

# CONSULTATION CONCLUSIONS

## PROPOSED CHANGES TO TRADING HOURS

**November 2010**



**Hong Kong Exchanges and Clearing Limited**  
**香港交易及結算所有限公司**

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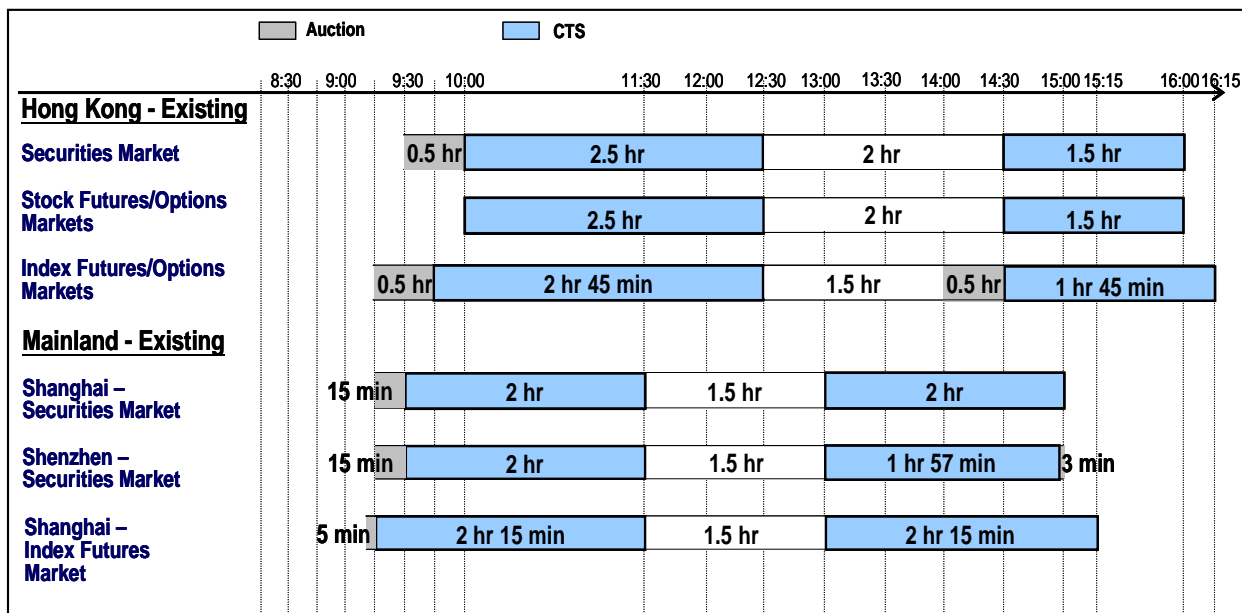
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# EXECUTIVE SUMMARY

In September 2010, Hong Kong Exchanges and Clearing Limited (HKEx) issued a market consultation paper on proposed changes to the trading hours of our securities and derivatives markets<sup>1</sup>. The following diagram depicts our current trading hours vis-à-vis the Mainland's:



The paper proposed two main changes, as follows:

- **Change (A): Advance the morning Continuous Trading Session (CTS)<sup>2</sup> by 0.5 hours.** The morning CTS of the securities and stock futures/options markets would open at 09:30 and close at 12:00; the index futures/options markets would open at 09:15 and close at 12:00 (i.e. our markets would open at the same time as the Mainland's in the morning); and
- **Change (B): Advance the opening times of the afternoon CTS:**
  - Option 1: the afternoon CTS of all our markets would **open at 13:00 resulting in a 1-hour lunch break from 12:00 to 13:00** (i.e. our markets would open at the same time as the Mainland's in the afternoon); or
  - Option 2: the afternoon CTS of all our markets would **open at 13:30 resulting in a 1.5-hour lunch break from 12:00 to 13:30** (i.e. our markets would open 0.5 hours later than the Mainland's in the afternoon).

This document presents the results of the consultation and the proposed way forward.

A total of 556 submissions were received from 73 HKEx Participants, 7 brokerage industry associations, 11 listed companies and 1 related association, 5 professional bodies including the banking industry association, 4 other entities and 455 individuals (383 of the individuals being employees of brokerage firms). The submissions are summarised in Part B of this Paper.

<sup>1</sup> 'Derivatives market' in this paper refers to our stock futures/options markets and index futures/options markets.

<sup>2</sup> 'Continuous Trading Sessions (CTS)' of our securities market in this paper refers to the morning session from 10:00 to 12:30 and the afternoon session from 14:30 to 16:00, but excludes the Extended Morning Session from 12:30 to 14:30 in respect of the two Extended Trading Securities.

The vast majority of respondents supported the earlier opening time in the morning. There was much support for changes to the lunch break, but responses were mixed with advocates for each of the proposed Options 1 and 2. There was also support for eliminating the lunch break altogether and for no change to the current lunch break. Between the two options, Option 1, i.e. a 1-hour lunch break from 12:00 to 13:00, had the more support from HKEx Participants in terms of market share while Option 2, i.e. a 1.5-hour break from 12:00 to 13:30, had the more support in terms of number of respondents.

For those who supported the proposed changes, the majority believed these changes would increase the compatibility of our markets with the Mainland's and enhance our competitiveness. For those who did not support the proposed changes, the top reason was that the lunch break would be less convenient. Other reasons included insufficient time to digest industry news and that longer trading hours would increase costs but not necessarily increase turnover.

