FREQUENTLY ASKED QUESTIONS

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The FAQ will be updated from time to time and is subject to change.

Pre-opening Session (POS) in the Securities Market

1. Why does HKEX propose to change it now?

Market participants have indicated their preference to enhance the auction mechanism in POS by using the enhanced auction features of Closing Auction Session (CAS) after its successful rollout in securities market in 2016. Given CAS has been implemented for three years and is well-accepted by market participants, HKEX believes it is the right moment to enhance POS in the securities market by adopting the relevant auction features in order to improve price discovery and trading liquidity before the market open.

2. Why does HKEX not adopt similar POS models in other international markets (e.g. volatility extensions) but follow its own CAS model?

As the market is already familiar with CAS, which has been well-accepted, adopting an opening auction model that largely follows the closing auction will facilitate market participants' understanding of the enhanced POS trading mechanisms. Internationally, it is noted that many exchanges would adopt identical or largely similar auction mechanisms for their opening and closing auctions.

3. Why does HKEX propose a price limit of ±15% in POS?

A price limit of ±15% in POS in the securities market is proposed in order to prevent excessive price movement during any high volatility scenarios (by controlling the price of at-auction limit orders input during POS). HKEX is of the view that a ±15% price limit from the previous closing price would be suitable as it takes into account the larger room for price discovery inherently necessary for an opening auction while not being overly restrictive. Internationally in recent years it is observed that a trend of adopting price limits/collars which may be applicable to POS as well.

It should also be noted that there would be certain pre-defined scenarios where the price limit feature will not apply. These scenarios include the first day trading of IPO stocks, stocks on their ex-entitlement day (e.g. cash dividend, bonus issues, right issues etc.) and trading resumption after stock suspension. The ±15% limit will not be applicable to these stocks and the price discovery function would not be impacted.

In case a stock cannot open in POS due to the ±15% price limit, trading in such stock will continue as usual during the Continuous Trading Session (CTS) without a price limit.

Based on past statistics , only a very few number of stocks would move more than 15% in POS on a daily basis versus their previous closing prices, and they represent a very small portion of market turnover.

Volatility Control Mechanism (VCM) in the Securities Market

4. Why does the proposed VCM not apply to all stocks in the securities market?

While a review of international practice shows that volatility controls in major exchanges in US, Europe and Asia usually cover all equities, HKEX is of the view instrument-level volatility control is much less relevant for low liquidity stocks. Expanding VCM coverage beyond Hang Seng Composite Index (HSCI) constituent stocks means that less liquid stocks that may not fully benefit from the functionality of VCM are also covered. A high number of triggers on a daily basis would also be generated for these stocks according to the back test.

5. Why does the proposed VCM not cover the auction sessions?

For auction sessions, the proposed ±15% price limits in the enhanced POS and the current ±5% price limits in CAS serve to mitigate excess price movements that may occur during the auction periods.