

## 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 support these auction features as they are similar to those available in CAS. Both randomised auction matching and the non-cancel period are used for anti-gaming purposes. In our view, randomised auction matching feature alone is sufficient.***

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 this coverage as it aligns to CAS practice.***

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 during POS aligns with current CAS practice. It provides clarity to market participants on the exact range of execution price resulted from the first stage in POS.***

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.

***The initial  $\pm 15\%$  limit (and subsequent limit via the lowest ask/highest bid) may not be appropriate for all stocks. The limit should be related to the liquidity profile of the stocks.***

***We would only be supportive of price matrix if the per-stock price limit can be published on the market-data feed, so market participants does not need to have an error prone process for calculating the band.***

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.

***Our view is to have either randomized auction matching or non-cancel period (with a preference for randomized auction matching), and to keep the same time 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.

***We support the proposal of not matching at-auction order in this scenario as the the previous closing price may not reflect the true market price at the open due to overnight news and price change.***

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 support the proposed expansion as it provides the same protection to other mid-cap and small-cap 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.

***VCM should be applied to all stocks as the same volatility fluctuation can happen to every stock. Practically, using different thresholds will be more appropriate to balance stock's volatility.***

***We would only be supportive of different price thresholds if the per-stock price limit can be published on the market-data feed, so market participants does not need to have an error prone process for calculating the band.***

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 having different thresholds based on stock volatility profiles***

***We would only be supportive of different price thresholds if the per-stock price limit can be published on the market-data feed, so market participants does not need to have an error prone process for calculating the band***

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

Yes

No

Please give reasons for your view.

***We are supportive of multiple trigger of VCM in same session, this will allow the market to resume the price discovery process after the cooling down.***

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.

***Extend VCM coverage to entire continuous trading session in order to prevent a intermittent vigorous fluctuation before VCM takes effect.***

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 are supportive of a multi-phase approach to make the relatively easy change first (extend VCM's universe).***

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.

***To help maintain market orderliness in some extreme events***

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.

***Thresholds should be wide enough and circuit breaker should only be triggered in extreme market conditions***

## 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 : 12 months

Please give reasons for your view.

***This requires relatively large development effort, involving changing algo logic.***

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

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

Please give reasons for your view.

***Relatively simple change to extend VCM's stock universe and allow for multiple trigger.***

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