

FREQUENTLY ASKED QUESTIONS

Updated: 26 May 2017

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

CAS

1.1 What is a CAS?

Closing auction, which allows execution at the closing price, is a trading mechanism commonly used in securities markets across the globe. During a closing auction, market participants interested in trading at the closing price may input buy and sell orders. Then their orders interact with each other to form a consensus closing price for each security and orders are executed at that price.

CAS commences immediately after the completion of the Continuous Trading Session (“CTS”).

1.2 How does CAS work?

CAS would last for about 8 to 10 minutes and consists of a Reference Price fixing period, an order input period, a no-cancellation period and a random closing period as follows:

	Full Day Trading	Half Day Trading*
Reference Price Fixing Period	16:00 – 16:01	12:00 – 12:01
Order Input Period	16:01 – 16:06	12:01 – 12:06
No-Cancellation Period	16:06 – 16:08	12:06 – 12:08
Random Closing Period	16:08 – 16:10	12:08 – 12:10

* Eves of Christmas, New Year and Lunar New Year

Time	9:30-12:00; 13:00-16:00	16:00	16:01	16:06	16:08	16:10
Session	Continuous Trading Session (CTS)	Closing Auction Session				
		Reference Price Fixing Period (1 min)	Order Input Period (5 mins)	No-cancellation Period (2 mins)	Random Closing Period (2 mins)	
Description	Reference price based on the median of 5-snapshot nominal prices in the last minute of CTS	<ul style="list-style-type: none"> Calculate & publish reference price No Input, Cancel, Amend Afternoon session orders within price limit carried forward automatically 	<u>Price Limit:</u> a 5% of Reference Price b Within lowest ask & highest bid			
			<u>Order Type Allowed:</u> At-auction Order At-auction Limit Order			
			<u>Order Input, Cancellation & Amendment:</u> Input/Cancel/Amend Allowed Input Allowed, Cancel & Amend Not Allowed			

- In the first period (Reference Price Fixing Period, 4:00-4:01 pm), a Reference Price, which sets the allowable price limit of CAS (± 5 per cent from the Reference Price), is calculated for each CAS Security. The Reference Price is determined by taking the median of 5 nominal prices in the last minute of the CTS and the system would take 5 snapshots on the nominal prices at 15-second interval starting from 15:59:00.
- In the second period (Order Input Period, 4:01-4:06 pm), at-auction orders and at-auction limit orders within the ± 5 per cent price limit could be entered, amended or cancelled on CAS Securities.
- Starting from the third period (No-Cancellation Period, 4:06-4:08 pm), at-auction orders and at-auction limit orders could be entered. However, the prices of new at-auction limit orders must be between the lowest ask and highest bid of the order book, and no orders could be amended or cancelled.
- In the last period (Random Closing Period, 4:08-4:10 pm), the order rules from the No-Cancellation period apply and the market closes randomly within two minutes.
- After the random closing period, there is order matching for all CAS Securities at the final IEP. In cases where no final IEP is established during CAS, the Reference Price would be treated as the final IEP for order matching and would become the closing price of the CAS Security. This price would also be used for order matching based on matching priority, i.e. by order type, price and then time.

Eligible Securities

1.3 What securities are covered under CAS?

CAS is rolled out in two phases:

- Phase 1, launched in July 2016, includes constituent stocks of Hang Seng Composite LargeCap (“HSLI”) and MidCap (“HSMI”) Indexes, H shares which have corresponding A shares listed on a Mainland exchange, and all Exchange Traded Funds (“ETFs”); and
- In Phase 2, the list of CAS Securities will expand to also include constituents stocks of Hang Seng Composite SmallCap Index (“HSSI”).

1.4 How is the list of CAS Securities maintained?

After Phase 2 implementation, the following permanent process is implemented to also delete stocks from list of CAS Securities when they are removed from the respective indexes.

Type of CAS Securities	Addition	Deletion
1. Index constituent stocks*	Upon effective date of the index change	Upon effective date of the index change

2. A/H stocks	Upon listing of the A/H shares or upon listing of the corresponding A share for an existing H share	Upon delisting of the H share or the corresponding A share
3. ETFs	Upon listing	Upon delisting

* Including Hang Seng Composite LargeCap and MidCap Index constituent stocks in Phase 1, and in addition Hang Seng Composite SmallCap Index constituent stocks in Phase 2.

1.5 What would happen to a new order input and manual trade input during CAS for a non CAS Security?

Any new order input or manual trade input for non CAS Securities during CAS will be rejected.