Additional comments were made by some respondents. These respondents suggested doing away the lunch break, extending market closing times (for example, from 16:00 to 16:30), and providing an evening trading session. Our views on these suggestions are set out in Part C of this paper.

## Conclusions and Way Forward

Taking account of the responses to our consultation paper and to increase the overlap of our trading hours to the Mainland's, we intend to,

- Adopt Change (A), i.e. start and close our morning trading 0.5 hours earlier;

In terms of the lunch break, we intend to have a phased implementation approach:

Phase 1 (from 7 March 2011 to 2 March 2012):

- Adopt Option 2 of Change (B), i.e. adopt a lunch break of 1.5 hours from 12:00-13:30.

Phase 2 (from 5 March 2012 onwards):

- Adopt Option 1 of Change (B), i.e. adopt a lunch break of 1 hour from 12:00-13:00.

Our revised trading hours will be as follows:

	<b><u>Phase 1</u></b> <b><u>(1.5-hour lunch break)</u></b>	<b><u>Phase 2</u></b> <b><u>(1-hour lunch break)</u></b>
<b><u>Securities Market &amp; Stock Futures/Options Markets</u></b>		
• Pre-opening Session (for securities market only):	09:00-09:30	Same as Phase 1
• Morning CTS:	09:30-12:00	Same as Phase 1
• Afternoon CTS:	13:30-16:00	13:00-16:00
<b><u>Index Futures and Options Markets</u></b>		
• Pre-market Opening Period <sup>3</sup>	08:45-09:15	Same as Phase 1
• Morning CTS	09:15-12:00	Same as Phase 1
• Pre-market Opening Period	13:00-13:30	12:30-13:00
• Afternoon CTS	13:30-16:15	13:00-16:15

<sup>3</sup> The pre-market opening periods only apply to Hang Seng Index, Mini-Hang Seng Index and H-shares Index futures.

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After the above changes, our trading hours will overlap with the Mainland's for 3.5 and 4 hours for securities and derivatives market respectively upon the Phase 1 implementation while we will completely overlap the Mainland's trading hours upon the Phase 2 implementation. Our revised trading hour duration (5 and 5.5 hours for securities and derivatives market upon Phase 1 implementation and 5.5 and 6 hours respectively upon Phase 2 implementation) will still be shorter than, but broadly be comparable to, the present trading hours duration of other major regional exchanges.

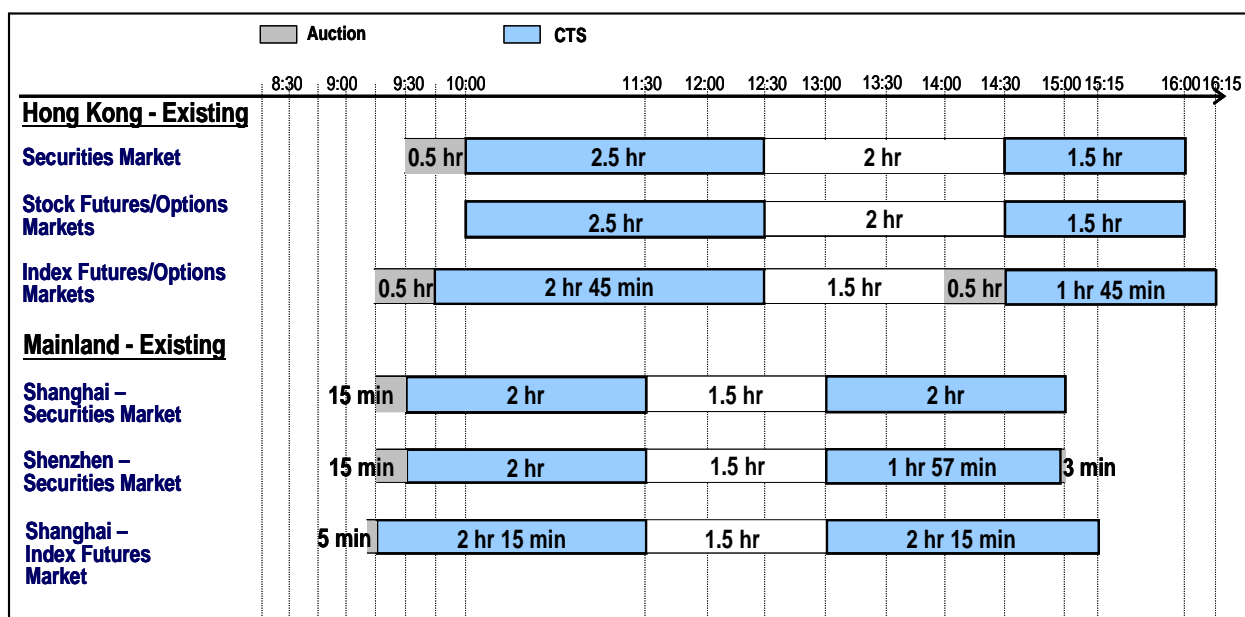
The implementation of the proposed changes to trading hours is scheduled for the first Monday of March 2011 (i.e. 7 March 2011) for Phase 1 and the first Monday of March 2012 (i.e. 5 March 2012) for Phase 2, subject to the approval of the necessary rule amendments by the Securities and Futures Commission and market readiness. The implementation details will be announced in due course.

In considering developments in other international finance centres, we note that the trend is clearly away from traditional lunch breaks and towards increasing trading hours and/or adding after-hours trading bridging time zones and extending trading and hedging opportunities. In this regard, we expect that Hong Kong will need in future to go further in changing its trading hours to be competitive as an international finance centre and we look forward to consulting the market again on such matters.

