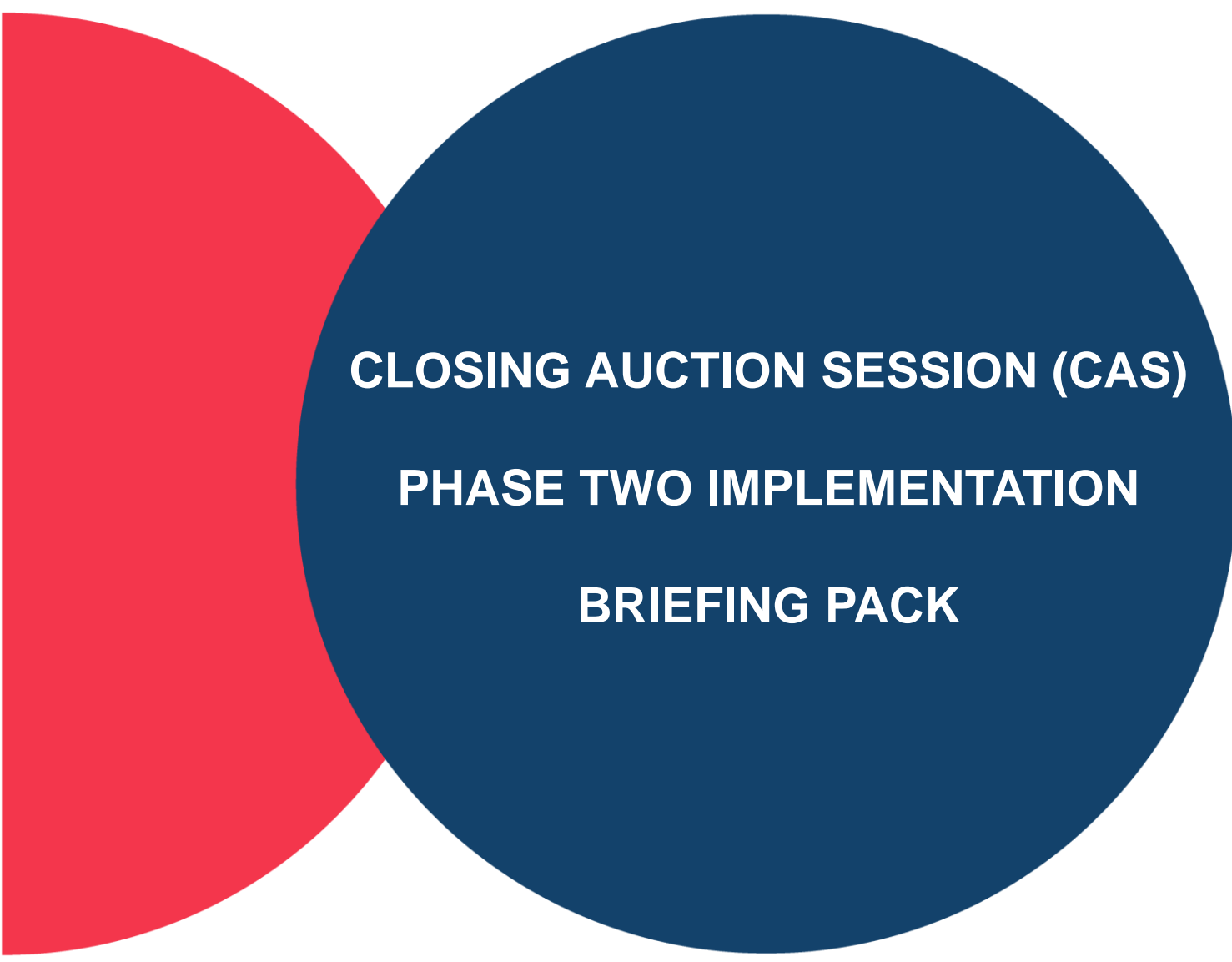


May 2017



**CLOSING AUCTION SESSION (CAS)
PHASE TWO IMPLEMENTATION
BRIEFING PACK**

HKEX
香港交易所

Agenda

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Background

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Review for Phase 1

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Phase 2 Implementation



CAS was re-introduced in July 2016 to meet institutions' needs to execute at close