Changes to Trading Hours and Typhoon Arrangements

1.6 What would be the changes to trading hours in the securities and derivatives market as a result of the conclusion?

Securities market

With the introduction of CAS, the securities market closing time has been extended to a random closing between 16:08 and 16:10 from today's 16:00.

The trading hours of the securities market under CAS model is as set out in the table below for full and half day trading respectively:

Securities market trading hours under CAS model (Full Day)		
Trading sessions	Previous trading hours	Trading hours with a CAS
Pre-opening Session	9:00-9:30	Remain unchanged
Morning Session	9:30-12:00	Remain unchanged
Extended Morning Session	12:00-13:00	Remain unchanged
Afternoon Session	13:00-16:00	Remain unchanged
CAS (applicable to all CAS Securities)		
Reference Price Fixing Period	N/A	16:00-16:01
Order Input	N/A	16:01-16:06
No Cancellation	N/A	16:06-16:08
Random Closing	N/A	16:08-16:10

Securities market trading hours under CAS model (Half Day)		
Trading sessions	Previous trading hours	Trading hours with a CAS
Pre-opening Session	9:00-9:30	Remain unchanged
Morning Session	9:30-12:00	Remain unchanged

Securities market trading hours under CAS model (Half Day)		
Trading sessions	Previous trading hours	Trading hours with a CAS
CAS (applicable to all CAS Securities)		
Reference Price Fixing Period	N/A	12:00-12:01
Order Input	N/A	12:01-12:06
No Cancellation	N/A	12:06-12:08
Random Closing	N/A	12:08-12:10

Derivatives market

The closing times of normal trading sessions for Stock Index Futures and Options, Currency Futures and Commodity Futures has changed from 16:15 to 16:30 for a normal trading day and from 12:00 to 12:30 for a half trading day, except on the last trading day of the contracts. The opening time of After-Hours Futures Trading has changed from 17:00 to 17:15.

In addition, trading hours on the last trading day, the final settlement price calculation algorithm and typhoon arrangements also change accordingly. Please refer to the SEHK Circular (Ref: [MO/DT/056/16](#)) issued on 17 May 2016 for details.

1.7 What is the typhoon arrangement in the securities market after the introduction of CAS?

If a Typhoon Signal No. 8 or above is hoisted before 15:45 (for full day trading) or 11:45 (for half day trading), trading will terminate 15 minutes after the hoisting of the Signal. There will be no CAS for that trading day if trading has not been resumed by 15:45 (for full day trading) or 11:45 (for half day trading).

If a Typhoon Signal No. 8 or above is hoisted at or after 15:45 (for full day trading) or 11:45 (for half day trading), trading for the day will continue as normal until the end of CAS.

Order Type

1.8 Could orders which can only be input and executed at CAS (i.e. at-auction orders and at-auction limit orders) be entered during the CTS?

Only at-auction orders and at-auction limit orders can be input starting from 16:01 starting from the beginning of the Order Input Period in CAS. All other order types, such as limit orders / enhanced limit orders / special limit orders / odd lots / special lots, will be rejected during CAS.

Currently the System only accepts limit, enhanced limit and special limit orders during the CTS and orders are continuously executed in strict price and time priority. There is no order type in the System for input order in CTS but could only be executed at CAS.

1.9 Could an Exchange Participant perform amendment of order type from at-auction limit to at auction and vice versa during CAS?

Order type cannot be amended via order modification function. If an EP wants to change the order type, they would need to cancel the original order and input a new order of another order type.

Price Limit

1.10 How does the price limit in CAS work?

A two-stage price limit is applied to control the price of limit orders which are either carried forward from the CTS to CAS, or newly input during CAS.

	Applicable session	Time Period (Full Day)	Scope of price limit
Stage 1	Order Input Period	16:01 - 16:06	± 5% from Reference Price
Stage 2	No-Cancellation Period Random Closing Period	16:06 - time of random close	Within the lowest ask & highest bid at the end of Order Input Period as recorded at 16:06

Carry forward of outstanding orders into CAS

- Outstanding orders within the permissible price limit (i.e. buy order \leq upper limit and sell order \geq lower limit), including short selling or market making orders, will be automatically carried forward from CTS to CAS. The System would treat such orders as at-auction limit orders.
- In Stage 1, aggressive orders with price outside the permissible price limit (i.e. buy order $>$ upper limit and sell order $<$ lower limit) will be cancelled by the System with an order cancellation message returned to the relevant EP. Passive orders with price outside the permissible price limit (i.e. buy order $<$ lower limit and sell order $>$ upper limit) will remain on the order book but will not be executed at the end of CAS. In Stage 2, any at-auction limit orders with limit price outside the price limits when the second stage price limit takes effect will not be cancelled by the system but would not be executable during CAS.

