

CONSULTATION CONCLUSIONS TRADING HALTS

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Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司

TABLE OF CONTENTS

	Page No.
EXECUTIVE SUMMARY	2
CHAPTER 1: BACKGROUND.....	3
CHAPTER 2: COMMENTS AND RESPONSES.....	5
CHAPTER 3: CONCLUSIONS AND IMPLEMENTATION PLAN.....	23
 APPENDICES	
APPENDIX I: LIST OF RESPONDENTS	
APPENDIX II: HIGH LEVEL TRADING HALT/RESUMPTION FLOW UNDER THE PROPOSED MODEL	

EXECUTIVE SUMMARY

1. This paper presents the results of the public consultation on a proposed model for implementing a trading halt that would allow publication of inside information announcements during trading hours subject to a short trading halt in shares of the issuer.
2. We received a total of 58 responses (including 12 late responses) from listed companies, professional bodies/industry associations, Exchange Participants, broker associations and individuals. The majority of respondents supported our consultation proposals.
3. A summary of key proposals in relation to trading halts are set out in Chapter 3 of this paper.
4. For Exchange Participants using Exchange provided AMS terminals and/or MWS (Multiple Workstation Systems) for trading, the Exchange will be responsible for the system changes to these trading devices arising from trading halts. At present, about one-third of Exchange Participants solely use Exchange provided AMS terminals and/or MWS for trading. The other two-third of Exchange Participants use in-house and/or system vendors provided trading systems. The Exchange will provide technical assistance to Exchange Participants and system vendors to prepare for the related system changes.
5. We are aware of that the implementation of trading halt proposals, particularly the mid-session auction proposal would involve significant changes to Exchange Participants' systems and operations. In view of the concerns raised by some respondents on the change efforts required, we consider that implementation of the trading halt proposals should coincide with the rollout of other upcoming major market infrastructure initiatives. This is to minimize the development and testing efforts to the market systems.
6. We shall provide sufficient lead time to the market for preparation. As a result, implementation of the trading halt proposals will not be earlier than mid-2014. A possibility under consideration is to introduce trading halts as part of the Exchange's new Orion Trading Platform infrastructure. The implementation date and schedule will be announced in due course.

CHAPTER 1: BACKGROUND

7. On 27 July 2012, the Exchange published a market consultation paper on a proposed model for implementing a trading halt that would allow publication of inside information¹ (II) announcements during trading hours subject to a short trading halt in shares of the issuer (the Consultation Paper). The Consultation Paper sought market views on the proposal. For details of the Consultation Paper, please refer to: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201207.pdf>
8. The consultation period ended on 8 October 2012. The Exchange received a total of 58 responses (including 12 late responses) from listed companies, professional bodies/industry associations, HKEx participants, broker associations and individuals. A list of respondents is provided in Appendix I. Copies of their responses are available on HKEx website for public reference. Please refer to: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/responses/cp201207r.htm>
9. A majority of respondents supported the proposal to allow a listed issuer's II announcements to be released during the Exchange's trading hours subject to a short trading halt. The table below summarises the 58 responses by respondent category:

Respondent Type	Yes	No	Neither "Yes" nor "No" with or without comment
Listed Issuers	16	1	5 ²
Exchange Participants	12	0	3
Broker Associations	7	0	0
Professional Bodies / Industry Associations	8	0	0
Individuals and Other Entities	3	1	2
Total	46 (80%)	2 (3%)	10 (17%)

Among the 58 responses, 22 responses (38%) were received from listed issuers, representing 1.4% of Hong Kong listed companies³; 15 responses (26%) were received from Exchange Participants, representing 45% of cash market turnover (September 2012).

¹ Following the Listing Rules changes consequential on the statutory backing to issuers' continuing obligation to disclose inside information effective on 1 January 2013, the term "price sensitive information" has been replaced with the term "inside information" accordingly in this paper.

² Including 4 listed companies belonging to the same group

³ There were 1,536 companies listed on Main Board and GEM as at 31 October 2012.

10. Key comments and responses to the Consultation Paper are summarized in Chapter 2. They should be read in conjunction with the Consultation Paper.
11. The consultation conclusions and implementation plan for trading halt proposals are set out in Chapter 3.
12. We would like to take this opportunity to thank all those who have shared with us their comments and views during the consultation process.

CHAPTER 2: COMMENTS AND RESPONSES

13. We received majority support from the market to allow a listed issuer's II announcements to be released during the Exchange's trading hours subject to a trading halt.
14. For consultation questions related to secondary market trading arrangements (i.e. *Consultation Questions 11 to 17* below), many respondents who are mainly listed issuers chose not to provide comments to some or all of these questions. There were only 6 out of 22 listed issuers who responded to all these seven questions.
15. We set out respondents' key comments and our responses below.

Publication of II announcements during trading hours

16. We consulted on our proposals whether we should adopt a model without a halt in trading (*Consultation Question 1*) or with a short trading halt (*Consultation Question 2*) after the release of II on the HKExnews website during trading hours. As these two consultation questions and most of the comments received on them are related, we will discuss and address them together.