Why CAS

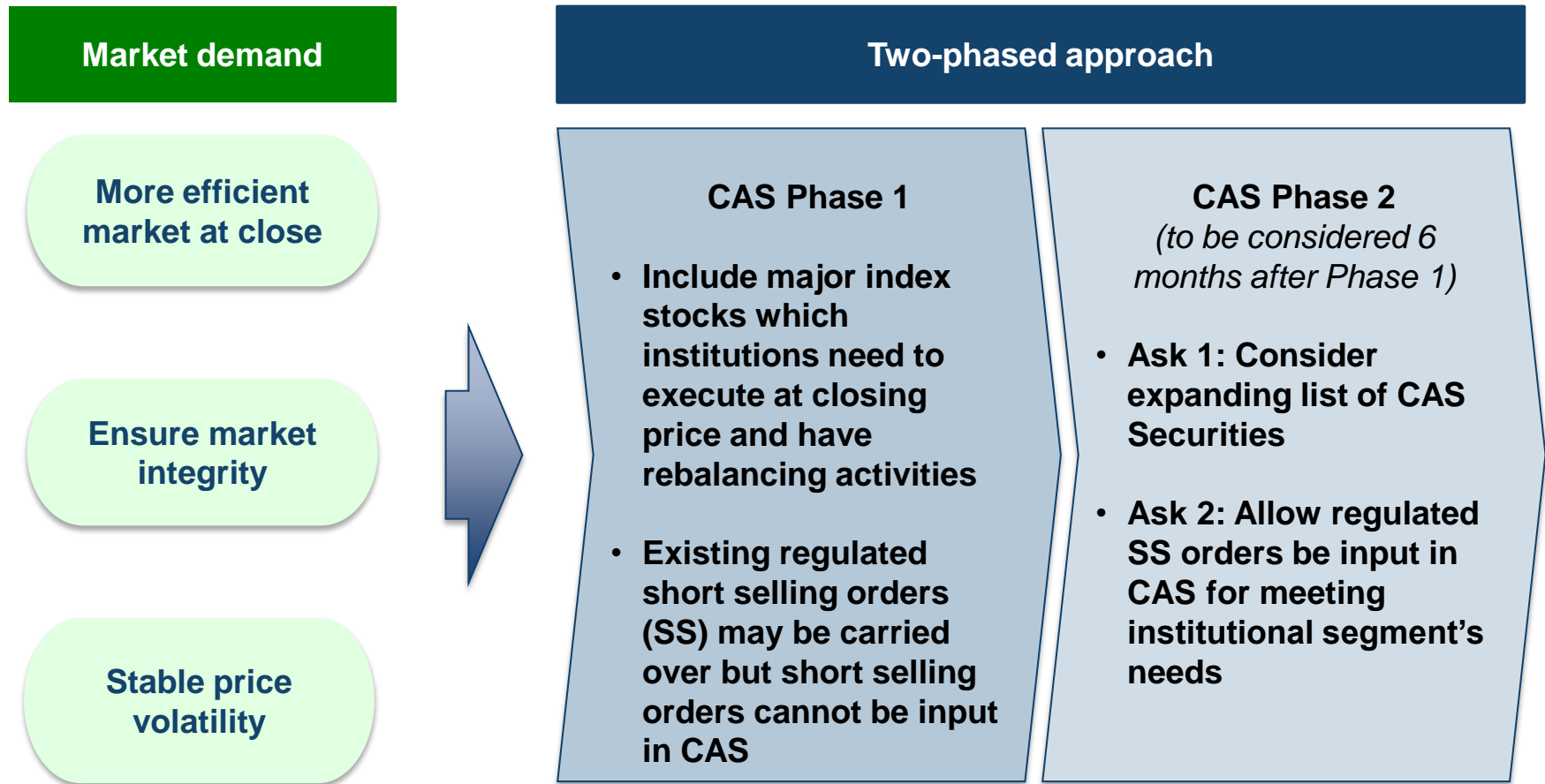
- **Significant equity flow from institutional segment requires execution at the closing price (an investment mandate for many passive funds)**
 - Expected ~10% of equity flow on a daily basis
 - Expected ~ 30% on index rebalancing days
- **Closing price is used for portfolio valuations and benchmarking**

Issues without a CAS

- **Trades cannot be executed at closing price**
- **Higher tracking errors for index funds, hampering investment returns**
- **Exchange Participants (EPs) cannot execute at the closing price → Tension between EPs and investors**

The implementation aims to bring HKEX in line with international practice and to facilitate investors, in particular institutional investors and fund managers, to trade at securities' closing prices

A prudent two-phased approach is taken to ensure a smooth transition



CAS Phase 2 aims to further meet market demand after experience learnt from CAS Phase 1

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Review of CAS Phase 1: No material, negative impact observed

Execution Efficiency



- Over 99.8% execution efficiency for orders to be completed at closing price by using at-auction (“AO”) orders
- Active participation by institutional investors and fund managers in CAS

Liquidity Profile



- Healthy liquidity in CAS
- No adverse impact to Continuous Trading Session (“CTS”) liquidity