New order input during CAS

- At-auction orders and at-auction limit orders within the $\pm 5\%$ of the Reference Price can be entered starting from the Order Input Period. An at-auction limit order that is input during CAS and which has a limit price is outside the permissible price limit will be rejected by the System.
- Starting from the No-Cancellation Period, the price limit may be further tightened and is set at the highest bid and the lowest ask of the order book at the end of the Order Input Period as recorded at 16:06. This price limit will remain unchanged for the whole period of No-Cancellation and Random Closing Periods.

1.11 What would happen if an order for CAS has been entered outside the permissible price limit?

An at-auction limit order that is input during CAS and which has a limit price outside the permissible price limit will be rejected by the System. For example, if the Reference Price is \$100, the System will reject buy and sell orders with prices lower than \$95 or higher than \$105. During the No-Cancellation Period and Random Closing Period, the System will reject new buy and sell orders with prices outside the highest bid and lowest ask recorded at the end of Order Input Period (i.e. 16:06).

1.12 Some market participants asked for a 2 per cent price limit for CAS. What was the rationale for the 5 per cent limit HKEX proposed and did HKEX consider changing it after reviewing the comments it received?

HKEX acknowledged the market's concern on price volatility in CAS, so it proposed implementing a price limit. It should be noted that most markets do not have a price limit in their closing auction, and a 5 per cent price limit is the narrowest among those with a price limit.

When HKEX had a closing auction in 2008, it announced at one point that it would implement a 2 per cent price limit, but the closing auction was suspended before the limit was implemented. The price limit was the only proposed measure to curb price instability then and hence a 2 per cent limit was proposed, although many market participants commented then that it would be too restrictive to trading. CAS has a number of other price control measures so the price limit need not be as restrictive as a 2 per cent limit.

Based on daily trading statistics, a 2 per cent limit would be overly restrictive to trading and would make it difficult for many stocks orders to be completed at the close both on normal days as well as on index rebalancing days. Market participants might place orders with more aggressive prices or trade ahead of the market close under such circumstances and hence reduce the utility of CAS. Also, HKEX noted that even today, some stocks may fluctuate more than 5 per cent within a few minutes, and the 5 per cent price limit is still not wide enough for these stocks.

HKEX have therefore decided to proceed with the original proposal, i.e. introducing a 5 per cent price limit first during the Order Input Period, which balances retail and institutional market feedback and the strong need to address the price volatility issue. The 5 per cent price limit may be subject to review in the future.

1.13 In a rare case, what would be the price limit if the highest bid or lowest ask fall outside the 5% price limit at the end of Order Input Period?

At any time during CAS, order price must not deviate more than 5% from the Reference Price.

1.14 What happen to the orders that are outside the price limit after the second stage price limit takes effect on and after 16:06? Can they be cancelled by EPs? Will they be executable?

Any at-auction limit orders with limit price outside the price limits at 16:06 when the second stage price limit takes effect will not be cancelled by the system but would not be executable during CAS.

1.15 If there is no overlap in CAS limit order book at the end of Order Input Period (e.g. highest bid (e.g. at \$98) is lower than the lowest ask (e.g. at \$101), IEP is not available for this case), how will the second stage price limit for No Cancellation Period and Random Closing Period be determined?

The price limit for No Cancellation Period and Random Closing Period is still set within the highest bid and the lowest ask of the order book at the end of the Order Input Period as recorded at 16:06. For this case, the upper price limit is \$101 while the lower limit is \$98.

Other Price Checking

1.16 Is there still a price check validation during CAS, and if so is CAS going to adopt a 9 times rule or a 24 spread rule or simply a 5% upper/lower limit rule? Would the existing price warning mechanism apply in CAS?

In CAS, orders are subject to the $\pm 5\%$ price limit and 9-time rule checking but the 24-spread rule is not applicable for CAS. The existing price warning mechanism continues to apply in CAS.

Order Matching and Closing Price Determination

1.17 Will trade matching occur if there is no Indicative Equilibrium Price (IEP)?

In cases where no final IEP is established during CAS, the Reference Price would be treated as the final IEP for order matching and would become the closing price of CAS Security. This price would also be used for order matching based on matching priority, i.e. by order type, price and then time.

