

Submitted via Qualtrics

Company / Entity View

Market Represent(s): Securities & Derivatives Markets

Question 1

Do you have any comments or concerns on the proposed arrangements for the Hong Kong securities market?

Yes

If the answer is "Yes", please specify your comments or concern:

On behalf of the Institute of Securities Dealers, representing small and mid-size securities brokers in Hong Kong, we appreciate the opportunity to respond to the HKEx's consultation paper regarding Severe Weather Trading ("SWT") arrangements.

General Support

We generally support the initiative to maintain market operations during severe weather conditions. Our members recognize the importance of Hong Kong's status as an international financial centre and the need to align with global standards where markets remain operational under various conditions. This initiative could mitigate market risks associated with unexpected closures and enhance investor confidence.

1. Personnel and Investor Safety

Whilst we endorse the principle of ensuring personnel and investor safety, we urge that the HKEx provides clear guidelines on staff requirements during SWT conditions. Small and mid-size brokers often have limited resources, and the safety of our personnel should not be compromised under any circumstances. We also urge regulators to connect with Insurance providers for special arrangement to cover related personnel in SWT arrangement.

2. Technological Infrastructure

We recommend that HKEx offers necessary supports to brokers in upgrading their technological infrastructure to ensure they can operate effectively during SWT

conditions. This support could be in the form of financial subsidies, technical assistance, or extended lead times for implementation.

3. Operational Continuity

Continuity of operations is crucial. We suggest that HKEx works closely with telecommunications and power providers to ensure that the necessary infrastructure remains robust during SWT conditions.

4. Risk Management

The proposal should include specific measures for risk management tailored to the scale of operations of small and mid-size brokers. These measures should address potential challenges in margin calls, liquidity demands, and the settlement process during SWT.

5. Training and Preparedness

HKEx should facilitate training and market rehearsal programs for brokers to prepare for the SWT model. This includes the handling of systems, understanding of the new operational arrangements, and managing client expectations.

6. Clear Communication Channels

We request that HKEx establishes clear and reliable communication channels to provide real-time updates during SWT conditions. This is critical to ensure that all market participants are well-informed and can make timely decisions. A dedicated team and hotline should be established for emergency enquiries during SWT Days (see further elaboration on pt.8 below).

7. Regulatory Compliance

We appreciate HKEx's commitment to align with both local and international regulatory requirements. We seek assurance that the regulatory framework will be adaptive and considerate of the limitations faced by smaller brokers.

8. Centralized Coordinator

Role and Function

We propose the creation of a dedicated Severe Weather Trading Coordination Unit ("SWTCU") within HKEx or an appropriate regulatory bodies that would serve as the central point of contact for all stakeholders during severe weather events.

The SWTCU would have the following functions:

- **Communication:** Serve as the primary channel for disseminating information and updates to all market participants.
- **Coordination:** Liaise with relevant authorities, including meteorological departments, emergency services, infrastructure providers, and financial institutions, to ensure a cohesive response to severe weather events.
- **Support:** Provide targeted support to smaller brokers, especially in areas such as technological readiness, risk management, and operational resilience.
- **Training and Preparedness:** Facilitate comprehensive training programs and simulation exercises for all brokers to ensure preparedness for SWT scenarios.
- **Regulatory Liaison:** Act as an intermediary between brokers and regulators, ensuring compliance and addressing any regulatory concerns that may arise during SWT.

Benefits

The establishment of a centralized coordinator would offer several benefits:

- **Efficiency:** Streamline the management of severe weather events and ensure a unified approach to maintaining market operations.
- **Clarity:** Offer a single source of truth for market participants, reducing confusion and ensuring that accurate and timely information is available.
- **Resource Allocation:** Assist in prioritizing resources where they are needed most, especially in supporting the smaller market participants.
- **Compliance Assurance:** Help ensure that all brokers, irrespective of their size, adhere to the regulations and operational guidelines during SWT

Question 2

Do you have any comments or concerns on the proposed arrangements for Northbound Trading under Stock Connect?

Yes

If the answer is "Yes", please specify your comments or concern:

Since Clearing, settlement and collateral management services arrangements and respective service schedules in CCASS will remain the same as on a regular Northbound trading and settlement day, bank support is crucial in providing currency exchange service on a timely manner in order that CCCPs would not constitute an event of default.

Question 3

Do you have any comments or concerns on the proposed arrangements for Hong Kong derivatives market?

Yes

If the answer is "Yes", please specify your comments or concern:

Market Liquidity and Volatility:

1. Participant Availability: Extreme weather could impede the ability of market participants to trade, potentially leading to decreased market liquidity.
2. Volatility Spikes: Lower liquidity could result in higher volatility, making derivatives pricing more challenging and increasing the risk of large market swings.