Comments received

17. A majority of respondents (71%) agreed that we should not adopt a model allowing the release of II during trading hours without a trading halt (i.e. the UK model). Only 9% supported the UK model whilst 20% neither agreed nor disagreed but offered comments. (*Consultation Question 1*).
18. As for *Consultation Question 2* which proposed the publication of II announcements on the HKExnews website during trading hours subject to a short trading halt, 80% of respondents agreed with this proposal whilst 3% disagreed, and 17% neither agreed nor disagreed but offered comments.
19. The main comments received to support the publication of II announcements on the HKExnews website during trading hours subject to a short trading halt are:
 - (a) the retail investor base of the Hong Kong stock market is relatively large and the adoption of a trading halt would provide time for investors to digest the contents of the published II announcement, leading to a much fairer and more orderly market; and
 - (b) the proposal can facilitate timely dissemination of inside information, reducing the duration of suspension and providing flexibility for investors to respond quickly.

20. One respondent⁴ was of the view that Hong Kong should follow the practices of the majority of overseas markets to adopt a model with a halt in trading after the release of II during trading hours. It would be a step too big for Hong Kong to quickly jump to adopt the model in the UK, whose investors are predominantly institutional investors. The relatively large number of retail investors in Hong Kong need time to get access to and digest the II news, or to obtain advice from their brokers. A trading halt is thus required.
21. A few respondents⁵ supported the UK model. The main reasons are:
- (a) this does not seem to be a problem in the case of those issuers dually listed on the London Stock Exchange as well as the HKEx. They have waivers to publish II on the HKEx during trading hours without a trading halt;
 - (b) timely disclosure along with continuous trading without trading halts is the most transparent and least disruptive to the Hong Kong market and is consistent with the general international capital markets development trend;
 - (c) for issuers with multiple listings, trading halts would deny Hong Kong investors' the opportunity to trade while the same securities are traded continuously in other markets. This would result in disadvantage to the Hong Kong shareholders;
 - (d) in respect of secondary listed issuers, the Exchange should ensure that its policy on trading halts after the release of II takes account of the regulatory requirements of the issuer's home jurisdiction where it has its primary listing. It is important that disclosure of II occurs near simultaneously on the listed issuer's primary and secondary listing venues; and
 - (e) all shareholders of listed companies should (as far as practicable) receive information at the same time and be able to act on such information on an equal basis.
22. Some respondents neither agreed nor disagreed the proposals but they offered the following comments:
- (a) four respondents⁶ suggested that listed companies should have the option of releasing II without a trading halt or requesting a trading halt before the release of II;
 - (b) one respondent⁷, whilst agreeing with the proposal to implement a trading halt, suggested that selected companies should be allowed to adopt the UK model (i.e. without trading halt) as an additional option. The Exchange can then review the experience gained and determine whether to promote the UK model in Hong Kong; and

⁴ This comment was raised by an issuer.

⁵ These comments were mainly received from issuers, including 2 secondary listed issuers.

⁶ This comment was mainly raised by 4 issuers belonging to the same group.

⁷ This comment was raised by a professional body.

- (c) one respondent⁸ commented that for dually listed issuers, Hong Kong investors can be disadvantaged if they are unable to transact following a II announcement while trading is ongoing in another market. As such, if a pause in trading is deemed to be required as a market practice in Hong Kong, that pause should be as short a period as possible.

Our response

23. We are encouraged by the majority support of respondents on the proposal of allowing the publication of II announcements on the HKExnews website during trading hours subject to a short trading halt. We believe that the proposal will allow II announcements to be adequately disseminated and assessed by the market in a timely manner. This will also bring Hong Kong in line with international market practices.
24. We also believe the consistent application of trading halt to all listed companies can avoid confusion for investors and market participants. Waiver requests from dually listed companies will be handled by the Exchange on a case by case basis.

Conclusion

25. We will implement the proposal of allowing the publication of II announcements on the HKExnews website during trading hours subject to a short trading halt.

Maximum period for trading halts

26. We consulted on our proposal that the maximum period for which a trading halt may be granted is two trading days. If the issuer fails to publish the II announcement by the end of the following trading day, the trading halt will lapse and its status will be changed to “suspension” automatically. (*Consultation question 3*)

Comments received

27. 60% of respondents supported the proposal whilst 19% neither agreed nor disagreed with no particular view on the maximum period for trading halts.
28. 21% disagreed with the proposal but their views were diverse:
- (a) a few respondents⁹ expressed that the trading halt should not be more than one trading day to avoid market confusion;
 - (b) two respondents¹⁰ suggested that the maximum limit should be half a day and thereafter, it should be a suspension;

⁸ This comment was raised by an issuer.

⁹ This comment was raised by Exchange Participants, a broker association and an industry association.

¹⁰ This comment was raised by issuers.

- (c) one respondent¹¹ suggested a maximum of 30 minutes whilst one¹² suggested it should be as short as possible;
- (d) one respondent¹³ considered two days may not be sufficient for preparation of some types of II announcements; and
- (e) one respondent¹⁴ suggested the time period of the halt can last until the announcement is published.

Our response

- 29. The maximum period of two trading days is set with reference to the fact that sufficient lead time should be provided to listed issuers to seek their board members' approval on the publication of II announcements, particularly for issuers whose board members are overseas or may not be available immediately.
- 30. As explained in paragraphs 51 and 52 of the Consultation Paper, around 60 per cent of suspensions lasted for two trading days in 2011. HKEx also reviewed overseas market practices. In Australia and Singapore, the maximum period for which a trading halt may be granted is two trading days and three trading days respectively.