1.18 If there is no overlap in CAS limit order book (i.e. no IEP) at the end of CAS, how will the closing price be calculated?

The Reference Price will be the closing price.

1.19 If there is a one-sided order book (i.e. either no buyers or no sellers) in the final minutes of CAS, how will the closing price be calculated?

The Reference Price will be the closing price.

1.20 If the Reference Price is at \$100, and at the end of CAS the order book only has 1 at-auction limit buy order at \$99 and 1 at-auction sell order, will these orders be matched?

As IEP cannot be formed, the Reference Price (\$100) will become the closing price. However, as the limit order buy at \$99 is lower than closing price (\$100), the two orders will not be matched. .

1.21 If the Reference Price is at \$100, and at the end of CAS the order book only has 1 at-auction limit sell order at \$99 and 1 at-auction buy order, will these orders be matched?

Yes, since IEP cannot be formed, the Reference Price (\$100) will be the closing price and the limit sell order (\$99) is matchable at \$100.

1.22 If the Reference Price is at \$100, and at the end of CAS the order book only has 1 at-auction sell order and 1 at-auction buy order, will these orders be matched?

Yes, the closing price will be at \$100 and the orders will be matched at that price.

1.23 If the Reference Price is set at \$100, and at the end of CAS if the best bid is set at \$101 and best offer is set at \$102 and no other at-auction order (i.e. no overlap in limit order book), how will the closing price be calculated and will there be order matching?

The Reference Price will be the closing price and there will be no order matching.

Short Selling

1.24 Is short selling allowed in CAS? What would happen on outstanding short sell orders input during the CTS?

In Phase 2, input of short selling orders in CAS, as at-auction limit orders with a price not lower than the CAS reference price ("tick rule in CAS"), will be allowed for designated CAS securities which are eligible for short selling. However, input of short selling at-auction orders will continue to be disallowed. In addition, other price checks applied on the existing at-auction limit orders today, such as the two-staged price limit, will also be applicable to short selling orders input in CAS.

It should also be noted that outstanding short selling orders, which are input during the CTS and with order prices higher than or equal to the lower price limit (i.e. order price $\geq 95\%$ of Reference Price), will be automatically carried forward to CAS. All these orders will be treated as at-auction limit orders.

For the short selling orders carried forward to CAS, EPs are allowed to cancel and reduce the quantity of the orders during CAS and in such cases the original order priority is maintained. EPs are also allowed to change the order price or increase the quantity of these orders during CAS but in such cases the original order priority will be lost and the amended order will be subject to checking against the tick rule in CAS.

1.25 If a short sell order is submitted prior to 16:00, yet its price is lower than the Reference Price but higher than the lower price limit in the first stage, will the short sell order be carried over to CAS?

Yes, provided that the price of this short selling order is higher than the lower price limit.

1.26 There is a tick rule in the CTS where the short selling order price cannot be lower than the best current ask price. Will something similar be implemented for short selling in CAS?

Yes, unlike short selling order input during CTS which cannot be made at a price below the best current ask price, short selling order input during CAS cannot be made at a price lower than CAS Reference Price (tick rule in CAS).

In addition, similar to the arrangement in CTS, short selling of ETFs by all participants, as well as short selling of other CAS Securities eligible for short selling by certain participants will be exempted from application of tick rule in CAS. These include Designated Index Arbitrage Short Selling by a Designated Index Arbitrage Short Selling Participant, Stock Futures Hedging Short Selling by a Designated Stock Futures Hedging Short Selling Participant, and Options Hedging Short Selling by an Options Market Maker or an Options Hedging Participant.

Structured Product Liquidity Provider Short Selling by a Structured Product Liquidity Provider and Structured Product Hedging Short Selling by a Structured Product Hedging Participant, however, will be disallowed in CAS as structured product trading is excluded in CAS.

1.27 Can I input short sell orders in CAS as at-auction orders?

No. Only at-auction limit orders are allowed for short sell orders in CAS. At-auction orders are not allowed because these orders might be transacted at a price lower than the Reference Price, which is opposed to the tick rule in CAS.

Market Data Related

(The number in the bracket represents the corresponding OMD-C message ID)

1.28 What is the time of dissemination of Closing Price (62) for CAS Securities and non-CAS Securities?

The Closing Price (62) of both CAS and Non-CAS eligible securities are disseminated shortly after market close which can take place at anytime during the 2-minute Random Closing period from 16:08 to 16:10.

