movements.*

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*

16

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.

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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.

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