# PART A: INTRODUCTION

## Background

1. The Hong Kong and Mainland markets have grown in tandem in recent years. Today, almost 60% of our market capitalisation and over 70% of our market turnover come from Mainland-related securities, while growing numbers of our Exchange Traded Funds (ETFs), structured products and derivative products have Mainland-related securities as underlying assets.
2. Although Hong Kong is the international finance centre of China and is now closely connected to the Mainland markets, the present opening times of our securities and derivatives markets lag behind the Mainland's by 0.5 hours in the morning and 1.5 hours in the afternoon. Consequently, investors in the Hong Kong market can only react to market news after their counterparts in the Mainland market, which may compromise our market's price discovery function. As increasing numbers of products are listed in both Hong Kong and the Mainland, and as the relationship between the two markets becomes closer still, such disconnect in trading hours threatens to become a severe handicap to the Hong Kong market.
3. The following diagram depicts our current trading hours vis-à-vis the Mainland's:



4. Other securities markets in the region generally have longer trading hours than Hong Kong. This again threatens our competitiveness.
5. We therefore need to consider changing our trading hours for two strategic reasons:
  - To enhance our price discovery function for Mainland-related securities by opening earlier and increasing the overlap of our trading hours with the Mainland's; and
  - To strengthen our competitiveness by narrowing the gap between our trading hours duration and that of our regional competitors.

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## Consultation Process

6. We published a market consultation paper on two proposed changes to the trading hours of its securities and derivatives markets in September 2010 (the Consultation Paper).
7. The Consultation Paper set out a proposal comprising two changes to the continuous trading session (CTS) as follows.
  - **Change (A): Advance the morning CTS by half an hour.** The morning CTS of the securities and stock futures/options markets would open at 09:30 and close at 12:00; the index futures/options markets would open at 09:15 and close at 12:00 (i.e. our markets would open at the same time as the Mainland's in the morning);
  - **Change (B): Advance the opening times of the afternoon CTS.**
    - Option 1: the afternoon CTS of all our markets would open at 13:00 resulting in a 1-hour lunch break from 12:00 to 13:00 (i.e. our markets would open at the same time as the Mainland's in the afternoon); or
    - Option 2: the afternoon CTS of all our markets would open at 13:30 resulting in a 1.5-hour lunch break from 12:00 to 13:30 (i.e. our markets would open 0.5 hours later than the Mainland's in the afternoon).
8. The Consultation Paper also proposed that the Pre-opening Session in the securities market would continue to begin 0.5 hours before the start of morning trading, and the Pre-market Opening Periods of the index futures markets would continue to begin 0.5 hours before the start of morning and afternoon trading. Additionally, we welcomed views on possible shortening of the Pre-Opening Session and the Pre-market Opening Periods in connection with any changes to trading hours.
9. On 17 September 2010, we issued a news release to the public and circulars to HKEx Participants regarding the consultation and posted the Consultation Paper on the HKEx website.
10. The consultation period closed on 29 October 2010. The present document summarises the main comments received and the rationale for our conclusions on the way forward in light of the market comments. Overall market feedback and specific comments raised by respondents are discussed in Part B and Part C respectively of this document. The conclusions and implementation plan are set out in Part D.
11. The present document should be read in conjunction with the Consultation Paper (at <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2010093.pdf> ).
12. We would like to take this opportunity to thank all those who have shared with us their comments and views during the consultation process.

# PART B: OVERALL MARKET FEEDBACK

## The Respondents

13. In total, 556 submissions<sup>4</sup> from a wide spectrum of respondents were received. A list of the respondents is provided in the Appendix. Copies of their submissions are available at <http://www.hkex.com.hk/eng/newsconsul/mktconsul/marketconsultation.htm> on the HKEx website for public reference.

## Overall Market Feedback

14. The following table summarises the 556 submissions by respondent category:

### Corporate Respondents

	No of responses	Start the morning trading 0.5 hours earlier				Start afternoon trading earlier with a shorter and earlier lunch break				Preference for lunch break			
		Support		Not support		Support		Not support		Option 1 (1-hr)		Option 2 (1.5-hr)	
<b>HKEx Participants</b>	73	60	82%	13	18%	52	71%	22	30%	26	36%	31	42%
<b>Brokerage industry associations</b>	7	6	86%	1	14%	5	71%	2	29%	1	14%	4	57%
<b>Listed companies &amp; related association</b>	12	12	100%	0	0%	12	100%	0	0%	6	50%	7	58%
<b>Professional bodies and banking industry association</b>	5	5	100%	0	0%	5	100%	0	0%	4	80%	1	20%
<b>Other entities</b>	4	4	100%	0	0%	3	75%	1	25%	3	75%	1	25%
<b>Total</b>	<b>101</b>	<b>87</b>	<b>86%</b>	<b>14</b>	<b>14%</b>	<b>77</b>	<b>76%</b>	<b>25</b>	<b>25%</b>	<b>40</b>	<b>40%</b>	<b>44</b>	<b>44%</b>

