QUESTIONNAIRE ON PROPOSAL FOR INTRODUCTION OF VOLATILITY CONTROL MECHANISM IN THE SECURITIES AND DERIVATIVES MARKETS AND CLOSING AUCTION SESSION IN THE SECURITIES MARKET

We invite interested parties to respond to the Consultation Paper on Proposal for Introduction of Volatility Control Mechanism in the Securities and Derivatives Markets and Closing Auction Session in the Securities Market, which can be downloaded from the HKEx website at: http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201501.pdf

This Questionnaire contains four parts:
- Part A: General Information of the Respondent;
- Part B: Consultation Questions – Volatility Control Mechanism (Q1-Q17);
- Part C: Consultation Questions – Closing Auction Session (Q18-Q37); and
- Part D: Consultation Questions – Implementation Approach and Timeline (Q38-Q40)

All responses should be made in writing by completing and returning to HKEx of Part A, B, C and D of this Questionnaire no later than **10 April 2015** by one of the following methods:

By mail or hand delivery to:	Corporate Communications Department Hong Kong Exchanges and Clearing Limited 12th Floor, One International Finance Centre 1 Harbour View Street Central Hong Kong
By fax to:	(852) 2524-0149
By e-mail to:	response@hkex.com.hk

Please mark in your response with the following subject line: **Re: Consultation Paper on Proposal for Introduction of Volatility Control Mechanism in the Securities and Derivatives Markets and Closing Auction Session in the Securities Market**

Our submission enquiry number is (852) 2840-3844.

The names of persons who submit comments together with the whole or part of their submissions may be disclosed to members of the public. If you do not wish your name to be published please indicate so in Part A.

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Contact us

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By Email:
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Part A General Information of the Respondent

(1) Please state whether your response represents your personal or your company's view by checking (☒) the boxes below and filling in the information as appropriate:

☒ Company view

Market represents*:	☒ Securities Market ☒ Derivatives Market
Company name*:	The Hong Kong Society of Financial Analysts
Company type*:	HKEx Participant:- ☐ SEHK ☐ HKFE ☐ HKSCC ☐ SEOCH ☐ HKCC ☐ Listed company ☐ Fund, AUM (US$ bil): ☐ Professional body / Industry association ☐ Banks / Financial Institutions ☐ Investment Advisory ☒ Others, please specify: Professional Bodies
Contact person*:	Mr Frederick Tsang
Title:	President
Phone no.*:	2501 0670 Email address: info@hksfa.org

☐ Personal view

Respondent's full name*:	Mr/Ms/Mrs
Phone no.*:	Email address:
Among the following, please select the one best describing your position*:	
☐ Listed company staff ☐ HKEx participant staff ☐ Retail investor	
☐ Institutional investor ☐ None of the above	

<u>Important note</u>: All fields marked with an asterisk (*) are mandatory. HKEx may use the contact information above to verify the identity of the respondent. Responses without valid contact details may be treated as invalid.

(2) Disclosure of identity

HKEx may publish the identity of the respondent together with Part B of this response to the members of public. Respondents who do not wish their identities to be published should check the box below:

☐ I/We do not wish to disclose my/our identity to the members of the public.

____

Signature (with Company Chop if the response represents company view)

Part B Consultation Questions – Volatility Control Mechanism

Please indicate your preference by checking the appropriate boxes and provide reasons to support your views. Where there is insufficient space, please attach additional pages as necessary.

1. Do you support the introduction of an instrument-level VCM based on a dynamic price limit model in Hong Kong?

☒ Yes

☐ No

Please give reasons for your view.

We are supportive of implementing an instrument-level VCM as it offers more protection to the entire system without too much compromise on liquidity. VCM will get the same companies which are dually listed on other exchange already having VCM in place to be traded under very similar practice.

2. Do you agree that the proposed VCM model should only be applied to the HSI and HSCEI constituent stocks in the securities market?

☐ Yes

☐ No

Please give reasons for your view.

3. Do you agree that the proposed VCM model should only be applied to the HSI, HHI, MHI & MCH (spot month and the next calendar month) index futures in the derivatives market?