Conclusion

- 31. We will therefore adopt the proposal.

Results announcements

- 32. We consulted on our proposal that results announcements should be published during the existing publication windows (i.e. outside trading hours) as far as possible. (*Consultation Question 4*)

Comments received

- 33. 67% of respondents supported the proposal that results announcements should be published during the existing publication windows. The main reasons given are:
 - (a) the proposal will minimize interruptions to trading and provide sufficient time for investors to digest the information; and
 - (b) since the publication of results announcements are planned and scheduled (issuers are required to publish their board meeting dates at least seven clear business days in advance), no trading halt or suspension should be required.

¹¹ This comment was raised by an issuer.

¹² This comment was raised by an issuer.

¹³ This comment was raised by an issuer.

¹⁴ This comment was raised by an issuer.

34. 19% disagreed with the proposal with the following comments:
- (a) listed issuers should be encouraged to publish promptly irrespective of the type of announcements. If the regime is to allow publication of announcements during trading hours, there is no reason why all announcements cannot be treated the same way;
 - (b) for secondary listed issuers, the release of results should primarily be driven by market practice and requirements in its primary listing venue. Generally results are II. The issuer therefore has an obligation to release its results in Hong Kong simultaneously with their release in London; and
 - (c) listed issuers should be provided with the choice whether to release the result announcements during trading hours or outside trading hours.

Our response

35. We welcome the broad support for our proposal that results announcements should be published during the existing publication windows as far as possible.
36. As mentioned in paragraph 54 of the Consultation Paper, the Exchange may grant a trading halt for the publication of results announcement if it is justified by the issuer. This is consistent with the general principle that interruptions to trading should be kept to a minimum and only permitted in order to maintain an orderly and informed market.

Conclusion

37. We will adopt the proposal.

Non-II announcements

38. We consulted on our proposal that the existing arrangement for non-II announcements¹⁵ to be published outside trading hours should remain unchanged. (*Consultation Question 5*)

Comments received

39. A majority of respondents (60%) supported the proposal that the non-II announcements should be published outside trading hours. They stated that there is no urgency to publish the non-II announcements during trading hours and investors are familiar with the existing arrangement. In addition, it may cause market confusion if both II and non-II announcements are allowed to be published during trading hours.

¹⁵ However, certain categories of announcements can be published during trading hours as well as outside trading hours such as suspension announcements and overseas regulatory announcements. Please refer to Listing Rule 2.07C (4) for details of the exceptions. Under the trading halt regime, there would be no change to these exceptions as set out in the Listing Rules.

40. 21% of respondents not supporting the proposal considered that non-II announcements should be allowed to be published during trading hours since they are not expected to affect the price of the related securities. Other comments received on *Consultation Question 4* also touched on this consultation question; we will not repeat them.

Our response

41. As explained in paragraph 56 of the Consultation Paper, non-II announcements account for a significant number of total announcements published. Some Exchange Participants consulted also indicated that most investors, in particular retail investors are not used to constantly tracking the publication of announcements during trading hours.
42. Since trading halts are not required for non-II announcements, there will be a risk when issuers select non-II headline categories for publishing an announcement during trading hours while the content does contain inside information.
43. As a prudent measure, the Exchange will review the experience of allowing II announcements to be published during trading hours subject to a trading halt before determining a further course of action.

Conclusion

44. We will proceed with the proposal.

Dually listed issuers on the London Stock Exchange

45. We consulted on our proposal that the trading halt should not apply to dually listed issuers with waiver obtained for publication of II announcements under Rule 2 of the Disclosure and Transparency Rules of the UK Financial Services Authority. (*Consultation Question 6*)

Comments received

46. A majority of respondents (62%) agreed with this proposal. The main supporting reason was that this would avoid the disadvantages to Hong Kong investors in terms of information access and trading opportunity.
47. 14% of respondents did not support the proposal. A few respondents commented that the proposed trading halt arrangement should be applied to all listed issuers; otherwise, it would deprive Hong Kong investors, in particular small retail investors, the chance to digest the news.

48. 24% of respondents neither agreed nor disagreed the proposal. Four respondents¹⁶ had no firm views but commented that if all listed issuers are allowed to have the option of announcing II without a trading halt, there would be a level of playing field between single and dually listed issuers. Other comments received on *Consultation Questions 1 and 2* also touched on this consultation question; we will not repeat them.

Our response

49. If the trading halt were to be imposed, investors in Hong Kong would be denied the opportunity to trade in the securities of an issuer whilst trading in those securities was taking place in London. Therefore, no trading halt should be put in place in the circumstances as described in our proposal.

Conclusion

50. We will adopt our proposal.

Timing for lifting of trading halts

(i) Minimum duration between publication of announcement and resumption of trading

51. We consulted on our proposal that share trading will resume at least 30 minutes after the II announcement is published by the issuer on the HKExnews website. (*Consultation Question 7*)

Comments received

52. A majority of respondents (59%) agreed with the proposal.
53. 24% disagreed with the proposal but with the following suggestions:
- (a) two respondents¹⁷ suggested that the minimum duration should be 45 minutes whilst seven respondents¹⁸ suggested 60 minutes ;
 - (b) one respondent¹⁹ suggested that the minimum duration should be two hours whilst a few respondents²⁰ suggested that it should be as short as possible;

¹⁶ This comment was raised by 4 issuers belonged to the same group.

