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# Hong Kong Stock Exchange Consults On Allowing Publication Of PSI During Trading Hours Subject To Trading Halts

## Introduction

Hong Kong Exchanges and Clearing Limited (the **Exchange**) has published a consultation paper (**Consultation Paper**) on proposals to allow the release of price sensitive information (**PSI**) during trading hours subject to the implementation of short trading halts to. Interested parties are requested to respond no later than 8 October 2012.

The proposed duration of trading halts is between 30 minutes and two days. Trading would resume 30 minutes after an announcement of the PSI has been published. Outstanding orders entered before a trading halt or suspension would be cancelled automatically when the halt begins. For the purpose of price discovery, a 10-minute single price auction would occur after the lifting of a trading halt.

Respondents to the consultation may submit their comments by mail, hand delivery, fax or e-mail by 8 October 2012. Implementation of any of the proposals would be subject to the Exchange’s estimation of market readiness.

[The Consultation Paper](http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201207.pdf) can be downloaded from the Exchange’s website.

Respondents may submit their comments by using the [consultation questionnaire](http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201207q.doc) available on the Exchange’s website.

## Background

The Exchange has consulted previously on the possible implementation of trading halts. In a 2002 consultation on a proposal to publish announcements on the Exchange website, a majority of respondents supported the release of PSI during trading halts in trading hours. The Exchange conducted a consultation on this proposal in 2007, but decided to study the effectiveness of the morning/lunch time publication windows system (which was newly implemented by the Exchange at the time) before pursuing the proposal.

In 2009, The Exchange considered again allowing the release of PSI during trading halts, but concluded that its implementation would leave investors with insufficient time to react to PSI disclosures. Additionally, the Exchange’s trading system would need to be upgraded to handle trading halts of securities that have many related derivative products. This upgrade occurred following a criminal hacking incident in August 2011, which caused a suspension in the trading of seven equity securities and related derivative products. The market can now operate continuously in the event of a disruption of news dissemination.

The Exchange gives several reasons in support of the implementation of trading halts for PSI disclosures. The proposals would:

* bring Hong Kong into line with international market practices. Appendix II to the Consultation Paper provides the Exchange’s summary of comparable arrangements in Australia, Germany, Singapore and the United States;
* help investors in derivative products to close out the opening position rather than bear risk overnight;
* provide more accurate intraday prices in securities as price discovery would occur soon after the halt; and
* avoid putting Hong Kong investors at a disadvantage by providing PSI in a more timely manner and keeping the duration of any trading halt to a minimum. Presently, an investor at a market that has implemented trading halts is able to respond more quickly to PSI as it would be released during trading hours in that market and trading would resume shortly after the release.

## Current Arrangements

Currently, PSI may be published on the Exchange’s website only during three publication windows:

* from 6:00 am to 8:30 am;
* from 12:00 pm to 12:30 pm; and
* from 4:15 pm to 11:00 pm (6:00 pm to 8:00 pm on a public holiday before the next business day).

If an issuer fails to publish PSI when a disclosure obligation is triggered, trading in its securities (and related options, futures and structured products) would be suspended until the trading session following the publication of the PSI announcement. Mid-trading session suspensions are possible, but are usually avoided and reserved for unexpected events. Most trading suspensions last over half a day.

There is a 30 minute period between the close of the publication window and the beginning of the trading session to allow investors to process the published PSI. The vast majority of PSI releases occur in the evening publication window. In the securities market, orders entered before a suspension of trading remain in the order book and can be cancelled during the suspension period, but if trading does not resume on the same day, the outstanding orders are cancelled automatically after market close. In the options and futures market, all outstanding orders are cancelled automatically once trading in the underlying securities is suspended.

## Overseas Arrangements

The Exchange’s summary of overseas practices is set out in Appendix II to the Consultation Paper.

Markets in Australia, Germany, Singapore, the United Kingdom and the United States allow the publication of PSI during trading hours and the resumption of trading either immediately (as in the UK) or shortly afterwards (as in the other markets, with a minimum trading halt duration varying between 10 minutes and 60 minutes). In the UK, trading is not halted for the publication of PSI, apparently because investors there are mostly institutional investors, according to the Exchange.

In Australia and Singapore, trading halts have a maximum duration of two and three trading days, respectively, after which the issuer must request a suspension in the trading of its securities if a PSI announcement has not been made. New orders may be made during the halt.

In Australia, Singapore and the US, existing orders are maintained but may be cancelled during a halt. In contrast, outstanding orders in Germany are cancelled before trading resumes. In all four countries, trading in the halted securities begins with a single price auction.

As orders can be entered or changed during a halt in Australia or Singapore, orders are matched at a single price auction algorithm upon the end of a trading halt. In Germany and the US, where orders cannot be entered or changed during a halt, a 5-minute auction period occurs upon the end of a trading halt.