### Individual Respondents

	No of responses	Start the morning trading 0.5 hours earlier				Start afternoon trading earlier with a shorter and earlier lunch break				Preference of lunch break			
		Support		Not support		Support		Not support		Option 1 (1-hr)		Option 2 (1.5-hr)	
<b>Employees of Brokerage Firms</b>	<b>383</b>	<b>241</b>	<b>63%</b>	<b>131</b>	<b>34%</b>	<b>63</b>	<b>16%</b>	<b>308</b>	<b>80%</b>	<b>13</b>	<b>3%</b>	<b>95</b>	<b>25%</b>
○ Front line staff	301	187	62%	106	35%	49	16%	242	80%	8	3%	74	25%
○ Other staff	82	54	66%	25	30%	14	17%	66	80%	5	6%	21	26%
<b>Investors</b>	<b>46</b>	<b>13</b>	<b>28%</b>	<b>31</b>	<b>67%</b>	<b>6</b>	<b>13%</b>	<b>40</b>	<b>87%</b>	<b>4</b>	<b>9%</b>	<b>13</b>	<b>28%</b>
<b>Others</b>	<b>26</b>	<b>16</b>	<b>62%</b>	<b>9</b>	<b>35%</b>	<b>5</b>	<b>19%</b>	<b>18</b>	<b>69%</b>	<b>4</b>	<b>15%</b>	<b>1</b>	<b>4%</b>
<b>Total</b>	<b>455</b>	<b>270</b>	<b>59%</b>	<b>171</b>	<b>38%</b>	<b>74</b>	<b>16%</b>	<b>366</b>	<b>80%</b>	<b>21</b>	<b>5%</b>	<b>109</b>	<b>24%</b>

Note: The total of individual items for each category in each subject question may not equal 100% as some respondents had other choices, some had multiple selections of choices while some did not indicate their preferences.

15. Further analyses by category of respondents are given in paragraphs 15 to 40 below.

<sup>4</sup> There were 2 late submissions which were not included in the analysis. Both of them were submitted by individuals (one from an employee of brokerage firm). One requested no lunch break in our derivatives market while the other one requested to maintain the existing lunch break.



## Most HKEx Participants were supportive of the proposed changes

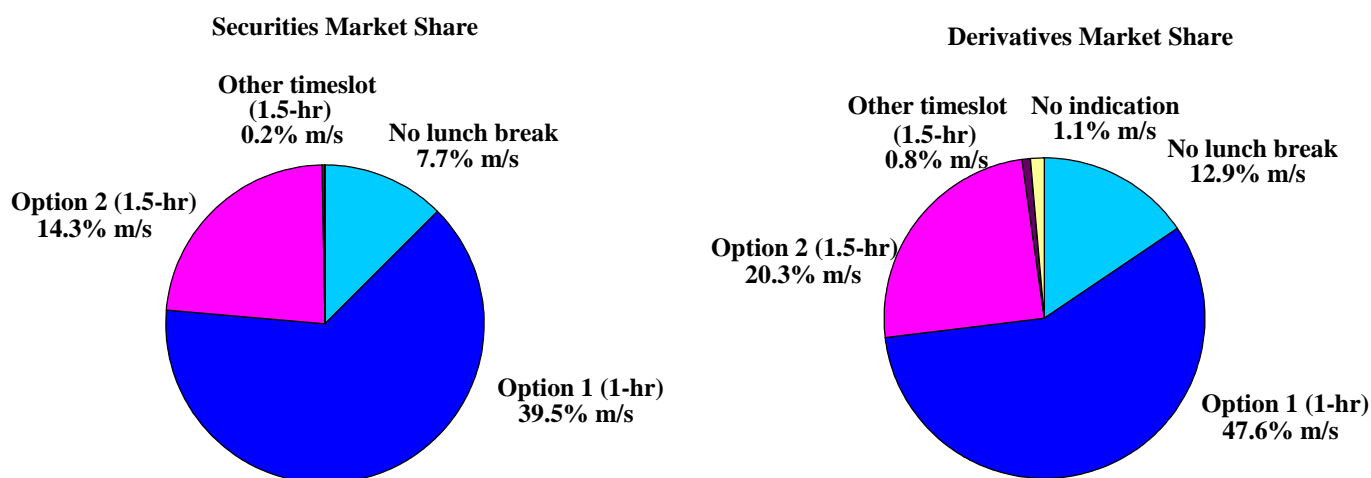
16. A total of 73 HKEx Participants constituting a market share<sup>5</sup> of 55.6% in the securities market and 72.1% in the derivatives market responded to the Consultation Paper. Out of the 73 respondents, 60 (or 82%, accounting for a 52.3% market share in the securities market and 70.8% in the derivatives market) supported starting morning trading 0.5 hours earlier.
17. For the lunch break, 52 participants (or 71%, accounting for a 53.6% market share in the securities market and 69.4% in the derivatives market) supported starting afternoon trading earlier. Seven (or 10%, accounting for a 7.7% market share in the securities market and 12.9% in the derivatives market) preferred no lunch break. Twenty-six (or 36%, accounting for a 39.5% market share in the securities market and 47.6% in the derivatives market) preferred to have a 1-hour lunch break from 12:00-13:00. Thirty-one (or 42%, accounting for a 14.3% market share in the securities market and 20.3% in the derivatives market) preferred to have a 1.5-hour lunch break from 12:00-13:30. Thirteen (or 18%, accounting for a 0.2% market share in the securities market and 0.8% in the derivatives market) counter-proposed a 1.5-hour lunch break at different timeslots.
18. The following table summarises the responses from responding HKEx Participants:

Start the morning trading 0.5 hours earlier						Start afternoon trading earlier with a shorter and earlier lunch break					
Support			Not support			Support			Not support		
Total	By no.	By m/s	Total	By no.	By m/s	Total	By no.	By m/s	Total	By no.	By m/s
60	82%	52.3% (S) 70.8% (D)	13	18%	3.3% (S) 1.3% (D)	52	71%	53.6% (S) 69.4% (D)	22	30%	4.0% (S) 4.9% (D)

Preference for lunch break														
No lunch break			1-hour (12:00-13:00)			1.5-hour (12:00-13:30)			1.5-hour at different timeslots			Others		
Total	By no.	By m/s	Total	By no.	By m/s	Total	By no.	By m/s	Total	By no.	By m/s	Total	By no.	By m/s
7	10%	7.7% (S) 12.9% (D)	26	36%	39.5% (S) 47.6% (D)	31	42%	14.3% (S) 20.3% (D)	13	18%	0.2% (S) 0.8% (D)	3	4%	0.0% (S) 1.1% (D)

Note: M/s – market share; (S) – Market share in securities market; (D) – Market share in derivatives market.  
The total of individual items in each subject question may not equal 100% as some respondents had multiple choices.