¹⁷ This comment was raised by a broker association and an individual investor.

¹⁸ This comment was raised by an issuer, Exchange Participants, broker associations and an industry association.

¹⁹ This comment was raised by a broker association.

²⁰ This comment was raised by an issuer and an industry association.

- (c) one respondent²¹ indicated that the minimum period for a trading halt should depend on the complexity of the II announcement whilst one respondent²² suggested to allow the listed issuer to request a longer trading halt for a complicated announcement; and
- (d) one respondent²³ suggested that all trading halts and II announcements should only be allowed at any time during the morning trading session. There will be a 60 minutes lunch break which allows the market to digest the II. If trading halts are not lifted when the afternoon session starts, they should continue for the rest of the trading day and be lifted on the next trading day.

Our response

- 54. As explained in paragraph 60 of the Consultation Paper, some Exchange Participants consulted during the soft consultation felt that different lengths of trading halts may cause market confusion while a fixed length of trading halts for all II announcements would provide certainty.
- 55. The proposal is consistent with the current information dissemination practice which provides at least 30 minutes (from the close of the publication windows to the commencement of next trading session) to allow investors to digest the information and make informed investment decisions.

Conclusion

- 56. We will proceed with the proposal.

(ii) *Trading resumes at regular intervals*

- 57. We consulted on our proposal whether trading halts should be lifted at regular intervals on the quarter hour or the half hour. (*Consultation Question 8*)

Comments received

- 58. A majority of respondents (79%) supported that trading halts should be lifted at regular intervals. 45% of respondents supported trading halts be lifted on the quarter hour whilst 34% supported trading halts be lifted on the half hour.
- 59. 5% of respondents disagreed with the proposal with the following suggestions:
 - (a) one respondent²⁴ suggested the regular interval should be kept as short as possible;
 - (b) one respondent²⁵ suggested that the trading halt should be lifted at the commencement of the next trading session; and

²¹ This comment was raised by a professional body.

²² This comment was raised by an issuer.

²³ This comment was raised by an Exchange Participant.

²⁴ This comment was raised by an issuer.

²⁵ This comment was raised by an Exchange Participant.

- (c) one respondent²⁶ suggested that all trading halts and II announcements should only be allowed in the morning session and lifted when the afternoon session starts, so that the market will not be frequently disturbed by trading halts throughout the trading day.

Our response

- 60. As explained in paragraph 61 of the Consultation Paper, for better market awareness and ease of administration, trading resumptions will only take place at regular intervals. Investors would have an expectation and would be able to check at intervals for possible resumptions.

Conclusion

- 61. We will adopt the proposal to lift the trading halts on the quarter hour. As such, trading of securities will resume between 30 minutes and 44 minutes after the publication of II announcement.

(iii) Latest time for lifting of trading halts

- 62. We consulted on the proposal that there should be at least 30 minutes of trading (including 10 minutes auction session and 20 minutes continuous trading) after lifting of trading halts. (*Consultation Question 9*)

Comments received

- 63. A majority of respondents (59%) supported that there should be at least 30 minutes of trading after lifting of trading halts. This will provide sufficient time for investors to trade after digesting the contents of II announcement and avoid market volatility.
- 64. 14% of respondents disagreed with the proposal with the following views:
 - (a) three respondents²⁷ considered that trading halts should be lifted even with 15 minutes left (i.e. 3:45 pm) in order to provide every opportunity for investors to trade within the same day;
 - (b) one respondent²⁸ suggested a minimum of 60 minutes of trading after lifting of trading halts; and
 - (c) one respondent²⁹ was of the view that the listed issuer should decide whether to continue to trade if the halt is lifted at a time close to the end of a trading session.

²⁶ This comment was raised by an Exchange Participant.

²⁷ This comment was raised by an issuer, an Exchange Participant and an industry association.

²⁸ This comment was raised by a broker association.

²⁹ This comment was raised by an issuer.

Our response

65. Taking into account comments received, we believe that there should be at least 30 minutes of trading after lifting of trading halts for investors to trade.

Conclusion

66. We will adopt the proposal.

Notification of trading halt and resumption information

67. We consulted on the proposal to provide information on those securities that are placed into a trading halt in a separate information page through different Exchange system channels including the HKExnews website. (*Consultation Question 10*)

Comments received

68. Most respondents (85%) supported our proposal to provide information on those securities that are placed into a trading halt in a separate information page.
69. A few respondents suggested that the trading halt information should also be disseminated to Exchange Participants via market data feed. In addition, a news alert function should be considered for a separate information page posted on HKExnews website such that investors will not miss any update on trading halt information.

Our response

70. We welcome the broad support for our proposal to provide information on those securities that are placed into a trading halt on a separate information page. We will also consider additional dissemination channels as suggested by respondents to enhance information accessibility by Exchange Participants and investors.
71. We will inform market participants on the technical design and arrangements on the dissemination of trading halt information in due course. We will ensure that sufficient lead time will be provided to the market.