Risk Management:

1. Counterparty Risk: With potential disruptions to business operations, there may be increased counterparty risk if parties are unable to meet their contractual obligations.

2. Margin Calls: During periods of high volatility, frequent margin calls can occur. Market participants must have access to sufficient liquidity to meet these, even in extreme weather.

Question 4

Do you have any comments or concerns on the proposed arrangements for new listings and new products?

Yes

If the answer is "Yes", please specify your comments or concern:

Market Readiness:

New listings might require more guidance and support from the exchange, particularly during extreme conditions. The market's ability to absorb new products and listings during such times without additional risk is crucial.

Investor Protection:

Investors may need additional assurances that trading new listings and products during extreme weather will not expose them to undue risk, and that adequate safeguards are in place.

Operational Risk Management:

The launch of new products or listings requires careful coordination across various market participants; doing so under extreme weather conditions might compound the operational risks.

Market Perception:

There could be a concern that trading in new listings and products during extreme weather conditions might be seen as prioritizing financial activity over safety, which could affect the reputation of the exchange and the newly listed companies.

Question 5a

Do you have any comments or concerns on the proposed money transfer arrangements in relation to Cheque Clearing?

Yes

If the answer is "Yes", please specify your comments or concern:

Communication: Although there's e-Cheque or other electronic means for fund transfer via banks systems, while branches and customer service staff will be absence during SW Days, it is suggested that banks should set up dedicated hotline to handle exceptional issues such as bounced cheques or emergency amendment/cancellation of cheques, etc

Question 5b

Do you have any comments or concerns on the proposed money transfer arrangements in relation to Banking Services?

Yes

If the answer is "Yes", please specify your comments or concern:

System Capacity and Reliability: Money transfer systems must have the capacity and reliability to handle the volume of transactions without physical oversight, especially during unusual operating conditions.

Cybersecurity: Remote operations can increase exposure to cybersecurity risks. Systems must have robust security measures in place to protect against potential cyber threats that may be more prevalent during extreme conditions.

Contingency Planning: There must be contingency plans for scenarios where money transfer systems may fail or be disrupted, including clear procedures for market participants to follow.

Question 6

Do you agree with the proposed arrangements for listing applicants and listed issuers as set out in paragraphs 90 – 91?

No

If the answer is "No", please specify your comments or concern:

While it is currently proposed definition of "Business Day" will remain under SFO, since a "Trading Day" may not necessary be a "Business Day" upon the implementation of the SWT, regulator should further provide clear definition to the public to avoid confusion.

Question 7

Do you agree with the proposed arrangements for listing applicants and listed issuers as set out in paragraphs 92 – 94?

Yes

If the answer is "No", please specify your comments or concern:

Here are some considerations regarding the amendments to the Listing Rules to accommodate SWT days:

Extension of Deadlines:

Providing extensions for deadlines affected by SWT days would be a practical approach to ensure that all parties have a fair chance to fulfill their obligations without penalty.

Remote Work Solutions:

Where possible, adapting rules to allow for remote verification and electronic documentation could reduce the reliance on physical presence.

Clear Guidelines for SWT Days:

Establishing clear guidelines for what constitutes a SWT day and the subsequent procedural relaxations or extensions that would come into play is essential.

Contingency Plans:

Encouraging or requiring listed issuers to have contingency plans for critical processes during SWT days can ensure that necessary functions are not entirely halted.

Question 8

Do you envisage there being any material practical difficulty in complying with any particular Listing Rule requirements?

Yes

If the answer is "Yes", please specify your comments or concern:

Here are some potential difficulties with reference to the Listing Rule requirements identified in paragraph 93:

Certification of Transfers and Document Handling (e.g., Splitting of Renounceable Documents):

Practical Difficulty: Physical documents may need to be handled, transferred, or presented in person. Severe weather might prevent couriers and postal services from operating, and staff may not be able to safely access offices or mailrooms.

Listing Rule Reference: The Listing Rules that pertain to the transfer and registration of securities often assume the ability to handle physical documents within specified time frames.

Issuance, Cancelling, Splitting, and Consolidation of Securities Certificates and Securities Registration Arrangements:

Practical Difficulty: The process involving physical securities certificates would be hampered if printing facilities, registrars, or transfer offices are not operational due to weather conditions.

Listing Rule Reference: The Listing Rules requiring the timely issuance and handling of securities certificates would be challenging to adhere to without the necessary operational infrastructure.

Issuance of Letters of Regret:

Practical Difficulty: If a public offering is oversubscribed, letters of regret are issued to unsuccessful applicants. Extreme weather might disrupt the timely printing and mailing of these letters.

Listing Rule Reference: Any rule that requires communication within a certain period following a public offering could be affected by extreme weather.

Prospectus Registration:

Practical Difficulty: Registration of a prospectus typically involves interactions with regulatory authorities, which may be delayed if the authorities' operations are impacted by the weather.