1.29 Why is Reference Price (43) received twice at 16:00 and 16:06 for certain securities?

Reference Price for all CAS and Non-CAS eligible securities is calculated and published in Reference Price (43) message, shortly after the start of Reference Price Fixing Period (RP). For CAS Securities, the upper and lower price limit disseminated in the Reference Price (43) at 16:00 may be adjusted after the end of Order Input session at 16:06. Reference Price (43) message for each CAS eligible security would be sent again at the end of Order Input session to provide the lower and upper price limits, regardless of whether there is any change.

1.30 Would Trade (50) / Trade Ticker (52) be received during CAS? If so, what are those trades?

Similar to the current Pre-Opening Session (POS), Trade (50) / Trade Ticker (52) message of auction trade would be disseminated if auction orders and auction limit orders input in CAS session are matched. In addition, as manual trades are allowed to be reported during CAS, Trade (50) / Trade Ticker (52) for such trades may also be disseminated during CAS.

1.31 Is it true that the Reference Price and closing price of Non-CAS eligible securities are always the same?

Yes. For Non-CAS Securities, the Reference Price disseminated at Reference Price Fixing Period (RP) will be the closing price after Closing Auction Matching (MA).

1.32 When would the Indicative Equilibrium Price (IEP) message be generated?

IEP messages are generated when IEP is changed during the POS or CAS. For CAS, you receive IEP(41) messages at Order Input (OI) (i.e.TradingSessionSubID =5), No Cancellation (NW) (i.e. TradingSessionSubID = 106), Random Close (RC) (i.e TradingSessionID = 107) & Matching (MA (i.e. TradingSessionSubID =4)

Trading of Structured Products

1.33 Are structured products (i.e. derivative warrants and callable bull/bear contracts (CBBC)) covered by CAS?

Structured products (derivative warrants and CBBCs) are not covered under CAS. In addition, investors should note that it is possible that the market closing time for a structured product would be different from its underlying security (i.e. if the underlying security is a CAS Security).

1.34 Is it possible for a CBBC to have a mandatory call event (MCE) during CAS?

Yes. A CBBC could be called (i.e. undergo an MCE) when its underlying hits the call price at the end of CAS.

Derivatives Market

1.35 How does CAS in the securities market affect the final settlement price of derivatives products?

Hang Seng Index Futures, H-shares Index Futures, Mini-Hang Seng Index Futures, Mini H-shares Index Futures, Section Index Futures and Stock Futures

The final settlement price (FSP) calculation algorithm remains unchanged, except the last reading in the FSP calculation algorithm is taken when the closing indices and closing underlying stock prices are disseminated at the end of CAS in the SEHK. The mechanism to take the other readings remains unchanged as compared to before CAS implementation.

Stock Options

As Stock Options are physically settled, no FSP is calculated. Open options contracts which are 1.5% or more in-the-money are auto-exercised upon expiration, given there are no prior overriding instructions from the broker. Please note the auto-exercise of Stock Options makes references to the closing price of the underlying stock, which would be determined in CAS for names that are eligible.

Volatility Index Futures

The FSP determination period on full day trading remains unchanged, whereas on half day trading the FSP determination period is changed from 11:15 – 11:45 to 11:30 – 12:00.

Note: There will be no CAS in the securities market for that trading day if trading terminates because of severe weather conditions and is not resumed by 15:45 (for full day trading) or 11:45 (for half day trading).

1.36 How are the trading hours for derivatives market on last trading day affected by CAS?

The following arrangement is applicable to spot month contracts on last trading day after CAS implementation.

The trading hours remain unchanged for the following products:

- Hang Seng Index Futures & Options (Including Flexible Index Options)

- H-shares Index Futures & Options (Including Flexible Index Options)
- Mini-Hang Seng Index Futures & Options
- Mini H-shares Index Futures & Options
- HSI Volatility Index (VHSI) Futures
- Sector Index Futures
- CES China 120 Index Futures
- Stock Futures & Options
- Currencies Futures & Options
- HIBOR Futures
- MOF T-Bond Futures

For the following products, the closing time has been changed from 16:15 to 16:30 for full day trading and from 12:00 to 12:30 for half day trading.

- HSI Dividend Point Index Futures
- H-shares Dividend Point Index Futures
- IBOVESPA Futures
- MICEX Index Futures
- S&P BSE Sensex Index Futures
- FTSE/JSE Top40 Futures

For London Metal Mini Futures, the last trading time on last trading day remains unchanged, except if the last trading day is a half trading day, the closing time has been changed from 12:00 to 12:30.