☐ Yes

☐ No

Please give reasons for your view.

4. Do you agree that the market should have a 15-minute uninterrupted trading period before the end of the last continuous trading?

☐ Yes

☐ No

Please give reasons for your view.

5. Do you agree with the proposed reference price for the securities market, namely the price of last trade 5 minutes ago? If not, what would you prefer?

☐ Yes

☐ No, I would prefer: ______________________________

Please give reasons for your view.

6. Do you agree with our proposed reference price for the derivatives market, namely the price of last trade 5 minutes ago? If not, what would you prefer?

☐ Yes

☐ No, I would prefer: ______________________________

Please give reasons for your view.

7. Do you agree with the proposed triggering level for the securities market, namely 10%

from the reference price across the proposed instruments covered by the VCM? If not, what level would you prefer?

☐ Yes

☐ No, level that I would prefer: ____________________

Please give reasons for your view.

8. Do you agree with the proposed triggering level for the derivatives market, namely 5% from the reference price across the proposed instruments covered by the VCM? If not, what level would you prefer?

☐ Yes

☐ No, level that I would prefer: ____________________

Please give reasons for your view.

9. Do you agree that a maximum of two VCM triggers per trading session per instrument should be imposed to minimise market interruption?

☐ Yes

☒ No, I would prefer: multiple VCM triggers per trading session per instruments

Please give reasons for your view.

We would welcome multiple VCM triggers per trading session per instruments to more than a maximum of two to bring us in line with other markets.

10. Do you support trading within a price limit during the cooling-off period? If not, do you prefer another approach?

☐ Yes

☐ No, another approach that I prefer: ______________________

Please give reasons for your view.

11. After the cooling-off period, do you support resuming the same dynamic price limit monitoring mechanism (i.e. ±10% (±5%) from the last trade 5 minutes ago in the securities (derivatives) market)? If not, do you prefer another approach?

☐ Yes

☐ No, I would prefer: ______________________

Please give reasons for your view.

12. Do you have any other suggestions on enhancing the resumption procedures?

13. Do you agree that the duration of the cooling-off period should be 5 minutes for both the securities and derivatives markets? If not, what would you prefer and why?

☐ Yes

☐ No, I would prefer: ______________________

Please give reasons for your view.

14. Do you agree with the additional market data dissemination for the proposed VCM model? If not, what would you propose and why?

☐ Yes

☐ No, I would propose: ______________________

Please give reasons for your view.

15. If a VCM is triggered for a given instrument, should trading of related instruments (e.g. futures contract of different contract months) on the same underlying continue as normal?

☐ Yes

☐ No

Please give reasons for your view.

16. If a VCM is triggered for a given instrument, should trading of derivatives (e.g. single stock options or warrants) of that instrument continue as normal?

☐ Yes

☐ No

Please give reasons for your view.

17. Do you have any other comments on the VCM proposal?

Part C Consultation Questions – Closing Auction Session

18. Do you support the introduction of the new CAS model in the Hong Kong securities market?

☒ Yes

☐ No

Please give reasons for your view.

We are supportive of introducing the new CAS model as it offers a systematic approach to form the closing price, which is in line with other markets.

19. Do you agree that the new CAS model should only be applied to the major index constituent stocks (i.e. Hang Seng Composite LargeCap Index and Hang Seng Composite MidCap Index constituents as well as other Stock Connect Securities for Southbound trading)?

☐ Yes

☐ No

Please give reasons for your view.

20. Do you agree that the new CAS model should be applied to ETF? If yes, which type of ETF should be applied?

☐ Yes

   ☐ (i) Apply to all ETFs

   ☐ (ii) Only apply to ETFs with Hong Kong stocks as underlying

☐ No

Please give reasons for your view.

21. Do you agree that at a later stage, the new CAS model should be expanded to other equity securities and funds as proposed? If so, when should the CAS be rolled out to these securities and funds?

☐ Yes, roll out time should be: ____________________

☐ No

Please give reasons for your view.