Conclusion

72. We will proceed with the proposal and consider the additional dissemination channels as suggested by respondents.

Trading arrangements

Handling of outstanding orders entered before trading halts

73. We consulted on the proposal that all existing orders for the securities (including associated derivative warrants and callable bull and bear contracts) entered before a trading halt or a suspension are to be cancelled automatically by the Exchange at the time of the halt. (*Consultation Question 11*)
74. For stock options and stock futures, we propose the current practice of purging all outstanding orders at the time of suspension shall remain unchanged. (*Consultation Question 12*)
75. As these two consultation questions and most of the comments received on them are related, we will discuss and address them together.

Comments received

76. For *Consultation Question 11*, a majority of respondents (69%) agreed with the proposal whilst 7% of respondents disagreed. 24% of respondents neither disagreed nor agreed with the proposal.
77. For *Consultation Question 12*, a majority of respondents (69%) agreed with the proposal whilst 3% of respondents disagreed. 28% of the respondents neither disagreed nor agreed with the proposal.
78. The majority of respondents who neither disagreed nor agreed with the consultation proposals were listed issuers and they did not have any comment or view.
79. Respondents supporting *Consultation Question 11* considered that leaving existing orders in the trading system would be unfair to investors as the order price may not reflect the newly disseminated information.
80. Respondents supporting *Consultation Question 12* commented that the proposal is consistent with the treatment of all existing orders of the underlying securities and it is fair to place all investors on an equal footing to react to newly disseminated II. As movement of stock options and futures is highly co-related with the underlying prices, these orders should be purged for the same reason as mentioned above.
81. Respondents supporting both proposals all agreed that cancellation of orders would help to maintain a fair and orderly market and to avoid any market disorder.
82. Respondents not supporting these proposals were of the view that investors should be allowed to cancel, withdraw or revise orders during the trading halt. In addition, this would cause disruption to investors who need to re-enter the orders when the trading halt is lifted and will lose their original order priorities.

Our response

83. As explained in paragraphs 65 to 68 of the Consultation Paper, most Exchange Participants consulted during the soft consultation also preferred the Exchange to purge all outstanding orders to put investors on an equal footing. We believe that purging all outstanding orders entered before a trading halt or a suspension would serve as a precautionary measure and it is a simple mechanism to communicate to the investing public to minimize possible market disputes.

Conclusion

84. We will therefore adopt the proposals.

Implementation of mid-session auction

(i) Upon lifting trading halts

85. We consulted on the proposal to implement a single price auction session lasting for 10 minutes upon lifting of a trading halt following the release of II announcements during trading hours in the securities market. (*Consultation Question 13*)

Comments received

86. 45% of respondents agreed with the proposal whilst 15% disagreed. 40% of respondents neither disagreed nor agreed and the majority of them were from listed issuers (15 out of 23) and they did not have any comment or view on the proposal.
87. Among responses received from Exchange Participants and broker associations, 12 respondents supported our proposal to implement the single price auction whilst 7 respondents disagreed.
88. In general, respondents supporting the proposal considered that the proposal is a better way for price discovery upon lifting trading halts.
89. Respondents not supporting our proposal had the following comments:
- (a) four respondents³⁰ stated that the implementation of single price auction would have significant impact on market operations and create substantive changes to brokers' systems and operations. Two of them were also of the view that the proposed 10-minute auction period is too short and we should consider adopting a 20-minute period which aligns with the existing duration in the pre-opening session;
 - (b) two respondents³¹ were concerned that the Exchange's auction mechanism is easy to manipulate; and

³⁰ This comment was raised by Exchange Participants and an industry association.

³¹ This comment was raised by broker associations.

- (c) three respondents³² were expressed that there was no need to have a mid-session auction. It would be much simpler to resume continuous trading upon lifting of the trading halt.
90. One respondent³³ which neither disagreed nor agreed with our proposal commented that the implementation of single price auction should depend on the liquidity of the securities. Whilst the respondent agreed with the benefit of having a single price auction for price discovery, it was of the view that the price of illiquid securities may easily be manipulated under the single price auction mechanism.
91. One respondent³⁴ suggested that there should be no market order (i.e. at-auction order without specified price) for the single price auction session and the auction matching should be randomly conducted.

Our response

92. In respect to comments and concerns in paragraphs 89 to 91 above:
- (a) The proposed mid-session auction is in line with overseas market practices where trading usually resumes with a single price auction to determine a fair opening price;
 - (b) the single price auction mechanism upon lifting of a trading halt is adopted because (i) it has been implemented successfully in the pre-opening session and operated smoothly to prevent significant price fluctuation and possible manipulation at the commencement of the morning session since 2002; (ii) market participants including brokers and investors have long been geared to the trading arrangements and operations of the single price auction in the pre-opening session; and (iii) a standardized practice with single price auction for price discovery is easy to be adopted and digested by market participants, thus reducing market confusion;
 - (c) as mentioned in paragraph 36 of the Consultation Paper, there were 483 issuer suspensions in 2011 (i.e. on average two issuers were suspended daily). We believe that the proposed 10-minute duration for the halted securities is sufficient versus a 30-minute duration for the whole securities market in the existing pre-opening session;
 - (d) as pointed out in paragraphs 85 and 87 of the Consultation Paper, the implementation of a mid-session auction would incur significant system changes to market participants and the Exchange. To achieve better synergy, we will coordinate the system changes arising from the implementation of trading halts together with the upcoming Exchange's major system initiatives to minimize the testing efforts required by market participants where practicable; and
 - (e) we understand the concerns that have been expressed. Accordingly, sufficient lead time will be provided to the market to ensure smooth implementation.