Miscellaneous

1.37 Is input of manual trade allowed during CAS?

Manual trades input for CAS Securities are accepted by the System during Order Input period, No Cancellation period and Random Closing period.

1.38 After the launch of CAS in the securities markets, will there be any impact on the automatic exercise of stock options contracts on the expiry date?

The procedure for automatic exercise of stock options remains unchanged. But investors should note that, for CAS Securities, the stock closing price is disseminated after the end of CAS.

1.39 Would there be any impact on Stock Connect?

CAS is applicable to Stock Connect Southbound brokers and investors, and would include current Stock Connect stocks for Southbound trading (i.e. stocks allowed for both buying and selling).

VCM

3.1 What are the design principles behind the VCM model for Hong Kong?

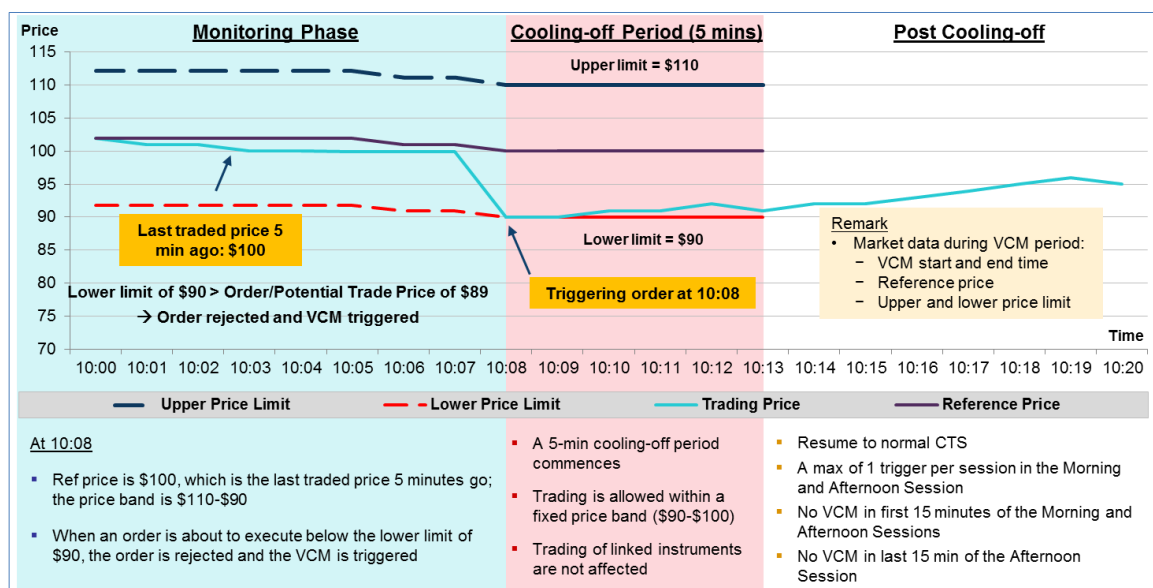
Historically different events have driven different VCM model to be chosen in different markets. Hong Kong has been able to learn from the VCM experience of other markets, and HKEX decided that a light-touch and simple model would be most suitable for Hong Kong's markets since they've never had a VCM and may not be familiar with such mechanisms.

HKEX's proposed VCM is specifically designed to safeguard market integrity from extreme price volatility arising from automated trading ("Flash Crash", bad algorithms, etc.). It also serves to alert the market with a temporary cooling-off period for the participants to reassess their strategies and positions and make investment decisions. It is not a trading halt, does not intend to limit the ups and downs of stock prices due to fundamental events, and it also does not work the same way as the daily price limit model which sets a specific daily price range for securities trading as seen in some markets.

Special care has been taken in the VCM design to minimise market interruption. For example, it applies to individual instrument rather than the entire market, it is based on a dynamic rather than a static reference price, the triggering level ($\pm 10\%$ for securities market and $\pm 5\%$ for derivatives market) is set up such that it would not trigger the VCM too often, the VCM is not applicable in certain periods (the first 15 minutes of the morning and afternoon CTS and the last 15 minutes of the afternoon CTS) and to certain instruments, and the fact that a maximum number of triggers per instrument in each trading session (maximum 1 trigger per instrument per CTS) is imposed to prevent excessive trading interruption.

3.2 How does the VCM model work?

HKEX has adopted a dynamic price limit VCM model for the securities and derivatives markets, which would trigger a cooling-off period in case of abrupt price volatility detected at the instrument level.



