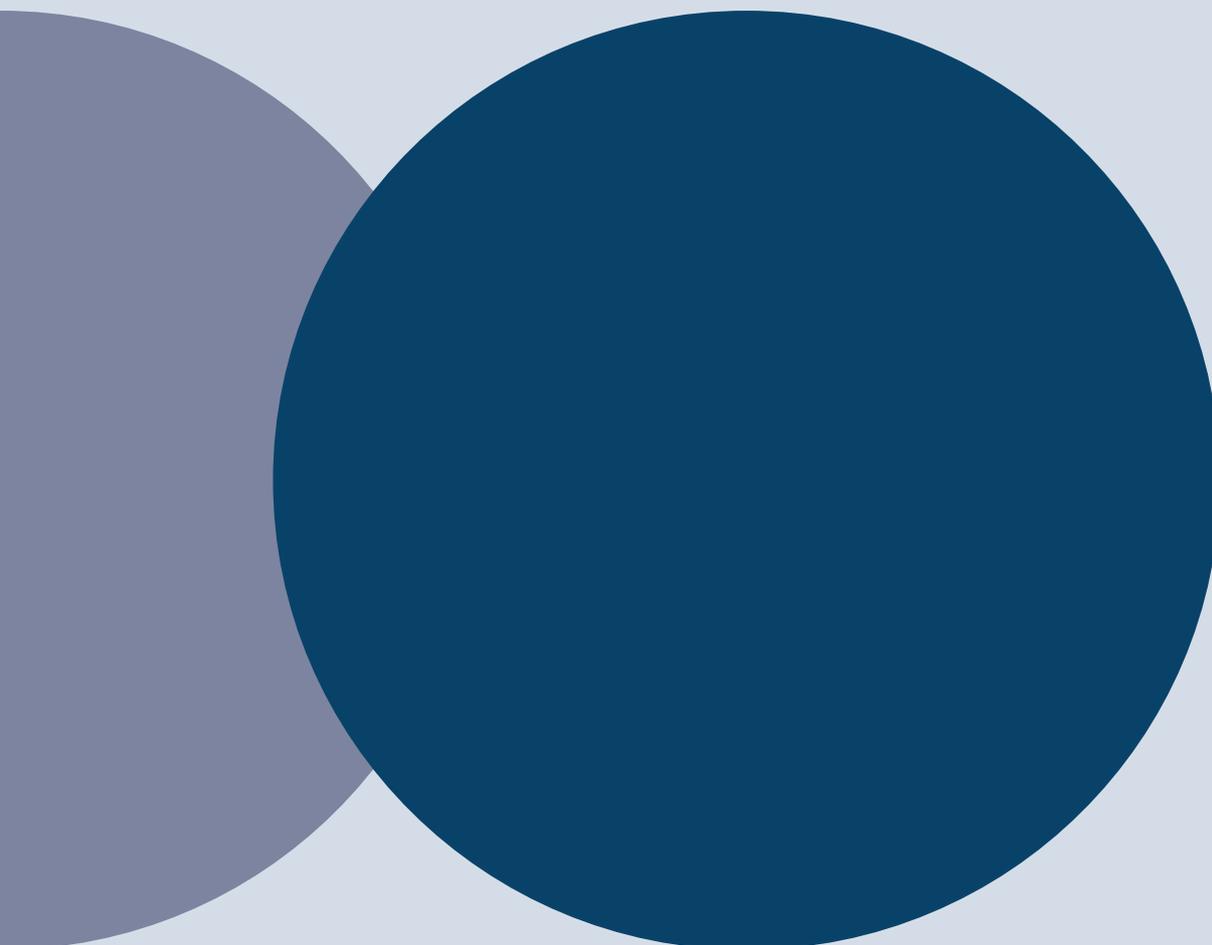


August 2017



## CONSULTATION CONCLUSIONS

## PROPOSED AFTER-HOURS TRADING ENHANCEMENTS



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## EXECUTIVE SUMMARY

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1. On 28 June 2017, Hong Kong Exchanges and Clearing Limited (HKEX) issued a consultation paper (Consultation Paper) on proposed after-hours trading enhancements. The proposals aimed at providing to the market a more comprehensive range of risk management and trading tools in after-hours trading (T+1 Session). This paper presents the results of the consultation.
2. The Consultation Paper proposed a 3-phase implementation of trading enhancements, including the extension of trading hours to 01:00 on selected equity index futures, addition of equity index options with trading halt mechanism in the T+1 Session and further extension of trading hours to 03:00. The Consultation Paper also proposed to align the T+1 Session Cutoff Time with the close of the T+1 Session as it is extended to 03:00.
3. HKEX received a total of 53 responses. 31 from HKEX Participants, 5 from market practitioners, 1 professional body/ industry association, 1 from other corporate entity, and 15 from individuals.
4. The majority of respondents strongly supported the proposed trading enhancements in the T+1 Session.
  - a) 29 out of 31 (94 per cent) HKEX Participants and 11 out of 15 (73 per cent) individuals supported the proposed extension of trading hours in the T+1 Session.
  - b) 29 out of 31 (94 per cent) HKEX Participants and 14 out of 15 (93 per cent) individuals supported the proposed inclusion of equity index options in the T+1 Session. 28 out of 30<sup>1</sup> (93 per cent) HKEX Participants and 13 out of 15 (87 per cent) individuals also supported the proposed trading halt mechanism for equity index options in the T+1 Session.
  - c) 30 out of 31 (97 per cent) HKEX Participants and 13 out of 15 (87 per cent) individuals supported the proposed implementation roadmap.
  - d) 28 out of 30<sup>2</sup> (93 per cent) HKEX Participants and 10 out of 15 (67 per cent) individuals support for the alignment of the T+1 Session Cutoff Time with the close of trading hours at 03:00.
5. Since the majority of respondents were supportive, HKEX will proceed with the proposal. The proposed enhancements will be implemented by phases as follows, subject to market readiness and regulatory approval:

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<sup>1</sup> One HKEX Participant did not indicate support nor not support in their consultation response on the introduction of trading halt mechanism and was therefore excluded from the market feedback