³² This comment was raised by a broker association, an Exchange Participant and an individual investor.

³³ This comment was raised by a broker association.

³⁴ This comment was raised by an Exchange Participant.

Conclusion

93. We will therefore adopt the proposal.

(ii) Upon lifting a trading halt at the commencement of afternoon trading session

94. We consulted on the proposal to implement a single price auction session to trading resumption at the commencement of the afternoon trading session upon lifting of a trading halt, following the release of II announcements during the lunch publication window. (*Consultation Question 14*)

Comments received

95. 43% of respondents agreed with the proposal whilst 17% disagreed. 40% of respondents neither disagreed nor agreed and the majority of them were from listed issuers (15 out of 23) who did not have any comment or view on the proposal.

96. Comments received on this consultation question also related to *Consultation Question 13*. We will not repeat them.

Our response

97. Our responses are set out in paragraph 92 above.

Conclusion

98. We will adopt the proposal.

(iii) No trading halt request

99. We consulted on the proposal to apply a single price auction session at the commencement of the afternoon trading session after the release of a II announcement during the lunch publication window. In this case, there is no halt in trading the securities before the lunch break. (*Consultation Question 15*)

Comments received

100. 34% of respondents agreed with the proposal whilst 28% disagreed. 38% of respondents neither disagreed nor agreed and the majority of them were from listed issuers (15 out of 22) who did not express any comment or view on the proposal.

101. Whilst we received overall support from respondents on the proposal, views obtained from Exchange Participants and broker associations were diverse. Among them, 8 respondents supported our proposal to implement the single price auction while 11 respondents did not support it.

102. Respondents supporting our proposal considered a single price auction can facilitate price discovery following the release of II announcements. Therefore, irrespective of any occurrence of a trading halt or a suspension, it should apply at the commencement of the afternoon trading session.

103. Respondents not supporting our proposal expressed that there is no need for a single price auction since there is no halt in trading the securities. They were of the view that the current practice to resume continuous trading at the commencement of the afternoon trading session is adequate and acceptable. Any changes to the existing trading arrangements should be avoided under this circumstance.

Our response

104. Having considered arguments put forward in the consultation, we continue believe that applying a single price auction would facilitate price discovery following the release of II. By adopting a consistent practice (irrespective of any occurrence of a trading halt or a suspension), this would also minimize market confusion when trading resumes at the commencement of the afternoon trading session after the release of II in the lunch publication window.

Conclusion

105. We will therefore proceed with the proposal to apply a single price auction session at the commencement of afternoon trading session following the release of a II announcement by an issuer during the lunch publication window. All outstanding orders entered before the lunch break in relation to that issuer's II will be purged.
106. As supported by respondents in *Consultation Question 11*, cancellation of outstanding orders would help to maintain a fair and orderly market and to avoid any market disorder. Therefore, by adopting a consistent arrangement under this consultation proposal, all outstanding orders will be cancelled automatically by the Exchange following the release of II in the lunch publication window.

(iv) Single price auction not apply to stock options and stock futures

107. We consulted on the proposal that a single price auction will only apply to securities traded in the securities market (e.g. underlying stock, associated derivative warrants, callable bull and bear contracts, etc.) but not to the Exchange's stock options / futures market. (*Consultation Question 16*)

Comments received

108. 43% of respondents agreed with the proposal whilst 14% disagreed. 43% of respondents neither disagreed nor agreed and the majority of them were from listed issuers (16 out of 25) who did not express any comment or view on the proposal.
109. A few respondents disagreed with the proposal with the following views:
- (a) three respondents stated that the implementation of a single price auction would have a significant impact on market operations and create substantive changes to brokers' systems and operations. (the same comments were raised in *Consultation Question 13*); and
 - (b) three respondents commented that we should not adopt a single price auction.

Our response

110. The proposal is consistent with the existing practice adopted in both Hong Kong and some overseas exchanges.

Conclusion

111. We will therefore adopt the proposal.

(v) *Duration of mid-session auction*

112. We consulted on the proposed duration of the mid-session auction to be 10 minutes, comprising an order input period of 7 minutes and pre-order matching period, order matching period and blocking period of 1 minute each. (*Consultation Question 17*)

Comments received

113. 36% of respondents agreed with the proposal whilst 17% disagreed. 47% of respondents neither disagreed nor agreed and the majority of them were from listed issuers (15 out of 27) who did not express any comment or view on this proposal.
114. Two respondents³⁵ suggested the duration of the mid-session auction to be 20 minutes which aligns with the existing duration in the pre-opening session. One respondent³⁶ considered 5 minutes would be sufficient.

Our response

115. Since comments received were also related to *Consultation Question 13*, we have set out our responses in paragraph 92 above.

Conclusion

116. We will proceed with the proposal.

Implementation Schedule

117. We consulted the market on the lead time required after the relevant system specifications are available to prepare for the implementation of trading halt. (*Consultation Question 18*)

Comments received

118. A majority of respondents (55%) supported the lead time up to 6 months – 33% opted for 6 months whilst 22% opted for 3 months.

