

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 do not have a strong opinion on POS itself, but we welcome the safeguards proposed to limit potentially distortive price movements due to a trading incident.

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 would like to see all all instruments available during POS to be subject to market safeguards. However we are indiferent to what instruments should be availabe during POS.

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

Yes

No

Please give reasons for your view.

Yes, we find the two-stage limit is suitable.

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.

Yes, this seems fair as it allows an initally wide range of prices which is then narrowed by market participant's orders.

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 do not have a particular view on this.

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 have a particular view on this.

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 welcome increased controls in the market to limit potential disruptive price movements. This would bring the Hong Kong Stock exchange closer to international best practices and reduce the potential impact of trading incidents.

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 would like to see all securities traded to be subject to volatility controls to increase simplicity and avoid large distortive price movements. We acknowledge that different instruments may see larger price movements and therefore the thresholds should be based on the instrument's type, absolute price and liquidity etc.

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.

Although your suggested thresholds are a good start we would like to see it apply to all traded securities and the thresholds to be based on the profile of the instrument. Based on your back testing referred to in Appendix 4, we believe the thresholds could be lower as the expected number of triggers per month is close to zero for all the proposed thresholds. Even by lowering the thresholds for all the securities on the Hang Seng Index to 10%, there would be less than 1 trigger per day.

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

Yes

No

Please give reasons for your view.

As a distortive trading incident could take place anytime, we are of the opinion that multiple triggers in a single session should be allowed.

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.

During the beginning and ending of CTS where you propose having no thresholds, we would suggest also imposing a threshold, however it could be higher than the regular threshold. This would allow for the market to find the right opening/closing prices while still maintaining safeguards with regards to large price movements due to trading incidents.

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.

Your proposed enhancements should be implemented as soon as possible. We believe that the suggestion in #12 could easily be implemented alongside the other VCM enhancements. If that is not the case we would not want it to slow down your proposed VCM enhancements.

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.

A market level volatility control would be welcome in extreme circumstances where the market as a whole stops working efficiently. However we believe that stricter thresholds on individual stocks is more effective and less disruptive.

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.

We do not have a clear position on the design of a market wide trading halt. However we encourage the exchange to keep reviewing this in the future.

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 : None

Please give reasons for your view.

No implementation is required for us as a clearing participant, however we would welcome a quick implementation to ensure that there is adequate market safeguards in place as soon as possible.

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



Under 3 months;



4-6 months;



Others. Please specify : None

Please give reasons for your view.

Same as #16

- End -