<sup>2</sup> One HKEX Participant did not indicate support nor not support in their consultation response on the alignment of the cutoff time with the close of trading hours at 03:00 and was therefore excluded from the market feedback

- a) Extension to 1:00 am from 11:45 pm of the T+1 Session for equity index futures - Hang Seng Index (HSI), H-shares Index (HHI), Mini-HSI and Mini-HHI futures - in November 2017;
- b) Inclusion of index option contracts and a trading halt mechanism for index options in the T+1 Session in the first half of 2018; and
- c) Extension to 3:00 am from 1:00 am of the T+1 Session and alignment of the T+1 Session Cutoff Time with the close of trading hours in the fourth quarter of 2018.

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## CHAPTER 1: INTRODUCTION

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6. On 28 June 2017, HKEX published a consultation paper on the proposed after-hours trading enhancements (the Consultation Paper) to get market views on the proposal.
7. In the Consultation Paper, HKEX consulted the market with the following in relation to the after-hours trading session (T+1 Session):
  - a) to extend the trading hours for selected equity index futures;
  - b) to include equity index options with the introduction of the trading halt mechanism into the T+1 Session;
  - c) the implementation roadmap of the enhancements; and
  - d) to align the T+1 Session Cutoff Time with the close of trading hours upon the extension of trading hours to 03:00.

For details of the Consultation Paper, please refer to <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2017063.pdf>

8. The consultation period ended on 4 August 2017. HKEX received a total of 53 responses from HKEX Participants, market practitioners, professional body/ industry association, other corporate entities and individuals, [3] responses were late submissions received and accepted in the week after the consultation closure. A list of the respondents is provided in Appendix I. Copies of their responses are available on the HKEX website at:  
<http://www.hkex.com.hk/eng/newsconsul/mktconsul/responses/cp2017063r.htm>
9. Statistics and key responses to the Consultation Paper are summarised in Chapter 2 – 5. It also includes HKEX's responses to key comments raised. They should be read in conjunction with the Consultation Paper.
10. HKEX's conclusions and the next steps are set out in Chapter 6.
11. HKEX would like to take this opportunity to thank all those who shared their comments and views during the consultation process.

## CHAPTER 2: COMMENTS AND RESPONSE ON THE PROPOSED EXTENSION OF TRADING HOURS

12. In the following chapters, we set out the key comments raised by the respondents and our responses.
13. The following table summarises the views of the 53 respondents by category.