### Preference of Lunch Hours by HKEx Participants



<sup>5</sup> Market share is calculated based on Jan-Sep 2010 figures

19. The majority of the HKEx Participants supporting the proposed changes felt that enhanced compatibility with the Mainland (chosen by around 60% of respondents) and strengthened competitiveness (chosen by around 40%) were the two major reasons for the changes. Better price discovery and services to investors were also crucial (chosen by around 30% of respondents). Those who did not support the proposed changes felt that the changes would affect their business commitments, shorten the time to digest market news before market open, lead to longer working hours, and change their lunch practice (all chosen by around 10% of respondents).
20. In relation to the morning and afternoon auction sessions, over 40% of respondents preferred to maintain the duration as it is, i.e. 0.5 hours. Around 20% of them opted for shortening the duration or eliminating the auction sessions as a whole and the remaining ones did not indicate their preferences.
21. The following tabulates the responses of HKEx participants regarding auction sessions:

Morning Auction						Afternoon Auction											
						If 1-hour lunch break from 12:00-13:00 were adopted						If 1.5-hour lunch break from 12:00-13:30 were adopted					
						Remain at 0.5 hours		Shorten		Eliminate		Remain at 0.5 hours		Shorten		Eliminate	
36	49%	18	25%	2	3%	31	42%	8	11%	12	16%	32	44%	6	8%	11	15%

Note: The total of individual items may not add up to 100% as some respondents did not indicate their preference.

## The majority of the brokerage industry associations supported the proposed changes

22. There were 7 submissions from brokerage industry associations. Six (or 86%) of them supported starting morning trading 0.5 hours earlier while 5 (or 71%) supported having a shorter and earlier lunch break. The one association which did not support the proposed changes said that if trading hours were to be changed, it would accept starting morning trading not more than 0.5 hours earlier and ending afternoon trading not more than 0.5 hours later.
23. For the duration of the lunch break, 1 (or 14%) preferred 1 hour while 4 (or 57%) preferred 1.5 hours. For the remaining 2 associations (or 28%), 1 proposed a 1.5-hour lunch break at a different timeslot while the other one preferred the existing 2-hour lunch break but also said that if the lunch break were to be changed, it should at least be 1.5 hours.
24. Six (or 86%) of the responded brokerage industry associations agreed that enhanced compatibility with the Mainland is important in the start of morning trading while 5 (or 71%) also agreed the same for the start of afternoon trading. Better price discovery was another reason chosen by 4 associations (or 57%) for both changes. Three (or 43%) associations stated that strengthened competitiveness was a major reason for both changes. Those who did not support the proposed changes felt that they would lead to longer working hours and change their lunch practice.
25. Regarding the morning and afternoon auction sessions, over half of the industry associations preferred to shorten the existing morning auction sessions to 15 minutes and to eliminate the afternoon auction session. One association preferred the morning auction sessions to remain at 0.5 hours and the afternoon auction session to be shortened to 15 minutes.

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## **Listed companies and their related association unanimously supported the proposed changes**

26. A total of 11 listed companies and a listed company association responded to the Consultation Paper. All 12 submissions were supportive of the two main proposed changes. Six (or 50%) of them preferred to have a 1-hour lunch break while 7 (or 58%) opted for 1.5-hour lunch break. The related association was fine with either option.
27. Four of the 5 issuers who favoured a 1.5-hour lunch break felt that at least a 1-hour publication window was necessary for listed companies to prepare and release company announcements at lunch break. The listed company association however pointed out that since most companies made announcements either before the market opening in the morning or after the market close in the afternoon, the impact of shortening the lunch break would be small. In addition, those preferring to make announcements during the proposed shortened lunch break could still do so with better preparation and time planning.
28. Listed companies and the listed company association were unanimous in choosing enhanced compatibility with the Mainland as the major reason for supporting the changes. The majority added that strengthened competitiveness, better price discovery and better services to investors were other reasons to support the changes.
29. Regarding the auction sessions, 5 of the respondents in this category preferred the morning and afternoon auctions to remain as they were, while 1 preferred to shorten them to 15 minutes. The other 6 respondents expressed no view on this issue.

## **Professional bodies and the banking industry association supported the proposed changes**

30. A total of 5 submissions were made by 4 professional bodies (in accountancy, investment fund, financial analysts and chartered secretaries) and 1 banking industry association. All of them supported the two proposed changes. Four (or 80%) of them preferred Option 1 (the proposed 1-hour lunch break) while 1 (20%) preferred Option 2 (the 1.5-hour lunch break). Additionally, the banking industry association stated that the proposed changes would bring greater flexibility to banking clients in placing orders and help maintain a more orderly market.
31. All respondents in this category cited better price discovery and strengthened competitiveness as the two major reasons for supporting the changes. Enhanced compatibility with the Mainland (selected by 80% of respondents) and provision of better services to investors (selected by 60% of respondents) were also reasons for the changes.
32. Regarding the auction sessions, only 2 professional bodies and 1 banking association responded and they all preferred the duration of the morning and afternoon auctions to remain as they were at 0.5 hours.