³⁵ This comment was raised by an Exchange Participant and an industry association.

³⁶ This comment was raised by a broker association.

119. However, a few respondents from Exchange Participants and an industry association stated that a longer lead time would be required in view of the complexity of systems and operational changes involved in the single price auction:
- (a) Three respondents³⁷ indicated at least 6 months;
 - (b) Three respondents³⁸ requested at least 12 months; and
 - (c) One respondent³⁹ indicated at least 18 months.

Our response

120. Since comments received were also related to *Consultation Question 13*, we have set out our responses in paragraph 92 above.

Conclusion

121. We would stress again that sufficient lead time will be provided to the market to ensure smooth implementation.

Other Comments

122. We also received useful comments on the following:

A+H shares

Comments received

123. One respondent point out a potential anomaly involving A+H shares. Currently, the mainland stock exchanges do not yet have the policy of trading halts. While A-share companies can request or be required to suspend trading of their shares during a trading session, resumption can only take place when the next trading session begins, and companies are still required to publish an announcement in relation to the suspension in one of the four designated newspapers. Therefore, technically resumption would always only take place on the following trading day. As a consequence, if Hong Kong implements trading halts that allow resumption at mid-trading session, while the H shares can resume trading following the publication of an announcement, the A shares would not. This creates a trading gap that causes inequality. A likely scenario would be that A+H shares companies will choose to release the announcement in both markets at the same time, which is most likely after the market close, and request simultaneous resumption on the following trading day. This would defeat the purpose of the trading halts currently proposed as far as A+H shares companies are concerned.

³⁷ This comment was raised by Exchange Participants.

³⁸ This comment was raised by Exchange Participants and an industry association.

³⁹ This comment was raised by an Exchange Participant.

Our response

124. As mentioned in paragraph 94 of the Consultation Paper, at present, material announcements are still required to be published in designated newspapers or posted on designated website outside trading hours in the Mainland market. The proposed trading halt regime may not allow the alignment of our information dissemination model with that of the Mainland.
125. We noted that Shanghai Stock Exchange (SSE) recently published a guideline for the website dissemination of information and reduction of pre-vetting announcements. SSE also indicated that it will explore allowing listed companies to publish announcements in the morning, afternoon and evening sessions over the long term, with the ultimate goal of working out a real-time disclosure regime. Our trading halt policy will bring us in closer alignment with the SSE's goal.
126. We will continue to communicate and coordinate with the Mainland stock exchanges on developments of respective information disclosure mechanisms. We will continue to work with the Mainland stock exchanges to coordinate A+H shares information disclosure and trading suspension and resumption arrangements in all markets to the extent practicable.

Investor education

Comments received

127. A few respondents commented that the implementation of trading halts would involve significant changes to the trading arrangements and operational practices in the secondary market, particularly in the areas of trading suspension and resumption. Since there is a relatively large retail investor base in Hong Kong, it is important that the proposed changes must be backed by investor education before implementation.

Our response

128. As set out in paragraph 101 of the Consultation Paper, the Exchange will coordinate with relevant market participants to educate investors about the changes arising from the above proposals before introduction of trading halts. These include notification of trading halt and resumption, outstanding orders handling, mid-session auction arrangement and other operational procedures such as trading arrangements during typhoons and black rainstorms.

CHAPTER 3: CONCLUSIONS AND IMPLEMENTATION PLAN

129. A majority of respondents supported the proposals for implementing a trading halt that would allow a listed issuer's II announcements to be released during the Exchange's trading hours subject to a short trading halt.
130. Based on comments received, there are no major changes to the proposals as set out in the Consultation Paper, a summary of which is set out below:
- (a) To allow a listed issuer's II announcements to be released on the HKExnews website during the Exchange's trading hours and subject to a short trading halt, to allow digestion of the contents of announcements by the public.
 - (b) The proposed duration of 30 minutes trading halt applies to all II announcements released during trading hours. Share trading will resume at least 30 minutes after the II announcement is published on the HKExnews website. Any trading resumption will take place on the quarter hour.
 - (c) To provide at least 30 minutes of trading (including 10 minutes auction session and 20 minutes of continuous trading) after lifting of trading halts. The latest time for trading resumption before end of the trading day would be 3:30pm for a normal trading day or 11:30am for a half-day trading.
 - (d) All existing orders of the securities in the securities market entered before a trading halt or a suspension are to be cancelled automatically by the Exchange at the time of halt.
 - (e) To facilitate price discovery, a single price auction will take place in the securities market for the relevant stocks and structured products upon lifting of a trading halt. The auction session will last for 10 minutes.
 - (f) Results announcements will be published during the current publication windows as far as possible. The Exchange may grant a trading halt for the publication of results announcement if it is justified by the issuer.
 - (g) The current practices of releasing non-II announcements outside trading hours will remain unchanged.
 - (h) The maximum period for which a trading halt may be granted by the Exchange is two trading days. If the issuer fails to publish the II announcements within the proposed maximum period, the trading halt will lapse and its status will be changed to "suspension" automatically.
 - (i) The current Exchange's stock options / futures order handling practices will remain unchanged (i.e. at present all outstanding orders are purged automatically by the system at the time of suspension).
131. For illustration, please refer to Appendix II for a high level flow of trading halt and resumption under the proposed model.