Category	Q1. In light of the need to enhance Hong Kong's position as an international financial centre and satisfy market demand, do you support the extension of trading hours in the T+1 Session?	
	Support	Not Support
<b>Corporate</b>	<b>36 (95%)</b>	<b>2 (5%)</b>
HKEX Participants & Market Practitioner <i>(T+1 Session market share %)</i>	34 <i>(82.4%)</i>	2 <i>(0.2%)</i>
Professional Body/ Industry Association	1	0
Others	1	0
<b>Individuals</b>	<b>11 (73%)</b>	<b>4 (27%)</b>

14. Responses which did not support the extension of trading hours were from two corporate respondents and four individual respondents. Their responses are summarised as follows:

### Corporate respondents

- a) One corporate respondent, a HKEX participant (EP) did not provide any reasons or further details of their views.
- b) One corporate respondent, an EP, did not support the extension of trading hours as the derivatives trading volume or liquidity in the T+1 is less than the T Session due to the absence of cash market.

HKEX response: The purpose of the introduction of the T+1 Session is to fulfil the market's risk management and trading needs after the close of Hong Kong market in response to market news in Europe or in US. Derivatives trading session in the absence of cash trading is common in global exchanges. Compared to the T+1 trading volume for equity index futures since the inception of the T+1 Session, the average daily volume in 2016 was six times of that in 2013. The growth in trading volume has indicated market demand for equity index futures trading in the T+1 Session in the absence of cash market.

## Individual respondents

- c) One individual respondent, an individual investor, did not provide any reasons or further details of their views.
- d) Two individual respondents, both are individual investors, commented that the trading volume of the T+1 Session would not be increased if the trading hours were extended.

HKEX response: Out of the 53 responses received covering 82.6% market share, 47 respondents (82.4% in market share) indicated a supportive view in the extension of trading hours in the T+1 Session, most of them indicated the trading and risk management needs observed in the market.

- e) One individual respondent, an employee of an EP, commented that retail investors do not have the resources for a further extension of trading hours and to manage risk after further extension.

HKEX response: Extended trading hours would enable the broader investing public to participate in quick responses to major market events. Whilst institutional investors may leverage on OTC market or other proxies to manage their risks round the clock, the broader investing public will generally focus on listed products for market access and to manage risks accordingly.

15. The large majority of responses were in favour of the proposal. Their key comments and HKEX's responses are set forth in the following paragraphs.

- a) Some respondents agreed the extension of trading hours could overlap hours with Europe and US time zone and provide more choices to investors which increase Hong Kong's competitiveness and the trading volume in the T+1 Session.

HKEX response: HKEX welcomes the positive feedback.

- b) Some respondents agreed with the extension of trading hours, but suggested that the close of the T+1 Session should be 05:00 or consider 24-hour trading in order to cover the whole US trading hours in both its summer and winter time.

HKEX response: HKEX took into consideration the release time for much of the market moving data in the US time zone and the time needed for HKEX's system to go through a series of tasks to prepare for next trading session. HKEX believes that extending the trading hours of the T+1 Session to 03:00 which fully cover European equity markets and increase coverage of trading hours of the US equity market would be optimal to balance the market needs and interests.

- c) One respondent suggested that whether or not a trade is an error trade should be determined by the exchange.

HKEX response: The error trade handling procedures would be the same as that in the T Session. Exchange Participants that are original parties to a transaction on HKATS can file error trade claims to the Exchange if the trades are deviated from the established. HKEX would then contact with the counterparty and if the counterparty does not agree with the cancellation or cannot be reached, a special HKATS Error Trade Review Panel which comprised of members of HKEX's staff, will be convened and decide whether or not the claimed Error Trade shall be cancelled.

## CHAPTER 3: COMMENTS AND RESPONSE ON THE PROPOSED INCLUSION OF EQUITY INDEX OPTIONS

16. The following table summarises views of the 53 respondents. For Question 3, one corporate respondent, an EP, did not respond to the question and was therefore excluded from the market feedback.