- The VCM is only applicable for board lot order input during the Continuous Trading Session (CTS), but not for any orders input during the Pre-opening Session (POS) and CAS.
- During the CTS, the potential trade price of a VCM security will be continuously checked against a dynamic price limit of $\pm 10\%$ based upon the reference price ($\pm 5\%$, for the derivatives market) which is the last traded price 5 minutes ago.
- The VCM is triggered if a stock is $\pm 10\%$ away (or if a futures contract is $\pm 5\%$ away) from the last traded price 5-min ago; A 5-min cooling-off period will start.
- For each VCM instrument, there will be a maximum of one VCM trigger in each trading session (Morning Session and Afternoon Session are counted as two separate trading sessions).
- Normal trading without restriction will resume on the VCM-triggered instrument after the cooling-off period. There will not be any VCM monitoring on the VCM-triggered instrument within the same trading session.

3.3 What instruments are covered under the VCM? Would it be extended to cover all securities in the future?

For the securities market, the VCM would cover Hang Seng Index (HSI) and Hang Seng China Enterprise Index (HSCEI) constituent stocks (as of 31 July 2016 there are 81 such stocks listed on the Stock Exchange of Hong Kong).

The finalized list of the VCM securities would be published on the HKEX website before the launch of the VCM. Any addition of constituent stocks to the HSI or HSCEI subsequently will also be added to the list of VCM securities on the effective date of the addition. Similarly, any deletion of constituent stocks from the HSI or HSCEI will also be removed from the list VCM securities on the effective date of the deletion.

For the derivatives market, the VCM would cover spot and next calendar month index futures contracts with HSI or HSCEI as their underlying index (currently 8 futures contracts).

HKEX currently has no plan to include more instruments in the securities or derivatives markets which would be subject to the VCM.

3.4 What is the applicable period for VCM monitoring?

VCM monitoring is applicable to continuous trading session (CTS), excluding:

- the first 15 minutes of the morning and afternoon trading session
- the last 20 minutes¹ of the afternoon trading session
- the After-Hours Futures Trading session in the derivatives market

¹ Since a cooling-off period will last for 5 minutes, the monitoring will stop 20 minutes before end of the Afternoon Session

3.5 Why would trading of the related or linked instruments of a particular security / futures contract be allowed to continue if the security / futures contract has had a VCM trigger and is in a “cooling-off” period? What is the rationale behind that?

As the security / futures contract is still allowed to trade within a band during the cooling-off period, its linked or related instruments should be allowed to trade as well. Consideration was given to whether the linked or related instruments should also trade within a band, but defining a band is not practical since the linked or related instruments are typically leveraged or may have inherently different product characteristics. Halting trading of these linked or related instruments would not be preferred too as it may have a significant impact and amount to excessive market intervention. Based on the market feedback received, many respondents agreed the approach taken is the preferred approach for the launch of VCM in the Hong Kong market, as it is new to the market. HKEX would obtain feedback from the market on this arrangement after its implementation and may review it again when the market is more familiar with it.

3.6 What is the VCM arrangement with respect to adverse weather?

In the case that market open is delayed due to bad weather (e.g. hoisting of typhoon signal no.8 or above or issuance of black rainstorm warning), similar to the normal market open, the first 15 minutes after market open will not be subject to the VCM monitoring.

In the case of an early close of the market due to bad weather (e.g. hoisting of typhoon signal no.8 or above during trading hours), cooling-off period can still be triggered in the last 15 minutes before market close and can continue until market close.

3.7 Can VCM be triggered on an applicable instrument multiple times in a trading day?

For each VCM instrument, there will be a maximum of one VCM trigger in each trading session (Morning Session and Afternoon Session are counted as two separate trading sessions). When normal trading has been resumed after the VCM, there will not be any VCM monitoring within the same CTS.

3.8 Does the normal price checking during the CTS apply during after a VCM is triggered?

The 24 spreads rule, the 9 times rules, as well as the existing price warning mechanism would continue to be applicable during the cooling-off period.

Trading of Structured Products

3.9 Can derivative warrants or CBBCs be traded during the 5-minute cooling-off period after the triggering of the VCM?

Since the affected underlying security or index is not suspended and continues to trade within a specified price limit during the 5-minute cooling off period after the triggering of the VCM, the derivative warrants and CBBCs can still be traded without any price limit.

However, investors should note that where events surrounding VCM causes abnormal trading behavior of the underlying leading to hedging difficulties, the liquidity provision obligations of issuers could be exempted. In this case, there may be a temporary absence of price quotes, a reduction in quote size, or a wider bid-ask spread during the 5-minute cooling-off period.

