

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 features would help to reduce gaming, facilitate price discovery and enhance market transparency so we support all 4 enhancements listed above.

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 support the approach of aligning the POS scope with the CAS scope. Differences between the two adds unnecessary complexity.

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

Yes

No

Please give reasons for your view.

Similar to above, we support the approach of aligning the two-stage price limit in the POS with that already used in the CAS. Differences between the two adds unnecessary complexity.

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 support the approach of aligning the second stage price limit with that already used in the CAS. Differences between the two adds unnecessary complexity.
With respect to the first stage price limit, we believe that having a wider threshold than is currently used in the CAS is justified given the scope for potential price impact from overnight news. We agree that 15% is an appropriate proposal.***

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.

We prefer to shorten the no-cancellation period by 2 minutes so that the POS continues to close no later than 9:20 as it does today. We believe 3 minutes still provides sufficient time for an effective no-cancellation period and retaining the existing 10 minute blocking period also reduces the technology or platform changes associated with this enhancement.

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.

We do not believe it is appropriate to match at-auction orders at the previous close price when an IEP cannot be formed given the significant amount of time that would have elapsed between the POS and the previous close.

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.

We do support the proposal to expand the scope of the VCM. However, as noted below in the response to #9, we prefer Alternative Option 3: to expand the scope to all equities (with a higher triggering threshold for non-HSCI 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.

We believe that the VCM mechanism is beneficial for all stocks so long as the relative liquidity and price volatility is appropriately reflected with tiered triggering thresholds.

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.

We support the tiered triggering threshold approach and agree that the selected levels of 10%, 15% and 20% appear to be appropriate given the analysis performed and presented in the consultation paper.

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

Yes

No

Please give reasons for your view.

The occurrence of one VCM trigger does not eliminate the risk of market disruption from subsequent stock price volatility later in the same trading session so we see no reason to restrict the number of VCM triggers.

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.

We would suggest that consideration is given to applying the VCM throughout the CTS (including the first 15 minutes of the morning and afternoon sessions and the last 15 minutes of the afternoon session) given that the risk of market disruption from extreme stock price movements exists throughout the trading day.

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.

We support a phased implementation approach so that relatively straight forward changes can be rolled out more quickly. It is appropriate to delay more complex changes to a later phase to allow further time for more thorough analysis and preparation.

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.

Market level volatility controls have been implemented in a number of other global exchanges so we believe it would be worthwhile to at least consider whether such a feature would be beneficial for Hong Kong.

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.

Further analysis would be required to determine the optimal approach for Hong Kong but we would suggest that the following features are considered:
(i) the market-level volatility control can trigger multiple times in the trading day at escalating trigger thresholds with one or more pauses before the market is suspended for the day.
(ii) that a corresponding market-level volatility control is also applied in the derivatives market (per contract expiry month).
(iii) that the trigger thresholds for the derivatives market are wider than those for the cash market to provide investors with some ability to continue managing risk in situations of high volatility in the cash market.

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.

7-12 months would provide sufficient time to analyse, budget, develop, test and deploy the required technology enhancements.

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

- Under 3 months;
- 4-6 months;
- Others. Please specify : 7-12 months

Please give reasons for your view.

Our preference would be to have a consistent implementation timeline for the POS enhancements and the VCM enhancements so that the required development work for both could be aligned.

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