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.

   > *is in general supportive of the new features outlined for POS. The similarities to CAS allows for a less complex implementation as the functionalities already exist in our systems.*
   >
   > *However we view that randomised matching is of less importance for the POS compared to CAS given that:*
   > *1. POS volume is small compared to CAS.*
   > *2. POS is the beginning of the price discovery process for the market where participants are subject to less completion constraints and benchmark risk, hence a lower chance of excess volatility exposure and gaming behaviour.*

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.

> *Although this brings the coverage universe POS model inline with CAS, this is a subtraction to the current coverage as certain assets will no longer be tradable during POS. This entails a change in trading practice, investor education as well as system alterations. As such, it is less desirable.*

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

☐   Yes

☑   No

Please give reasons for your view.

> *Due to the fact that a two-stage price limit mechanism currently exists for CAS, CS by and large does not have any issues with implementing such mechanics for POS.*
>
> *Nonethless, a simple hard limit that runs through the POS will suffice given the lower transaction volume.*
>
> *More importantly, it should be noted that neither a simple hard limit nor a two-stage price limit addresses the issue that a price equilibrium may fail to establish without the appropriate limit orders in the market, which necessitates exchange participant to leverage limit orders to "open up" the market or risk not executing.*

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.

> *is largely in agreement with the use of a limit from reference price but would like to confirm that this is a "true" limit and not rough guidance.*
>
> *It is also worth noting that a one-size-fits-all threshold may not be appropriate for the full universe of stocks being traded in the POS and may hinder price discovery*

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.

> *As mentioned in response to question 1,   views that random matching is less important for the POS and prefers to keep the POS timeframe same as today.*

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.

> *The factors that affect price action from previous close is multifold and therefore does not comparable reference to the last traded price for CAS. If at-auction orders are to be matched at previous closing price, investors could be subject to unexpected volatility or cause unwanted market impact. It is therefore more applicable to retain the current logic of cancelling unmatched at-auction limit orders post POS.*

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

☐   Yes

☑   No

Please give reasons for your view.

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.

> *As the VCM is intended to protect investors from being subject to excessive volatility and ensure an orderly market,*   *is supportive of the expansion of VCM stocks*

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.

> *Wider coverage of VCM can further protect investors from said issues in our view for question 8. The fact that VCM has never been triggered since implementation is a likely indication that volatility in the markets lie within stocks are currently outside the universe, especially non-index constituents. It would therefore enhance the effective of VCM for it to cover a wider and more needed universe.*

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.

> *endorses the use of tiered thresholds as the granularity helps to better fit VCM to stock characteristics and will balance the effectiveness and frequency of VCM being triggered.*

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

☑ Yes

☐ No

Please give reasons for your view.

> *supports multiple triggers in the same trading session as it is possible that instruments experience more than one excessive period in each trading session.*
>
> *In addition, we suggest extending the VCM to cover the full trading day instead of excluding the Open/Close period where volatility tends to be high.*

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.

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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.

> *holds the view that a market-wide circuit breaker is worth exploring as it can alleviate market panic in extreme sceanrios. However it is important that the threshold set is thoroughly considered and wide enough to avoid unwanted interruption to normal market operation.*

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.

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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 anticipate we will need to make some changes to our market executions system and algorithmic engine.*
> *Apart from system changes, It is important that your lead times and roll out process also provide EPs with enough opportunity to test any required changes thoroughly.*
> *Please also consider that, IT budgets for most firms are generally set on an annual basis and as much lead time should be given so that firms can factor in the necessary budget for change.*

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 do not envisage the change required to be major, however would like to reiterate same points regarding IT budgets and EP testing opportunity mentioned under our response to Question No.16*

- End -