132. For the notification of trading halt and resumption information, we will consider additional dissemination channels as suggested by some respondents to enhance the information accessibility by Exchange Participants and investors. This includes the dissemination channel via market data feed in addition to a separate information page posted on HKExnews website.
133. For Exchange Participants using Exchange provided AMS terminals and/or MWS (Multiple Workstation Systems) for trading, the Exchange will be responsible for the system changes to these trading devices arising from trading halts. At present, about one-third of Exchange Participants solely use Exchange provided AMS terminals and/or MWS for trading. The other two-third of Exchange Participants use in-house and/or system vendors provided trading systems. The Exchange will provide technical assistance to Exchange Participants and system vendors to prepare for the related system changes.
134. As pointed out in the Consultation Paper, we are aware of that the implementation of trading halt proposals, particularly the mid-session auction proposal would involve significant changes to Exchange Participants' systems and operations. In view of the concerns raised by some respondents on the change efforts required, we consider that implementation of the trading halt proposals should coincide with the rollout of other upcoming major market infrastructure initiatives. This is to minimize the development and testing efforts to the market systems.
135. We shall provide sufficient lead time to the market for preparation. As a result, implementation of the trading halt proposals will not be earlier than mid-2014. A possibility under consideration is to introduce trading halts as part of the Exchange's new Orion Trading Platform infrastructure. The implementation date and schedule will be announced in due course.

APPENDIX I: LIST OF RESPONDENTS

Listed Issuers

1. AIA Group Limited
2. Cathay Pacific Airways Limited
3. Cheung Kong (Holdings) Limited
4. CLP Holdings Limited
5. Glencore International plc
6. Henderson Land Development Company Limited
7. Hong Kong Aircraft Engineering Company Limited
8. Hopewell Holdings Limited
9. HSBC Holdings plc
10. Kazakhmys plc
11. MTR Corporation Limited
12. Sa Sa International Holdings Limited
13. Standard Chartered PLC
14. Swire Pacific Limited
15. Swire Properties Limited
16. The Link Management Limited (as manager of the Link REIT)
- 17-22. Six Main Board Issuers (names not disclosed at the respondents' request)

Exchange Participants

1. BOCI Securities Limited
2. Hang Seng Securities Ltd
3. I-Access Investors Limited
4. Macquarie Capital Securities Limited
- 5-15. Eleven Exchange Participants (names not disclosed at the respondents' request)

Broker Associations

1. Chinese Securities Association of Hong Kong
2. Hong Kong Securities & Futures Professionals Association
3. Hong Kong Securities Association Limited
4. Hong Kong Securities Professionals Association
5. The Hong Kong Association of Online Brokers Limited
6. The Hong Kong Institute of Financial Analysts and Professional Commentators Ltd.
7. The Institute of Securities Dealers Limited

Professional Bodies and Industry Associations

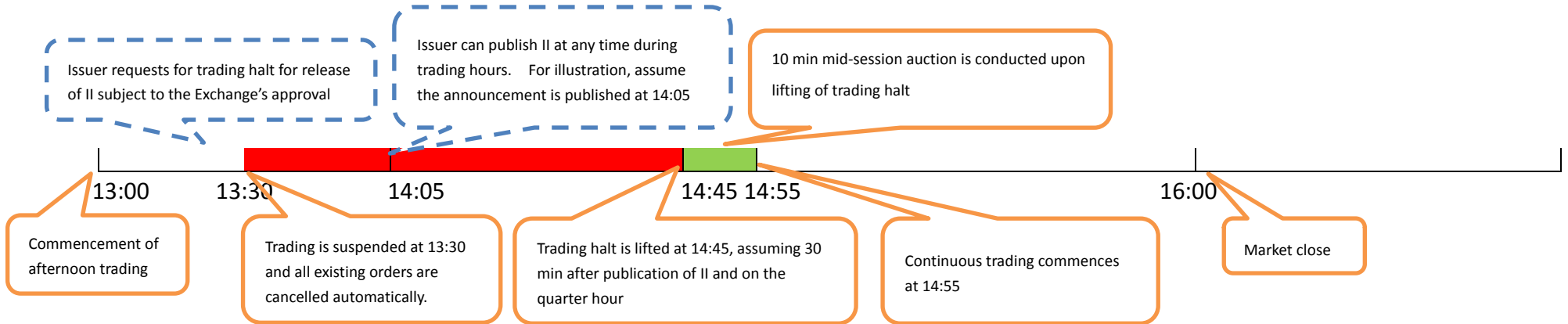
1. Hong Kong Institute of Certified Public Accountants
2. Slaughter and May
3. The Chamber of Hong Kong Listed Companies
4. The Hong Kong Association of Banks
5. The Hong Kong Institute of Chartered Secretaries
6. The Hong Kong Institute of Directors
7. The Hong Kong Society of Financial Analysts
8. The Law Society of Hong Kong

Individuals and Other Entities

1. Suen Chi Wai
2. 善水政經研究協會
- 3-6. Four individuals (names not disclosed at the respondents' request)

APPENDIX II: HIGH LEVEL TRADING HALT / RESUMPTION FLOW UNDER THE PROPOSED MODEL

Proposed flow – Trading Halt / Resumption



Existing flow - Suspension / Resumption