Category	Q2. Do you agree that the inclusion of equity index options in the T+1 Session could facilitate better risk management by brokers and investors?		Q3. Do you agree that the proposed trading halt could mitigate / reduce risk to the market while maintaining a simple mechanism?	
	Agree	Disagree	Agree	Disagree
<b>Corporate</b>	<b>35 (92%)</b>	<b>3 (8%)</b>	<b>34 (92%)</b>	<b>3 (8%)</b>
HKEX Participants & Market Practitioner <i>(Index option market share%)<sup>3</sup></i>	33 <i>(71.4%)</i>	3 <i>(0.0%)</i>	33 <i>(71.3%)</i>	2 <i>(0.0%)</i>
Professional Body/ Industry Association	1	0	1	0
Others	1	0	0	1
<b>Individual</b>	<b>14 (93%)</b>	<b>1(7%)</b>	<b>13 (87%)</b>	<b>2 (13%)</b>

17. Out of the 35 supportive corporate responses on the inclusion of index options (Question 2), one of them originally indicated not supportive. With subsequent clarification, it was understood that their response was to express their concern on the availability of market makers in the T+1 Session. The respondent was actually supportive of the proposed product inclusion if there would be market makers upon launch.
18. There were four negative responses on Question 2. Their responses are summarised as follows:

### Corporate respondents

- a) One corporate respondent, an EP, did not provide any reasons or further details of their views.

<sup>3</sup> volume in central order book

- b) Two corporate respondents, an EP and a market practitioner, did not support the inclusion of index options stated that the cash market and derivatives market should be trading together, i.e. there would be little demand for index options products in absence of a cash market in the T+1 Session. In addition, liquidity in the T+1 Session is also of concern of the respondents above.

HKEX response: Out of the 53 responses received covering 71.4% market share, 49 respondents (71.4% market share) indicated a supportive view in the inclusion of index options in the T+1 Session, most of them observed the trading and risk management needs observed in the market. In terms of options liquidity in the T+1 Session, HKEX will endeavour to recruit market makers before launch of options in the T+1 Session.

#### **Individual respondents**

- c) One individual respondent, an EP employee, did not support the inclusion of index options with a similar rationale mentioned in 18(b).

HKEX response: Please see HKEX's views on this subject in 18(b)

19. There were five negative responses on Question 3. Their responses and rationales are summarised as follows:

#### **Corporate respondents**

- a) Two corporate respondents, an EP and an information vendor, who were not supportive to the introduction of the trading halt mechanism did not provide details of their views.
- b) One corporate respondent, an EP, did not support the introduction of trading halt mechanism as they suggested that the proposed trading halt would create disadvantages to retail investors who have slower speed in accessing market messages.

HKEX response: Under the proposed mechanism, once the market condition is met, trading of corresponding options would be halted with a market message broadcasted to all brokers and information vendors to relay to all investors in the market through the general distribution channels. Such arrangements in market message broadcast are being used in the day time trading today.

#### **Individual respondents**

- c) One individual respondent, an EP employee, did not support the introduction of the trading halt mechanism did not provide details of his/her views.
- d) One individual respondent, an EP employee, did not support the introduction of the trading halt mechanism as he/she suggested the price of the options should be determined by the market.

HKEX response: Since the inception of the T+1 Session, HKEX introduced a price limit mechanism on futures trading. The mechanism ensured orderly futures trading in the T+1 Session in a number of occasions when market-moving events occurred in the T+1 Session. HKEX believes the introduction of trading halt mechanism for options trading in the T+1 Session can ensure orderly trading for options during market-moving events occurred in the T+1 Session.

20. The large majority of respondents were in favour of the proposal. Their key comments and HKEX's responses are set forth in the following paragraphs.

- a) Some respondents commented that the inclusion of index options would allow investors and EP to hedge and adjust their positions in the T+1 Session on a portfolio basis.

HKEX response: HKEX welcomes the positive feedback.

- b) Some respondents commented that despite they agreed that the equity index options in Hong Kong are well-developed, they showed concerns on the availability of market makers during the T+1 Session.

HKEX response: HKEX acknowledges that the importance of market makers to allow orderly trading of equity index options in the T+1 Session. HKEX will endeavour to recruit market makers before any launch of options in the T+1 Session. During the discussion with market practitioners in the consultation period, a number of market makers expressed interest in signing up for the T+1 Session.