## Proposed Arrangements

### Trading halt regime

Appendix III to the Consultation Paper provides a diagram of the proposed trading halt regime compared with the current suspension regime.

The Exchange proposes to adopt a trading halt regime. PSI announcements would be published on the Exchange’s website during trading hours subject to a short trading halt. Trading halts would have a minimum duration of 30 minutes and a maximum duration of two days. The Exchange believes that 30 minutes provides a balance between allowing investors to digest the published PSI and allowing them the opportunity to trade accordingly. Trading would resume only on the quarter hour or the half hour. A minimum of 30 minutes of trading would occur after the resumption of trading, including a 10 minute single price auction session. This means that resumption of trading would never occur after 3:30 pm on a normal trading day or after 11:30 am on a half-day; resumption of trading would occur at the beginning of the following trading day instead.

Listed issuers who request trading halts would be expected to have their PSI announcements ready for publication as soon as practicable. If the issuer fails to publish the PSI announcement within the two days, the trading halt would lapse and the halt would become a suspension of trading. The existing rules on PSI announcements and suspensions would then apply until the PSI announcement is made. Trading would then resume in the next trading session.

#### Results announcements

Board meeting dates are currently required to be published at least seven clear business days before the meeting so that investors would know when to expect results announcements. Suspensions are thus not generally necessary for the publication of results announcements under the existing arrangements.

Due to the large volume of results announcements, particularly during certain periods of the year, the Exchange proposes that results announcements should be published during the existing publication windows as far as possible. The Exchange may however grant a trading halt for the publication of a results announcement in special circumstances.

#### Issuers dually listed on the London Stock Exchange

Currently, five issuers that are dually listed on the London Stock Exchange have obtained waivers to publish PSI on the Exchange website during trading hours without a trading halt. The purpose of these waivers is to avoid restricting Hong Kong investors from trading in the securities of those issuers while investors in London are able to do so; there is no trading halt regime in the UK. The Exchange proposes to maintain these waivers for those five issuers.

#### Notification of suspension and resumption

The Exchange proposes to notify investors of any upcoming trading halts through various Exchange system channels. These would include the Exchange website, where a separate information page would inform investors of such information as the time of commencement of the halt, its duration and when it will be lifted.

#### Outstanding orders before a trading halt

According to the Exchange’s proposal, all outstanding orders for the securities and their related derivative warrants and callable bull and bear contracts would be cancelled upon a trading halt. The Exchange sees this arrangement as preferable, since retail investors would not usually keep track of the publication of announcements constantly. Cancelling all outstanding orders would serve as a precautionary measure to avoid situations where uninformed retail investors would keep orders based on a price that does not take the published PSI into account while other more informed investors would be able to cancel their orders. This would help minimise market disputes.

#### Price discovery

To facilitate price discovery, a 10-minute single price auction would occur once a trading halt is lifted. Where a PSI announcement is made during the lunch publication window (i.e. between 12:00 pm and 12:30 pm), the single price auction would occur at the beginning of the afternoon trading session, regardless of whether the issuer requested a trading halt.

The mid-session auction would apply to the securities market only and comprise:

* 7 minutes of order input (when at-auction orders and at-auction limit orders may be inputted);
* 1 minute of pre-order matching (when only at-auction orders may be inputted);
* 1 minute of order matching (when orders would be matched in type, price and priority); and
* 1 minute of blocking (when all unmatched at-auction orders would be cancelled and unmatched at-auction limit orders would be converted into limit orders and carried into the trading session).

Structured products would also trade in the mid-session auction once a trading halt of the underlying stock is lifted. Liquidity providers of structured products would be exempted from providing quotes during the auction session upon lifting of a trading halt.

Market makers of the Exchange’s stock options and futures consulted indicated that they will make a market upon completion of the price determination of the underlying stocks. Accordingly, it is proposed that the mid-session auction mechanism will not apply to the Exchange’s stock options/futures market. Continuous trading of related stock options and stock futures will be resumed only upon completion of the mid-session auction of underlying stock.

#### Implementation

The Exchange has stated that they will take market readiness into account (particularly any necessary changes to the trading systems of Exchange participants) before implementing a trading halt regime. The Consultation Paper asks respondents how much lead time would be necessary after the relevant system specifications are available to prepare for the implementation of trading halts, three or six months or a different period.

## Responding To The Consultation

Interested parties should respond to the consultation by submitting the consultation questionnaire (available here) no later than 8 October 2012 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 **Re: Consultation Paper on Trading Halts**

By tax to:

(852) 2524-0149

By e-mail to:

response@hkex.com.hk Please mark in the subject line: **Re: Consultation Paper on Trading Halts**

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