From:	
Sent:	04 September 2019 09:27
To:	response
Cc:	
Subject:	Consultation paper on Market Microstructure Enhancements in the Securities Market: pre—opening Session and Volatility Control Mechanism

WARNING: External email, please exercise caution.

In response to the consultation paper listed above, please find our comments as follows.

Proposed POS Model

1. We support the adoption of CAS auction features for POS. We also support the application of the enhanced POS to all equities and funds only similar to CAS.

2. We generally support adopting price limits imposed on At-auction Limit Orders during POS. However, the choice of +/- 15% price limit from the previous closing price might require further investigation. The imposition of the price limit for POS is to curb excessive price volatility and stabilize the market. Nevertheless, if the band is too narrow, there are chances that a fair opening price cannot established , since a substantial amount of information arrived overnight. We noted from the consultation paper that based on the analysis from January 2018 to April 2019, there was on average one equity security each day that moved over 15% during POS versus its previous closing price. It is not clear whether the period is long enough to draw inferences for the future. The analysis can be extended to a longer period to confirm the frequency of 15% price movement overnight. .

Volatility Control Mechanism (VOM) Enhancement

3. We support the proposed expansion of VCM stocks to all HSCI constituent stocks.

4. Instead of different triggering levels (10%, 15%, 20%) for different categories (large cap, mid-cap, and small-cap), it will be easier to communicate with investors if a single threshold is applied. If it is worried a tighter threshold of 10% will cause too many triggers for small cap stocks, we can adopt a threshold of 15% for all HSCI constituents. AS there has not been any VCM trigger for HSCI large-cap stocks even based on 10% threshold, the adoption of a higher threshold of 15% will not matter for HSCI large-cap stocks, but can reduce the number of triggers for HSCI mid-cap and small-cap stocks.

5. We support the expansion for VCM mechanism also for non-HSCI stocks. AS these non-HSCI stocks are thinly traded, they can suffer from extreme price movement due to lack of orders on one side of limit order book. The adoption of VCM will give these stocks a cool-off period. These non-HSCI stocks will encounter more VCM triggers, but this is exactly because these stocks need the cool-off period due to thin liquidity. If it is worried there are too many triggers for these non-HSCI stocks, we can adopt a slightly higher threshold of 20%.

Thanks for your considerations.

Professor Kalok Chan
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