- c) Some respondents commented that the proposed trading halt is simple to understand and operate, it can ensure orderly price movement in the T+1 Session while minimise market influence. Meanwhile, the no resumption after the trading halt is triggered would create fewer burdens for investors.

HKEX response: HKEX welcomes the positive feedback.

- d) Some respondents suggested applying a trading halt mechanism on both futures and options trading in the T+1 Session.

HKEX response: The current price limit mechanism on futures was proven to ensure orderly trading when the limits were reached. It has been operating smoothly since the inception and market participants have already familiarised with the operations of the mechanism. As a comparison, CME also imposes trading halt mechanism on its index options and price limit mechanism on its futures in the non-US Trading Hours (equivalent to the T+1 Session) respectively.

- e) One respondent suggested the Exchange should have a definitive error trade rules or have a team in place to determine if an error trade claim is valid during the T+1 Session.

HKEX response: The error trade handling procedures in the T+1 Session would be the same as the procedures in the T Session. The handling procedures are

available in the HKEX website and a team, including the HKATS Error Trade Review Panel which decide the validity of an error trade claim, have been in place since the introduction of the T+1 Session.

## CHAPTER 4: COMMENTS AND RESPONSE ON THE PROPOSED IMPLEMENTATION ROADMAP

20. The following table summarises the views of the 53 respondents.

Category	Q4. Do you have any other comments on the proposed implementation roadmap?	
	Support <sup>4</sup>	Not Support
<b>Corporate</b>	<b>37 (97%)</b>	<b>1 (3%)</b>
HKEX Participants & Market Practitioner <i>(T+1 Session market share%)</i>	35 <i>(82.4%)</i>	1 <i>(0.2%)</i>
Professional Body/ Industry Association	1	0
Others	1	0
<b>Individual</b>	<b>13 (87%)</b>	<b>2 (13 %)</b>

21. There was one negative response from a corporate respondent and two from individual respondents on the proposed implementation roadmap.
22. HKEX analysed the negative responses and found all of them were in relation to the proposed extension of trading hours. Details of their responses are summarised below:

### Corporate respondents

- a) One corporate respondent, an EP, who did not support the road map, suggested that the trading hours should be extended beyond 03:00.

### Individual respondents

- b) Two individual respondents, both are EP employees, who did not support the implementation roadmap said the T+1 Session should not be extended because extra trading time would not bring in additional volume.

HKEX response: Please see HKEX's views on this subject in Chapter 2 of this document and in the Consultation Paper.

23. Most respondents supported the proposed implementation roadmap. Details of their responses are summarised below.

<sup>4</sup> Responses classified as supportive refer to responses without comments on implementation roadmap and responses with positive comments on the implementation roadmap

- a) Some respondents commented that despite supportive to the proposed implementation roadmap, they would prefer the enhancements to be implemented in one go in order to allow them to develop their systems more efficiently instead of introducing the enhancements in phases.

HKEX response: The proposed approach would allow sufficient time for client communication while balancing the time to market. In addition, market system readiness and market impact were also being taken into account.

- b) Some respondents suggested HKEX to accept global contact list so that EP's overseas office can directly liaise with the Exchange during the T+1 Session.

HKEX response: HKEX acknowledges the concerns of EP which may require overseas contact to operate during the T+1 Session. Currently, HKATS usernames are usually assigned by the Responsible Officers to Authorised Persons who can be contacted by HKEX for immediate response to HKATS trading-related matters such as claiming error trades. In some cases, the Authorised Persons may be located outside Hong Kong.

## CHAPTER 5: COMMENTS AND RESPONSE ON PROPOSED CLEARING AND RISK MANAGEMENT ARRANGEMENTS

24. The following table summarises the views of the 53 respondents by category. One corporate respondent, a Non-Clearing Participant, did not respond to the Question 5 and was therefore excluded from the market feedback.

