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 increased market transparency as beneficial for the overall health of the exchange ecosystem. We believe it might also be worth considering an alternative auction mechanism, i.e. a fixed-time auction following a period where orders can only be entered but not amended or cancelled. This will provide more certainty to market participants and hence have a positive impact on market liquidity while preventing manipulative trading behaviors.*

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.

> *These are new changes and this proposal is a sensible and practicable starting point to test the changes.*

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

☑   Yes

☐   No

Please give reasons for your view.

> *We support the two-stage price limit mechanism as benefitial for the price discovery process.*

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.

> *We do not have a strong view on the precise number (i.e. 15%) but agree with the concept of price limits to increase market stability and promote safe, orderly markets.*

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 believe there needs to be a careful balance between reducing the no-cancellation period and ensuring optimal time for orders to be inputted.*

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 think matching at-auction orders at the previous closing price would be practical or promote market stability. We would urge the exchange to consider European style solutions to this problem.*

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

☑   Yes

☐   No

Please give reasons for your view.

> *We believe the European style of pre-open sessions offer a lot of benefits for considerations.*

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 move to expand VCM coverage as this is moving towards a global standard in ensuring safe, orderly markets.*

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.

> *We are supportive of the exchange's logic behind the thresholds, but would urge against over-complexity.*

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 triggers as this is moving towards a global standard in ensuring safe, orderly markets.*

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.

> *We are generally proponents of mechanisms designed to increase stability in the markets during times of extreme stress. But any mechanisms to halt markets must consider whether the halting, in and of itself, becomes a destabilizing factor or if it is a net positive. Specific parameters must therefore be chosen to minimize the impact on price discovery when the market is properly functioning, even if that yields large price moves as a result. Different markets may require different thresholds and parameters to ensure a proper balance. Parameters also need to be re-evaluated periodically to ensure they continue to reflect evolving market dynamics. Perhaps more importantly is the process by which trading resumes once the halt is lifted. A disruptive resumption after a halt can be more destabilizing than if the market was not halted at all. Experience in other markets has shown re-opening after a halt can be very disorderly under certain circumstances.*

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.

> *As above. We believe models should be further discussed and evaluated both on merit and on degree of complexity which could have unintended consequences for the exchange ecosystem.*

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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