



## **HKEx will introduce pre-opening session and index basket order trading mechanism**

Hong Kong Exchanges and Clearing Limited (HKEx) will introduce a pre-opening session for order matching by single price auction, and reporting overnight and other pre-opening trades. It will also introduce an index basket order trading mechanism.

### *Pre-opening session*

The pre-opening session will determine a fair opening price and reduce the loading of the system arising from the large number of order inputs and trade execution messages at the commencement of the morning session.

It will consist of an order input period from 9:30am to 9:45am; a pre-order matching period from 9:45am to 9:50am; an order matching period from 9:50am to 9:58am; and a blocking period from 9:58am to 10:00am.

During the order input period, only at-auction orders and at-auction limit orders will be accepted. Orders will be accumulated and updated in the trading system continuously and may be modified or cancelled. Only at-auction orders will be accepted during the pre-order matching period, and modification or cancellation of orders in the system may not take place during this period.

An at-auction order is a market order that can be input during the order input and pre-order matching periods for the purpose of obtaining a single price auction in the pre-opening session. It has no specified price and enjoys a higher auction matching priority than the at-auction limit order. An at-auction limit order has a specified price for single price auction in the pre-opening session.

An Indicative Equilibrium Price (IEP) and Indicative Equilibrium Volume (IEV) are continuously re-calculated each time a new order is input during the order input and pre-order matching periods. The IEP is the price at which the maximum number of shares can be traded if matching occurs at that time. IEV is the number of shares that would be traded at the IEP.

No orders may be input, modified or cancelled during the order matching period. The final IEP of each security is determined during this period. Orders are matched in order type, price and time priority at the final IEP, with at-auction orders carrying a higher priority.

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*Reporting pre-opening trades*

Pre-opening trades are trades concluded before the commencement of the morning session, including those concluded on the previous day but not recorded in the system.

Under current rules, these would be entered into the system in the first 15 minutes of the morning session. After introduction of the pre-opening session, stock exchange participants will be allowed to input pre-opening trades into the trading system during the order input and pre-order matching periods, in addition to the existing first 15 minutes of the morning session.

*Index basket order*

The index basket order trading mechanism will provide for index basket trading, including index arbitrage. It will introduce an additional order data design so that an order may contain a basket of orders based on the constituent stocks of an index with a derivative product traded on the exchange. AMS/3, the Third Generation Automatic Order Matching and Execution System, will recognise this basket order as a single order.

Initially, only basket orders based on the Hang Seng Index (HSI) will be allowed. Baskets on other tradable indices will be considered when there is market demand.

HSI basket orders must meet the following criteria:

- only comprise special limit buy or sell orders for a minimum of 18 constituent stocks of the HSI;
- the HSI basket orders must replicate at least 90 per cent of the market capitalisation of the HSI;
- the weighting of each stock in the basket must not deviate from its HSI weighting by more than 20 per cent.

HSI basket orders may only be entered during continuous trading and input will initially only be available on Broker Supplied Systems. The AMS/3 host will split basket orders into orders for the individual stocks and process them as Special Limit Orders, following their trading rules and matching priority.

"HKEx believes the introduction of a pre-opening session and index basket order trading mechanism will strengthen the securities market environment, meet market needs and increase customer services," Lawrence Fok, HKEx's Deputy Chief Operating Officer, said.

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