Market Feedback



- Market and participant feedback generally positive

Other Observations

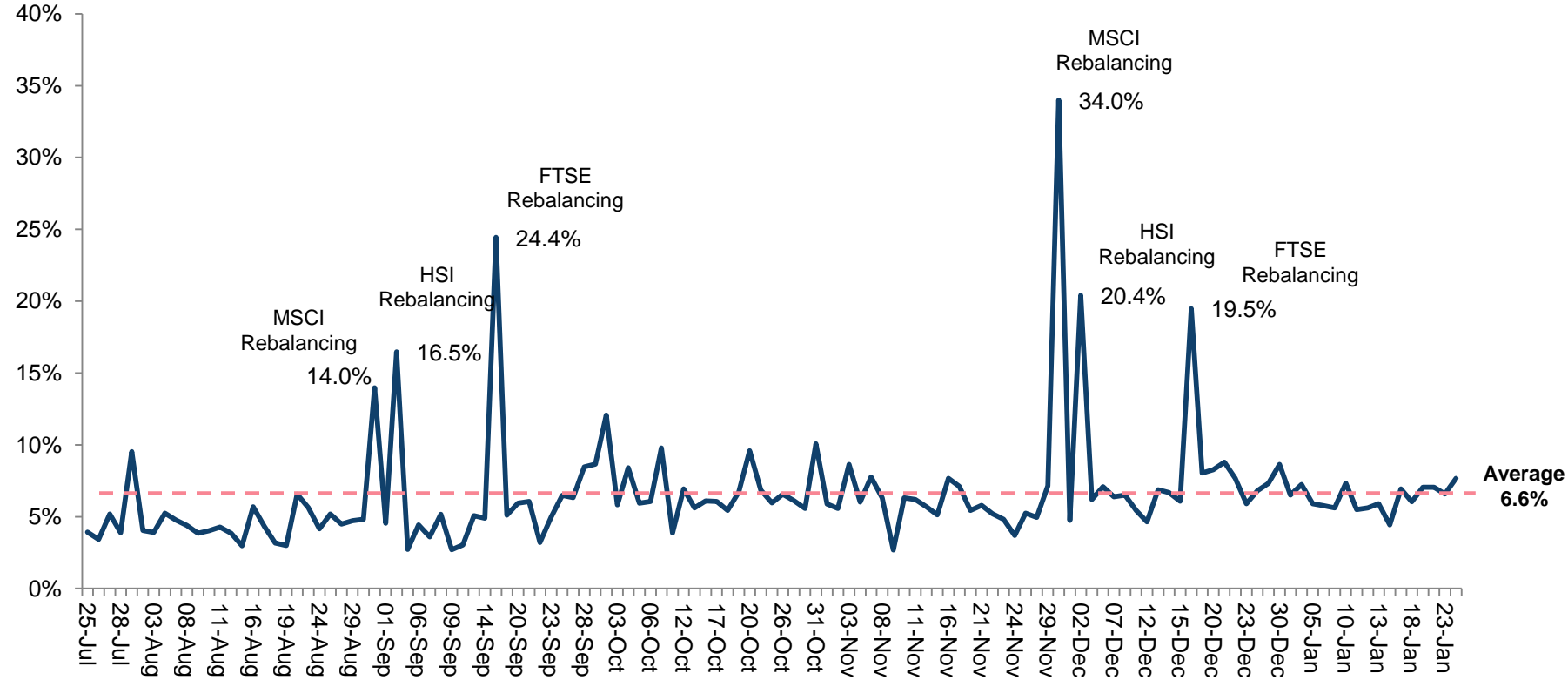


- No material abnormal trading activities observed
- Price volatility at close under control, with most of the stocks closing within 1% from the CTS closing price

Objective of facilitating execution at closing price achieved, without material, negative market and price impact observed

CAS turnover has been healthy

Daily CAS Equities Trading Value Conducted During CAS as % of its full day turnover



Daily CAS equities turnover during CAS ranges from 3 to 34% of its full day turnover



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After Phase 2 implementation (tentatively in early Q3 2017)

	CAS Phase 1	CAS Phase 2 (About 680 stocks)
CAS Securities	<ul style="list-style-type: none"> • Hang Seng Composite LargeCap and MidCap stocks • A/H shares • ETFs 	<p>Keep Phase 1 CAS Securities (<i>about 540 stocks</i>):</p> <ul style="list-style-type: none"> • Hang Seng Composite LargeCap and MidCap stocks • A/H shares • ETFs <p>Add:</p> <ul style="list-style-type: none"> • Hang Seng Composite SmallCap stocks (<i>about 150 stocks</i>)
Input of Short Selling Orders in CAS	Not allowed	Allowed

* The above data is as of April 2017. Currently, there are about 900 Designated Securities eligible for short selling, of which about 660 will also be CAS Securities after Phase 2 rollout. Input of short selling orders for these CAS Securities will then be allowed, but their prices cannot be lower than the CAS Reference Price at 4pm.



Minor fine-tuning of the maintenance process of list of CAS Securities in Phase 2

Type of CAS Securities	Phase 1		Phase 2	
	Addition	Deletion	Addition	Deletion
1. Index constituent stocks* <i>(follow the regular index rebalancing schedule)</i>	Upon effective date of the index change	No deletion	Same as Phase 1	Upon effective date of the index change
2. A/H stocks	Upon the listing of the A/H shares or upon the listing of the corresponding A share for an existing H share	Upon the delisting of the H share or the corresponding A share		Same as Phase 1
3. ETFs	Upon listing	Upon delisting		Same as Phase 1

*Including Hang Seng Composite LargeCap, MidCap and SmallCap Index stocks

For Phase 2, a refined process to delete stocks from list of CAS Securities on the effective dates of stock deletions from the respective indexes will be implemented

