

SECTION 2: QUESTIONS FOR RESPONSE

Please indicate your views by providing comments as appropriate. Where there is insufficient space, please use additional sheets of paper as necessary.

HKEx's Proposal:

- HKEx is proposing an after-hours trading session for the futures market (T+1 Session). The opening time of the T+1 Session will be 30 minutes after the close of the regular trading session (T Session), i.e. 4:45 p.m. for Hang Seng Index futures and H-shares Index futures and 5:30 p.m. for gold futures. The T+1 Session will end at 11:15 p.m.
- All trades transacted in the T+1 Session will be registered as T+1 Trades and will be cleared and settled on the following trading day.
- At the initial stage, Hang Seng Index futures, H-shares Index futures and gold futures will be traded in the T+1 Session. Other derivatives products might be considered at a later stage.
- HKEx will manage the risk of after hours trading through appropriate regular, ad-hoc and/or real time monitoring during the T+1 Session and via a new mandatory variation adjustment and margin call following the market open of each T Session and payable by 11:00 a.m.

Questions

1. Do you agree with the proposal to introduce after-hours futures trading?

Yes, please state your views: _____

No, please specify your concerns and impact to you or to the market:

Increase operating cost while any increment in business volume is
uncertain

No real and material demand is likely from retail clients

As the corresponding cash market is closed, it will only attracts
speculative interest

2. Do you have any comments or concerns on:

a) the proposed trading arrangements?

We are concerned that this extended index trading session may ultimately have an undesired effect on the cash market which is where the majority of the investors in HK would trade. The extended hour will enable large overseas players to influence the index and the consequence of that outweighs potential business gain.

b) the proposed clearing arrangements?

c) the proposed risk management arrangements?

It will be trading in a singular market as it rules out any arbitrage trade against the cash equity market when it is closed.

Without any arbitrage activity, the derivative market maybe unduly volatile and couple with lower turnover, open to price manipulation.

The proposed trading hours are outside the normal banking hours therefore no margin call during the trading session to mitigate credit risk is possible.

Existing margin as demanded by the clearing house may not be sufficient to cover the volatility as a result of the increase trading hours.

Extra margin will be demanded from client to cover the increased trading time thereby reducing the product gearing and its attractiveness

More forced selling is envisaged during the proposed hours and this may give rise to higher number of incidences of client complaints as market movements during after hour is less transparent than the normal trading session.

d) the use of the Calculated Opening Price as the basis for the proposed mandatory variation adjustment and margin call?

No comment

3. Are there any other issues regarding the Proposal that HKEx should consider?