## The majority of other responding entities supported the proposed changes

33. A total of 4 other entities (including an index compiler and a website) responded to the consultation paper. All of them supported starting morning trading 0.5 hours earlier. Three (or 75%) supported starting afternoon trading earlier with a shortened and earlier lunch break.
34. Of these 4 entities, 3 including the website had multiple selections regarding the lunch break. Two proposed to remove the lunch break completely. Three selected 1-hour lunch break from 12:00-13:00 while 2 opted for 1.5 hours, of which 1 preferred our proposed timeslot from 12:00-13:30.
35. One entity commented that enhanced compatibility with the Mainland and strengthened competitiveness were the reasons for supporting the changes. The others did not give any reasons.
36. Regarding the morning auction sessions, only 2 entities responded. One preferred the existing duration while the other preferred to shorten to 15 minutes. Regarding the afternoon auction session, one preferred the existing duration while the other favoured eliminating it.

## The majority of individual respondents supported starting morning trading 0.5 hours earlier

37. A total of 455 individual respondents comprising 383 employees of brokerage firms, 46 investors and 26 other persons submitted their responses to the Consultation Paper.
38. Out of the 455 individuals, 270 (or 59%) supported starting morning trading 0.5 hours earlier. Less than 20% supported starting afternoon trading earlier with a shortened and earlier lunch break. However, when they were asked to make a choice, the majority of them accepted the proposed 1.5-hour lunch break from 12:00-13:30 (24%) or at a 1.5-hour timeslot of their choice (43%). A lunch break of 1 hour and 2 hours respectively had a 5% support while 23% of the respondents did not indicate their preference.
39. The following table summarises the responses from individual respondents:

Start morning trading 0.5 hours earlier				Start afternoon trading earlier with a shorter and earlier lunch break			
Support		Not support		Support		Not support	
Total	By no.	Total	By no.	Total	By no.	Total	By no.
270	59%	171	38%	74	16%	366	80%

*Note: The total of individual items in the subject question do not add up to 100% due to null responses.*

Preference of lunch break									
1-hour (12:00-13:00)		1.5-hour (12:00-13:30)		1.5-hour at different timeslots		Other options		No indication	
Total	By no.	Total	By no.	Total	By no.	Total	By no.	Total	By no.
21	5%	109	24%	194	43%	26	6%	105	23%

*Note: The total of individual items do not add up to 100% due to rounding.*

40. All individual respondents supporting the proposed changes stated that these changes would

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increase the compatibility of our markets with the Mainland's and enhance our competitiveness as well as provide better service to investors. For those respondents who did not support the proposed changes, the major reasons were business commitments and insufficient time to digest news before market opening. Change to lunch practice and longer working hours were also commonly cited.

41. Many individuals (44%) favoured shortening the morning auction sessions to 15 minutes and eliminating the afternoon auction sessions.

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## **PART C: SPECIFIC MARKET COMMENTS**

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42. We set out below our views on specific suggestions and comments raised by the respondents in their submissions.

### **Opening earlier to compete with regional exchanges**

43. Comments received: Four respondents commented that the Hong Kong securities market should open earlier at 09:00 to compete with other regional exchanges.
44. Our view: As mentioned in the Consultation Paper, overnight market information in the US and Europe, as well as daytime market information in the region, is important for price formation, in particular during the opening of a trading session. We see the merit of our securities market opening earlier than 09:30 in order to react to market news at the same time as other regional markets. However, we also understand that our market as a whole may not be ready for such change at this time. We will nevertheless continue to monitor developments and consider proposing further changes if the situation warrants.

### **Removing the lunch break of the securities and derivatives markets**

45. Comments received: Thirteen respondents suggested that the lunch break be completely removed to follow the international trend and provide better service to investors.
46. Our view: We see a case for abolishing the lunch break in the longer term. However, at present, shortening the lunch break would have less impact on the market participants and is therefore recommended. Again, we will continue to monitor developments and make further proposals in future if warranted.

### **Allowing listed companies to issue company announcements during trading hours**

47. Comments received: Six respondents suggested that listed companies be allowed to issue company announcements during trading hours.
48. Our view: We noted some respondents suggested allowing publication of information during trading hours. At the current stage of market and technological development, this proposal may result in uneven dissemination of information, particularly affecting retail investors, while putting other investors with more resources in an advantageous position. We will consider this proposal when technological developments help the market and investors overcome these issues.

### **Aligning Hong Kong closing time with the Mainland**

49. Comments received: Twelve respondents suggested that the Hong Kong markets should completely align with the Mainland's trading hours by closing at the same time (i.e. the securities market should close at 11:30 in the morning and 15:00 in the afternoon while the futures market should close at 11:30 in the morning and 15:15 in the afternoon).

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50. Our view: While we recognise the merits of fully synchronising with Mainland trading hours, we believe that shifting the lunch break to 11:30 would be too drastic a change at present for Hong Kong market users. This was borne out by the consultation responses. Furthermore, having a later market closing time is important for our market to cover the European time zone and investors there.