3.10 What will happen to Quote Requests for the warrant and CBBC, on a day when the underlying was subject to a VCM?

The issuer will commit to Quote Request obligations during the day, including during the cooling off period, unless an exemption is obtained for Quote Request.

3.11 How will the provision of Active Quotes be affected for a warrant/CBBC when the underlying security is subject to VCM?

Investors should be aware that standards for Active Quotes described in the Industry Principles² are intended to apply to normal market conditions. Provision of Active Quotes may be affected where there are abnormal or exceptional market conditions.

Quotes provided by liquidity providers necessarily reflect the liquidity of the underlying securities or indices at any given time. If the liquidity of the underlying is impaired by conditions surrounding a VCM event, or by the VCM itself, the liquidity of the warrant or CBBC may be adversely affected in terms of quote size and spread relative to more normal market conditions.

During the 5-minute cooling off period after triggering of the VCM, where issuers' hedging ability is materially affected due to the uncertainty in the underlying securities or index, it is possible that the minimum service level for Active Quotes will not be fulfilled, such as no bid-ask quotations, widening of bid-ask spread and reduction in quote size.

Similarly, after the 5-minute cooling off period, liquidity provision may still be affected if issuers continue to experience hedging difficulties. Under such circumstances, Liquidity Providers may not fulfil the minimum service level for Active Quotes as described in the Industry Principles.

However, issuers will use best efforts to meet quote request requirements.

Market Data Related

3.12 When the cooling-off period is started or ended for a securities or futures contract, will there be relevant message broadcasted in the trading system?

A message will be broadcasted in AMS/3.8 or HKATS when the cooling-off period is triggered for the specific securities or futures contract. Information includes: the start time and end time of cooling-off period, reference price and price limits of the securities or futures contract during the cooling-off period.

Since the information of cooling-off period's end time has already been included in the message when cooling-off period is triggered, there will be no additional message broadcasted at the end of cooling-off period.

Securities Market (The number in the bracket represents the corresponding OMD-C message ID)

² Industry Principles on Liquidity Provision for Listed Structured Products (July 2012) published by the Exchange, available at (<http://www.hkex.com.hk/eng/prod/secprod/dwrc/Documents/principle.pdf>).

3.13 Would VCM Trigger (23) message be disseminated to indicate the end of the cooling-off period?

For each cooling-off triggered by the VCM, a VCM Trigger (23) message would be disseminated in AMS/3.8 when the cooling-off period begins for specific securities or futures contract. The message provides, among other related information, both the start time and end time of the cooling-off period. There would be no other messages to indicate the end of the cooling-off period.

3.14 Would I be able to retrieve the VCM Trigger (23) message by any means after the cooling-off end time has passed?

In general, the VCM Trigger (23) message is available in Refresh Channel for each cooling off period triggered in a day except when the same security has more than one cooling off period triggered for the day. In this exceptional case, only the VCM Trigger (23) message for the latest cooling-off period would be found in Refresh Channel for that security.

Derivatives Market

3.15 I noticed that there would be newly added Market States for the implementation of the VCM in Derivatives Market. Can I have more details about each new state?

Four new Market States, namely "OPEN_DPL_VCM", "OPEN_VCM", "VCM_COOL_OFF_DPL" and "VCM_COOL_OFF", are introduced for the implementation of VCM in Derivatives Market. The first two states are applicable to market, instrument type and class levels whereas the remaining two states down to series level to indicate a cooling off period is triggered by VCM for the series concerned. Please refer to OMD-D Interface Specification and OMD-D Developers Guide for more details.

3.16 When I receive Market State "OPEN_DPL_VCM" or "OPEN_VCM" for a market, does it mean that all the series under this market are eligible for the VCM?

Only 8 contracts, namely HSI Futures (HSI), Mini-HSI Futures (MHI), H-shares Index Futures (HHI) and Mini H-shares Index Futures (MCH) spot month and the next calendar month contracts are covered in the VCM for the derivatives market. Therefore if the Market State "OPEN_DPL_VCM" or "OPEN_VCM" is received for a market, an instrument type or a class, it does not necessarily mean that all series within that market/instrument type/class are eligible for VCM.

3.17 In which message I can find the VCM related information (e.g. cooling off start and end time, upper and lower price limit and reference price)?

The information of a VCM cooling off period is provided in two Market Alert (323) messages in a structured manner so as to facilitate retrieval of the information including the start time, end time, reference price, upper and lower price limits. For details, please refer to OMD-D Developers Guide.