22. Do you agree that that the new CAS model should exclude structured products, equity warrants and debt securities?

☐ Yes

☐ No

Please give reasons for your view.

23. Do you support introducing a price limit during the CAS?

☐ Yes

☐ No

Please give reasons for your view.

24. Do you support a price limit of 5% during the Order Input Period for all CAS Securities?

☐ Yes

☐ No

Please give reasons for your view.

25. Do you agree that a further price limit within the best bid and best ask should be applied during the No-Cancellation Period and Random Closing Period?

☐ Yes

☐ No

Please give reasons for your view.

26. Do you agree that at-auction limit orders should be allowed throughout the CAS?

☐ Yes

☐ No

Please give reasons for your view.

27. Do you think short selling orders with a tick rule should be allowed during the CAS?

☐ Yes

☐ No

Please give reasons for your view.

28. If short selling order is to be allowed, should it be at or higher than the reference price?

☐ Yes

☐ No

Please give reasons for your view.

29. Do you agree that order amendment and cancellation should be disallowed during the No-Cancellation Period and Random Closing Period?

☐ Yes

☐ No

Please give reasons for your view.

30. Do you agree that random closing be adopted in the CAS to prevent gaming?

☐ Yes

☐ No

Please give reasons for your view.

31. If random closing is to be adopted, should it be over a period of up to 2 minutes or would you prefer a different duration?

☐ Up to 2 minutes

☐ A different duration: ____________________

Please give reasons for your view.

32. In the absence of a final IEP, do you agree that the reference price should be used as the closing price and for trade matching?

☐ Yes

☐ No

Please give reasons for your view.

33. What would be the preferred duration of the CAS?

(i) Same as the proposed model, i.e. 7-minute Order Input Period to end the CAS at 16:12

(ii) 5-minute Order Input Period to end the CAS at 16:10

(iii) Others, please specify:

☐ Approach (i)

☐ Approach (ii)

☐ Approach (iii), please specify: ____________________

Please give reasons for your view.

34. Do you agree that some features of the new CAS model may also be beneficial for the POS and/or the Trading Halts? If so, which feature(s)?

☐ Yes, the feature(s): ______________________

☐ No

Please give reasons for your view.

35. Do you agree that any enhancements for POS and/or the Trading Halts should be implemented later rather than during the introduction of the new CAS?

☐ Yes

☐ No

Please give reasons for your view.

36. Do you foresee any issues with your day end processing such as margin calls in the cash market due to the extended trading time for 12 minutes? If yes, how may the issue be resolved?

☐ Yes, suggested solution: ______________________

☐ No

Please give reasons for your view.

37. To maintain the 45 minutes break before the start of AHFT, do you agree that the start time of AHFT to be changed from 17:00 to 17:15? If not, what time do you prefer?

☐ Yes

☐ No, time that you prefer: ____________________

Please give reasons for your view.

Part D Consultation Questions – Implementation Approach and Timeline

38. Which implementation approach for the securities market would you prefer:

(i) the development and testing of the VCM, CAS and Trading Halts functionalities are to be implemented together on the AMS/3.8 platform and be rolled out one by one; or

(ii) (1) the development, testing and rollout of VCM and CAS are to be implemented together on the AMS/3.8 platform, and (2) Trading Halts proposal is to be introduced as part of the Exchange's next-generation trading system, the Orion Trading Platform-Cash; or

(iii) Others, please specify.

☐ Approach (i)

☐ Approach (ii)

☐ Approach (iii), please specify: ______________________

Please give reasons for your view.

39. What should be the implementation priority among the three initiatives (i.e. VCM, CAS and Trading Halts) in the securities market?

Please give reasons for your view.

40. How long do you need to prepare for the rollout starting from the issuance of the specification for each initiatives:

(i) VCM:

☐ a). under 3 months;

☐ b). 4-6 months;

☐ c). 7-12 months

☐ d). >12 months

Please give reasons for your view.

(ii) CAS:

☐ a). under 3 months;

☐ b). 4-6 months;

☐ c). 7-12 months

☐ d). >12 months

Please give reasons for your view.

- End -