## **Extending market closing times to tap the European liquidity pool**

51. Comments received: Twelve respondents proposed that the market closing times be extended further (e.g. to 16:30 or beyond for the securities market) so as to attract liquidity from Europe.
52. Our view: While we acknowledge the business potential of extending the market closing times to cover the European markets (particularly during the European winter time), we also understand that such change might have considerable impact on participant processes which can only be carried out after market hours. Accordingly, we would conduct a thorough study before proposing any changes.

## **Closing auction**

53. Comments received: Two respondents commented that we should reintroduce the Closing Auction Session (CAS) in our markets<sup>6</sup>.
54. Our view: We will review the feasibility of reintroducing a CAS in the future.

## **Providing an evening trading session to facilitate trading from Europe and the US**

55. Comments received: Six respondents suggested that the Hong Kong market provide an evening trading session to facilitate European and US investors trading in our markets as well as allow our investors to react to market situations in Europe and the US. This would further strengthen Hong Kong's position as the international finance centre of China as well as create business volume from Europe and US clients.
56. Our view: We see the business potential of an evening trading session and intend to study the trading and clearing arrangements in detail in a separate exercise. Any proposal will be exposed to the market for consultation.

## **Providing a 24-hour trading environment**

57. Comments received: Seven respondents commented that the Hong Kong market should provide a 24-hour trading environment.
58. Our view: We do not see a need for 24-hour trading in our market for the time being. This would involve substantial operational change as well as adjustments from the market participants, and we are unsure of the business potential.

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<sup>6</sup> The CAS was introduced in the stock market on 26 May 2008 and subsequently withdrawn on 23 March 2009

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## **Reviewing trading arrangements for special situations**

59. Comments received: In view of the revised trading hours, two respondents posed questions on the trading arrangements of the securities and derivatives markets for special situations such as the typhoon and black rainstorm arrangements, and half-day securities trading on Christmas Eve and the day before the New Year and Chinese New Year.
60. Our view: We are aware of these issues and are conducting a comprehensive review of areas which will be affected by the changes in trading hours, including typhoon and black rainstorm arrangements, half-day trading arrangements, and other operational areas. We will set out the detailed changes in the implementation plan, which will be announced separately.

## **Aligning the commencement of CCASS settlement processing and deposit services with the start of morning trading**

61. Comment received: One respondent suggested that the commencement time of the CCASS settlement processing and deposit services be aligned with the revised opening time of morning trading, i.e. at 09:30.
62. Our view: Both CCASS stock transfer and deposit services will commence earlier and align with the start of morning trading at 09:30. Details of the changes will be announced separately.

## **Increasing the number of batches of trade executions for General Clearing Participants (GCPs) providing Third Party Clearing**

63. Comment received: One respondent suggested that the number of batches of trade executions for GCPs providing third party clearing be increased from 6 to 10.
64. Our view: To facilitate GCPs manage risk exposures arising from their clients' transactions under the revised trading hours, we plan to increase the number of trade execution batches provided to GCPs. Details of the changes will be announced separately.



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# PART D: CONCLUSIONS AND IMPLEMENTATION PLAN

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## Conclusions and Way Forward

65. The vast majority of respondents supported the earlier opening time in the morning. There was much support for shortening the lunch break, but responses were mixed with advocates for both the proposed options of a 1-hour and a 1.5-hour break. Between the two options, Option 1, i.e. a 1-hour lunch break from 12:00 to 13:00, had the more support in terms of market share while Option 2, i.e. a 1.5-hour break from 12:00 to 13:30, had the more support in terms of number of respondents.
66. Based on the feedback received, we conclude that there is sufficient support for changing trading hours, i.e. both Change (A), an earlier morning opening, and Change (B), a shorter lunch break. Considering the responses from the HKEx Participants which account for a significant market share in our markets, the banking industry and professional bodies of the financial industry and also taking into account the immediate impact that may have caused on the market and also 1.5-hour lunch break was preferred by a number of market participants, we plan to take a phased implementation approach for the lunch break so that the market will have sufficient time to adjust to the shortened lunch break.
67. Accordingly, our new trading hours will be as follows:

	<u>Phase 1</u> (1.5-hour lunch break)	<u>Phase 2</u> (1-hour lunch break)
<u>Securities Market &amp; Stock Futures/Options Markets</u>		
• Pre-opening Session (for securities market only):	09:00-09:30	Same as Phase 1
• Morning CTS:	09:30-12:00	Same as Phase 1
• Afternoon CTS:	13:30-16:00	13:00-16:00
<u>Index Futures and Options Markets</u>		
• Pre-market Opening Period <sup>7</sup>	08:45-09:15	Same as Phase 1
• Morning CTS	09:15-12:00	Same as Phase 1
• Pre-market Opening Period	13:00-13:30	12:30-13:00
• Afternoon CTS	13:30-16:15	13:00-16:15

68. After the above changes, our trading hours will overlap with the Mainland's for 3.5 and 4 hours for securities and derivatives markets respectively upon the Phase 1 implementation while we will completely overlap the Mainland's trading hours upon the Phase 2 implementation. Our revised trading hour duration (5 and 5.5 hours for securities and derivatives markets respectively upon Phase 1 implementation and 5.5 and 6 hours respectively upon Phase 2 implementation) will still be shorter than, but broadly comparable to other major regional exchanges.
69. We will continue to monitor both the relatedness of the Hong Kong and Mainland markets and the competitiveness of the Hong Kong market vis-à-vis other markets in the region. If warranted by future developments, we will review our trading hours again at the appropriate

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<sup>7</sup> The pre-market opening periods only apply to Hang Seng Index, Mini-Hang Seng Index and H-shares Index futures.

