

The Hong Kong Chartered Governance Institute

Online Submission

The Stock Exchange of Hong Kong Limited (Exchange)

Consultation Paper on Proposal on Severe Weather Trading of Hong Kong Securities and Derivatives Markets

The Hong Kong Chartered Governance Institute 香港公司治理公會

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[Unless the context requires otherwise, the terms and expressions used in this submission shall have the meanings set out under the Consultation Paper.]

About HKCGI

The Hong Kong Chartered Governance Institute (HKCGI), formerly known as The Hong Kong Institute of Chartered Secretaries, is the only qualifying institution in Hong Kong and the Mainland of China for the internationally recognised Chartered Secretary and Chartered Governance Professional qualifications.

With over 70 years of history and as the Hong Kong/China Division of The Chartered Governance Institute (CGI), the Institute's reach and professional recognition extend to all of CGI's nine divisions, with about 40,000 members and students worldwide. The Institute is one of the fastest growing divisions of CGI, with a current membership of over 7,000, 300 graduates and 2,600 students with significant representations within listed companies and other cross industry governance functions.

Believing that better governance leads to a better future, HKCGI's mission is to promote good governance in an increasingly complex world and to advance leadership in the effective governance and efficient administration of commerce, industry and public affairs. As recognised thought leaders in our field, the Institute educates and advocates for the highest standards in governance and promotes an expansive approach which takes account of the interests of all stakeholders.

General Support

Q1: Do you have any comments or concerns on the proposed arrangements for the Hong Kong securities market?
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Our Institute supports maintaining normal operations of the Hong Kong securities market during SW conditions. We understand the risks associated with investors being forced to carry open positions and unsettled risks because of an SW trading suspension. This undoubtedly affects Hong Kong's market reputation, especially when Mainland and international markets stay open for SWT. We also recognise the size of Mainland risk exposures and the Northbound Stock Connect affected by SW trading suspension.

The prioritisation of personnel and investor safety adopted by the SWT Task Force is the correct approach, as personal safety is paramount. Also, the other balancing considerations of

maximising investor benefit, maintaining normal business operations, and fulfilling risk obligations for open and unsettled stock positions to comply and align with local and international regulatory requirements are appropriate.

We have member views from SME brokerages that they might still need some personnel at their workplace to support back-office operations due to their digitalisation pathway. Their difficulty is that current labour guidelines provide that everyone should remain in a safe location during SW conditions and compulsive insurance coverage is unavailable. In this context, the SWT Task Force might, depending on their submissions, consider a longer transition period to achieve full digitalisation of back-office operations. We agree that alternative models to accommodate SME brokerages would not be feasible as set out under paragraph 97 of the Consultation Paper.

Overall, we agree that for Hong Kong's competitiveness and best-in-class trading and risk management as a leading IFC, there is a pressing need to allow for SW Trading. Our Institute has called for and supported modernising local financial market infrastructure and upgrading to a paperless and digitalised securities market regime to align with global market practices, which will accommodate SW Trading. Our position over the years has been consistent in this regard.

Q2: Do you have any comments or concerns on the proposed arrangements for Northbound Trading under Stock Connect?

From the applied governance perspective, we agree with the proposed arrangements. As set out in paragraph 52 of the Consultation Paper, the key is that the CCCPs should have proper risk management and robust funding arrangements. The SWT Task Force, from the perspective of applied governance, should consider providing guidance to brokerages as to the appropriate standards and arrangements to adopt on these topics.

Q3: Do you have any comments or concerns on the proposed arrangements for Hong Kong derivatives market?

We agree with the proposed arrangements under paragraphs 54 to 62 of the Consultation Paper, including the trading, clearing, risk management, market data, LOP reporting and holiday trading arrangements.

Q4: Do you have any comments or concerns on the proposed arrangements for new listings and new products?

We have no issue with the listing and first day for trading on an SWT Day and other arrangements set out under paragraphs 63 to 71 of the Consultation Paper on ETPs, Structure Products, and Futures and Options.

Q5: Do you have any comments or concerns on the proposed money transfer arrangements:

- (i) Cheque clearing
- (ii) Banking services

We agree that there should be no collections of paper cheques, and market participants should use e-cheques, CHATS, FPS, Autocredit, etc, to avoid possible money transfer issues and other arrangements relating to money transfer as set out under paragraphs 76 to 82 of the Consultation Paper.

Q6: Do you agree with the proposed arrangements for listing applicants and listed issuers as set out in paragraphs 90 – 91 above, where (a) no change should be made to the existing definition of “business day” under the Listing Rules; and (b) consequential amendments (where necessary) should be made to the Listing Rules to remove any current time extension? Please provide reasons for your view.

We accept the arrangements that are suggested in paragraphs 90 through 91. It is consistent with market practices and technical improvements to uphold the current definition of a 'business day' and eliminate time extensions while implementing SWT under the Listing Rules.

Q7: Do you agree with the proposed arrangements for listing applicants and listed issuers as set out in paragraphs 92 – 94 above, and that consequential amendments (where necessary) should be made to the Listing Rules to accommodate situations where there are practical difficulties in complying with a Listing Rule obligation on a SWT Day? Please provide reasons for your view.

We accept the arrangements that are suggested in paragraphs 92 through 94. Proactively ensuring market stability on a Severe Weather Trading Day means anticipating practical challenges and making necessary adjustments to account for them.

Q8: Do you envisage there being any material practical difficulty in complying with any particular Listing Rule requirements (e.g. those identified in paragraph 93) if a SWT Day is counted as a “business day”? If so, please explain the practical difficulty with reference to the relevant Listing Rules.

Although we expect few practical issues, certain circumstances mentioned in paragraph 93, like physical services or attendance requirements, might need to be clarified as articulated under the Consultation Paper. Please gauge market consensus if there are any other issues.

Q9: Do you agree that consequential amendments to the Listing Rules should be made to reflect any arrangements proposed under this chapter and the relevant trading and clearing arrangements proposed under Chapter 2?

We agree that consequential amendments should address the regulatory framework during Severe Weather Trading under Chapter 2.

Q10: Under the proposed model, do you foresee any insurmountable difficulties for implementing SWT? If yes, please specify.

We have noted that SME brokerages might have difficulties. However, these should not be insurmountable obstacles. The consultation paper presents a thorough strategy, and the SWT Task Force might consider providing guidance to market participants for the accelerated pathway to digitalisation, including SME brokerages for their back-end operations, which our Institute will support.

Q11: Would there be adequate time to prepare for SWT to come effective in July 2024 under the proposed model? If not, what would be a reasonable length and why?

We have no issue. Please consider market feedback and support for the SME brokerages, as appropriate.

If there are any questions, please feel free to reach out to Ellie Pang FCG HKFCG(PE), Chief Executive, HKCGI or Mohan Datwani FCG HKFCG(PE), Deputy Chief Executive, HKCGI at 2881 6177 or research@hkcgi.org.hk.

Yours sincerely,

For and on behalf of
The Hong Kong Chartered Governance Institute



David J Simmonds FCG HKFCG
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