



## Hong Kong Investment Funds Association

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February 4, 2024

HK Exchanges and Clearing Limited  
8/F Two Exchange Square  
Central, Hong Kong

Dear Madam/Sir

### **Consultation Paper (CP) - Proposal on Severe Weather Trading of Hong Kong Securities and Derivatives Market**

On behalf of the Hong Kong Investment Funds Association (HKIFA), I wish to express full support to the proposal as outlined in the CP.

*“The CP advocates removing existing Severe weather (SW) arrangements so that trading, clearing and settlement services and operations on a SWT Day can continue in both the securities (including Southbound Trading if it is planned to be a Southbound trading day) and derivatives markets on all available products under the respective markets. Northbound Trading will also continue should SW occur on a Northbound trading day. The scope of this proposal includes trading, clearing, risk management and listing arrangements under the markets outlined above.”*

Adopting the proposal is only playing catch-up, as trading is maintained under severe weather amongst the major stock markets - the Shanghai and Shenzhen stock exchanges in the Mainland; as well as in other markets, such as New York, London, Paris and Amsterdam, Japan and Singapore. To maintain the competitiveness and relevance of the Hong Kong stock market, and to live up to the name of an IFC, we believe that implementing this proposal is a must. We are mindful that certain quarters have flagged concerns about the safety and security issues of their staff and colleagues. These considerations also rank high in our members' considerations. But in this day and age, there are different technology-enabled features and functionalities as well as working arrangements (well-tested during covid) that can provide the necessary support.

If we continue to debate whether we should remove the existing arrangement, we will always be stuck in a laggard position. Examples abound as to how the current constraints to deal in severe weather have been an impediment; and ultimately, do not work in the best interest of investors. Please refer to Note 1 for examples. Furthermore, as the stock market's investors base and issuers base become more diverse and internationalised, the ability to have seamless connectivity and market certainty is just a basic requirement. The proposal supports price discovery and mitigates arbitrage.

If you wish to discuss the aforesaid further, please don't hesitate to contact us.

Yours sincerely

Hong Kong Investment Funds Association

Note 1

Examples:

European ETF issuers and managers: at times impacted by the severe weather arrangements at HKEX for their Global ETFs. For example, for a MSCI Emerging Markets ETF domiciled in overseas jurisdictions and listed on LSE, whenever the manager receives a creation or redemption in the fund, it has to trade a certain amount of HK-listed stocks, which are part of the underlying index. If trading on the HKEX is suspended unexpectedly due to a T8 Signal, this has an impact on the trading of the underlying basket and can lead to slippage versus the official NAV of the fund. This in turn affects the Participating Dealers/Authorised Participants which post the creation/redemption and can lead them to show wider spreads for the ETF on exchange. As a result, this has an impact on the investors in the ETF.

Also impact unlisted funds - consider the case of a Global Index Fund domiciled in Europe that invests into HK-listed underlying stocks as part of the benchmark it follows. In case this fund has a creation or redemption that leads to a trade in HK listed stocks, they will be impacted by the SWT trading suspensions, since they cannot buy the HK-listed stocks on that day. This may lead to overdrafts or long cash positions in the fund depending on the circumstances. Thus, again illustrating the importance to move away from the SWT-related suspensions.

(End)