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time and determine whether further changes would be needed.

## **Implementation Plan**

70. The vast majority of respondents indicated that the system and operational impacts of the proposed changes would not be significant and it should take 3 months or less for them to complete the preparatory work.
71. In view of the market feedback, the implementation of the proposed changes is scheduled for the first Monday of March 2011 (i.e. 7 March 2011) for Phase 1 and the first Monday of March 2012 (i.e. 5 March 2012) for Phase 2, subject to the approval of the necessary rule amendments by the Securities and Futures Commission and market readiness.
72. For a smooth transition and implementation, we will arrange testing with HKEx Participants. The detailed implementation plan and schedule will be announced separately.

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## **APPENDIX: LIST OF RESPONDENTS**

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### **HKEx Participants (73 in total)**

- 1 ABN AMRO Clearing Hong Kong Limited
- 2 Bluefin HK Limited
- 3 Bright Smart Sec Int'l (HK) Limited
- 4 Celestial Securities Limited
- 5 Christfund Securities Limited
- 6 DL Brokerage Limited
- 7 F. R. Zimmern Limited
- 8 Hip Hing Sec Limited
- 9 Hong Kong Wan Kiu Investment Company Limited
- 10 I-Access Investors Limited
- 11 J. P. Morgan Broking (Hong Kong) Limited
- 12 Karford Securities Limited
- 13 Lau & Company Limited
- 14 Newedge Financial Hong Kong Limited
- 15 Nomura Securities (Hong Kong) Limited
- 16 SG Securities (HK) Limited
- 17 Taifook Securities Company Limited (currently Haitong International Securities Company Limited)
- 18 Thomas Securities Company Limited
- 19 Treasure Securities Limited
- 20 Vision Finance (Securities) Limited
- 21 Wader Securities Company Limited
- 22 Worldwide Brokerage Limited
- 23-73 51 HKEx Participants requested anonymity

### **Brokerage Industry Associations (7 in total)**

- 74 Chinese Securities Association of Hong Kong Company Limited
- 75 Hong Kong Institute of Financial Analysts and Professional Commentators Limited
- 76 Hong Kong Securities and Futures Professional Association
- 77 Hong Kong Securities Association Limited
- 78 Hong Kong Securities Professionals Association Limited
- 79 The Institute of Securities Dealers Limited
- 80 The Hong Kong Association of Online Brokers Limited

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**Listed Companies and Related Associations (12 in total)**

81	CASH Financial Services Group Limited
82	Cathay Pacific Airways Limited
83	Celestial Asia Securities Holdings Limited
84	Cheung Kong (Holdings) Limited
85	CLP Holdings Limited
86	Great Eagle Holdings Limited
87	Hong Kong Aircraft Engineering Co Limited
88	Standard Chartered PLC
89	Swire Pacific Limited
90	The Chamber of Hong Kong Listed Companies
91-92	2 listed companies requested anonymity

**Professional Bodies and Banking Industry Associations (5 in total)**

93	Hong Kong Institute of CPAs
94	Hong Kong Investment Funds Association
95	The Hong Kong Association of Banks
96	The Hong Kong Institute of Chartered Secretaries
97	The Hong Kong Society of Financial Analysts

**Other Entities (4 in total)**

98	Hang Seng Indexes Company Limited
99	Sincere Oasis Association for Economic and Public Affairs
100	Webb-site.com
101	1 other entity requested anonymity

**Individuals (455 in total)**

102	Chan Kin Man
103	Chan Shing Choi
104	Chan Wai Nin
105	Charles Tsien
106	Cheng Wai Lam
107	Cheung Chun Pang
108	Cheung Kwok Ping
109	Cheung Wing Sing
110	Chu Kwong Yu
111	Chung Sau Lai

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112	Doey Au Yeung
113	Esmond Chan
114	Frederick Chow
115	Hsu Tina
116	Hui Yau San
117	Kong Ka Fai
118	Kwok Kin To
119	Lam Ching Ho
120	Lau Kwok Leung
121	Lau Wing Hong
122	Leung Kit Man, Mike
123	Leung Tak Wing
124	Leung Wai
125	Leung Wai Hung
126	Li Kam Por
127	Linda Chang
128	Liu Wai Hung
129	Lui Yee Ying Candy
130	Luk Li Ying
131	Ma Christine Pamela
132	Ma Ka Lai
133	Ma Shing Yun
134	Yu Yin Chung
135	Ng Sau Po
136	Poon Chun Wing
137	Rex Chan
138	Sheung Li Cho
139	Simon Soo
140	Sit Kam Yin
141	Stephen Wong
142	Suen Chi Wai
143	Szeto King Choy
144	Terence Tsang
145	Teresa Chan
146	Tom Mau Chiu
147	Tsai Chiu Kwan
148	Wong Chuen Sek
149	Wong Kai Leung

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150	Wong Kwok Keung
151	Wong Tin Fuk
152	Yam Jor Man
153	Yeung Tak Kuen
154	Yu Ngai Sang
155	Yu Wai Kei
156	Yuen Chi Kwong
157	Yuen Ka Fai
158	Yuen Yui Chi Peter
159	文琪容
160	王世俊
161	吳子偉
162	吳美蘭
163	吳德蓮
164	林小萍
165	郭家禮
166	陳以東
167	陳祈武
168	舒雅珍
169	馮宇漢
170	黃凱璇
171	孫百成
172	梁展勝
173	鄭潔儀
174	曹志明
175	許增順
176-556	381 individuals requested anonymity