Listing Rule Reference: Rules regarding the timing of prospectus registration and public accessibility might be difficult to meet.

Question 9

Do you agree that consequential amendments to the Listing Rules should be made?

Yes

If the answer is "No", please specify your comments or concern:

The definition of a "business day" as provided in the Listing Rules for the Hong Kong Stock Exchange (HKEX) is critical for the timeline of various regulatory and trading activities. As mentioned, a business day is a day when the exchange is open for the

business of dealing in securities. In the event of severe weather (SW) that forces the markets to close for an entire day, that day would not be counted as a business day for the purposes of calculating time periods prescribed by the Listing Rules.

For instance, if a company must release its financial reports within a certain number of business days after the end of the financial period, and a severe weather day occurs during this period, the deadline for releasing the financial reports would be extended accordingly.

The Listing Rules also provide mechanisms to account for the interruption of services due to severe weather. This includes extensions of prescribed time periods to ensure that companies are not unfairly penalized for delays that are out of their control. For example, rules related to the publication of financial results, dispatch of shareholder circulars, or application periods in rights issues may have provisions for extension in the event of service interruptions caused by severe weather.

Question 10

Under the proposed model, do you foresee any insurmountable difficulties for implementing SWT?

Yes

If the answer is "Yes", please specify your comments or concern:

Here are some potential difficulties that could arise:

Technology Infrastructure: Ensuring that all market participants have access to robust and reliable technology to execute trades remotely is crucial. There can be challenges in ensuring consistent access and functionality during severe weather events, especially if power outages or network disruptions occur.

Communication: Effective communication channels must be in place to disseminate information about the SWT status promptly. Delays or failures in communication can lead to confusion and market disorder.

Regulatory Hurdles: Amending existing regulations to accommodate SWT could be complex, requiring extensive consultations and revisions to ensure compliance with both domestic and international standards.

Operational Coordination: Coordinating between various market participants, such as brokers, traders, clearinghouses, and regulators, to ensure a smooth operation under SWT conditions can be complicated. There needs to be a clear protocol in place.

Equal Access: Ensuring that all market participants have equal access to markets during SWT conditions is essential. If some traders are unable to participate due to the weather, it could raise concerns about fairness and market integrity.

Market Liquidity: There may be a significant impact on market liquidity if a substantial number of participants cannot trade due to weather-related disruptions.

Settlement and Clearing: Operations around settlement and clearing may face disruptions if not all operational staff can work remotely or if there are power or network issues.

Legal Liabilities: There may be legal considerations around executing trades during SWT conditions, particularly if disputes arise from trades made under these exceptional circumstances.

Risk Management: Managing risk and ensuring the continued functioning of risk management systems is critical. This includes credit risk, market risk, and operational risk, which may be exacerbated during SWT.

Emergency Protocols: Establishing and testing emergency protocols to deal with scenarios where trading has to be halted or modified due to worsening conditions is necessary.

While these challenges can be significant, they are not necessarily insurmountable. With careful planning, investment in infrastructure, clear regulatory guidance, and cooperation among all stakeholders, it is possible to implement a Special Weather Trading model that minimizes disruptions and maintains market integrity during severe weather events.

Question 11

Would there be adequate time to prepare for SWT to come effective in July 2024 under the proposed model?

No

If the answer is "No", please specify the reasonable length and reason(s):

Given the below considerations, six months could be a tight timeline, especially if extensive modifications are required or if the regulatory approval processes are lengthy. In practice, a phased approach over a year or more could be more reasonable, providing ample time for all the necessary steps, including drafting, consultation, approval, technological upgrades, testing, and training, to be carried out without rushing. This also allows time for unforeseen issues to be addressed.

Whether this time frame is adequate depends on several factors, which include but are not limited to:

Complexity of the SWT Model: The more complex the model, the longer it may take for market participants and infrastructure to adapt.

Current State of Infrastructure: If the existing trading and communication infrastructure is already robust and requires minimal upgrades to support SWT, less time may be needed for implementation.

Regulatory Approval Process: If the model requires regulatory changes, the time needed for consultations, drafting, approvals, and legal processes could be significant.

Testing and Simulation: It's crucial to have a comprehensive testing phase for the SWT model to ensure that all potential scenarios have been accounted for and that the system works as intended.

Training and Education: Market participants will need time to understand the new model and adjust their operations accordingly. This includes training for traders, back-office staff, and anyone else involved in the trading process.

Contingency Planning: Planning for unexpected issues and having contingency plans in place is essential. This also takes time to develop and test.

Communication Strategy: A clear strategy must be in place to communicate the changes to all stakeholders well in advance of the implementation date.

Feedback and Iteration: After initial testing and training, there should be time allocated for feedback and potential adjustments to the SWT model.