Category	Q5. Do you agree with the alignment of the T+1 Session Cutoff Time with the close of trading hours at 03:00?	
	Support	Not Support
<b><u>Corporate</u></b>	<b>33 (89%)</b>	<b>4 (11%)</b>
HKEX Participants & Market Practitioner <i>(Market share% for post-trade activities after the T+1 Session market close)</i>	32 (83.7%)	3 (9.8%)
Professional Body/ Industry Association	1	0
Others	0	1
<b><u>Individual</u></b>	<b>10 (67%)</b>	<b>5 (33%)</b>

25. As regards to the proposal to align the T+1 Session Cutoff Time with the close of trading hours at 03:00, by way of background, the current T+1 Session Cutoff Time is 45 minutes after the close of trading hours to allow HKCC Participants (CP) to conduct post-trade activities. Post-trade activities conducted during this 45-minute time window accounts for only 0.4% of the total post trades. In the consultation, it is proposed to abolish this 45-minute time window given its low usage. CP may alternatively conduct post-trade activities in the next Business Day morning.

26. Out of the 33 supportive corporate responses, three of them originally indicated not supportive. With subsequent clarification, the rationale behind these three negative responses was they wished to have longer trading hours beyond 03:00 in order to overlap more into the US markets, and they were actually supportive of the proposed clearing arrangement.

27. Four corporate respondents and five individual respondents submitted negative responses on the alignment of the T+1 Session Cutoff Time with the close of trading hours after it is extended to 03:00. They gave the following reasons:

### Corporate respondents

- a) One corporate respondent, a SEOCH Participant, did not provide details of not supporting the proposal.
- b) One corporate respondent, a CP, did not support the alignment of the T+1 Session Cutoff Time with the close of trading hours at 03:00 commented that if clearing activities were conducted on the next Business Day, it might need to arrange extra resources to support.
- c) Two corporate respondents, as market practitioner and information vendor respectively, did not support the alignment of the T+1 Session Cutoff Time with the close of trading hours at 03:00 as they preferred to have a longer trading hours to 04:00.

### **Individual respondents**

- d) Five individual respondents commented mainly either because they were not supportive of the extension of trading hours or preferred a longer trading hours beyond 03:00 which their responses were considered not directly relating to Question 5.

HKEX response: Please see HKEX's views on this subject in Chapter 2 of this document and in the Consultation Paper.

28. Other key comments to the alignment of the T+1 Session Cutoff Time and with the close of the T+1 Session after it is extended to 03:00 and are set forth in the following paragraphs.

- a) One corporate agreed that the alignment of the T+1 Session Cutoff Time with the close of the T+1 Session after it is extended to 03:00 would be constructive.

HKEX response: HKEX welcome the respondent's comments. As per statistics in March 2017, only 0.4% of the daily post-trade activities (in terms of contractual volume) were conducted during the 45 minutes after the close of the T+1 Session. HKEX is pleased to acknowledge this measure would reduce operational burden to CP.

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## **CHAPTER 6: CONCLUSIONS AND NEXT STEPS**

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29. Having carefully considered all of the responses received from different market participants, HKEX concludes that there is substantial market support for the introduction after-hours trading enhancements and its implementation roadmap. The following enhancements will be introduced in the T+1 Session;
- a) Extension to 1:00 am from 11:45 pm of the T+1 Session for equity index futures - Hang Seng Index (HSI), H-shares Index (HHI), Mini-HSI and Mini-HHI futures - in November 2017;
  - b) Inclusion of index option contracts and a trading halt mechanism for index options in the T+1 Session in the first half of 2018; and
  - c) Extension to 3:00 am from 1:00 am of the T+1 Session and alignment of the T+1 Session Cutoff Time with the close of trading hours in the fourth quarter of 2018.
30. The first phase of the enhancements is tentatively scheduled in November 2017, subject to regulatory approval and market readiness. HKEX will discuss its consultation conclusion with the SFC and make further announcements in due course.

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## **APPENDIX I: LIST OF RESPONDENTS**

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### **HKEX Participants (31)**

- 1 Credit Suisse (Hong Kong) Limited
- 2 I-Access Investors Limited
- 3 Prudential Index Trading Co Ltd
- 4 – 31 28 HKEX Participants that requested anonymity

### **Market Practitioners (5)**

- 32 BosValen Asset Management
- 33 Schroders Investment Management
- 34-36 3 Market Practitioners that requested anonymity

### **Professional Body/ Industry Association (1)**

- 37 FIA

### **Other (1)**

- 38 1 corporate entity that requested anonymity

### **Individuals (15)**

- 39- 53 15 individuals who requested anonymity

### **Total (53)**

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