

Notice of Introduction of Volatility Control Mechanism to Securities Market

Hong Kong Exchanges and Clearing Limited (HKEx) will introduce a Volatility Control Mechanism (VCM) for its securities market. The VCM will be launched on **22 August 2016**. It is designed to prevent extreme price volatility arising from trading incidents such as a “Flash Crash” and algorithms errors and to address systemic risks caused by the inter-connectedness of Hong Kong’s securities and derivatives markets. The summary of VCM for securities market is as follow:

The Volatility Control Mechanism

The VCM is applicable during Continuous Trading Session (CTS) except the first 15 minutes of the morning and afternoon CTS and the last 20 minutes of the afternoon CTS. It is only applicable to Hang Seng Index (HSI) and Hang Seng China Enterprise Index (HSCEI) constituent stocks (81 stocks in July 2016 and the finalized list of the VCM securities will be published on the HKEx website before 22 August 2016). If the market tries to trade these stocks at a price of more than $\pm 10\%$ away from its last traded price 5 minutes ago, a 5-minute cooling-off period will be triggered. During the cooling-off period, the affected stock may only be traded within a fixed band^(Note). Normal continuous trading will resume after the 5-minute cooling off period and the stock will not be subject to the VCM again in the same trading session.

| | Mechanism model |
|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Type of VCM | <ul style="list-style-type: none"> ● Dynamic price limit model applied at the individual instrument level to capture rapid price changes. |
| Applicable securities | <ul style="list-style-type: none"> ● HSI & HSCEI constituent stocks (81 stocks in July 2016). |
| Applicable trading session | <ul style="list-style-type: none"> ● Only applied in continuous trading session (CTS) but not auction sessions. ● Exclude first 15 minutes of morning and afternoon CTS to allow free price discovery at beginning of CTS. ● Exclude last 20 minutes of the afternoon CTS of the day (and of the morning CTS on Christmas Eve, New Year and Lunar New Year) to allow free price discovery during last 15 minutes of that period. |
| Reference price and trigger level | <ul style="list-style-type: none"> ● Reference price: last traded price 5 minutes ago. ● Triggering level: $\pm 10\%$ |
| No. of triggers | <ul style="list-style-type: none"> ● Max 1 trigger per CTS. ● No VCM monitoring after 1 trigger in each CTS. |
| Cooling-off period and resumption procedures | <ul style="list-style-type: none"> ● Trading within fixed price band ($\pm 10\%$ from the reference price) during 5 min cooling-off period.^(Note) ● Resume with no VCM monitoring within the same CTS. |
| Market data dissemination | <ul style="list-style-type: none"> ● Dissemination of additional market data when VCM triggered which includes cooling-off period start time / end time, reference price and upper limit / lower limit. |
| Inter-market / product connectivity | <ul style="list-style-type: none"> ● Trading of related instrument unaffected when VCM triggered for their underlying. |

Note: During the cooling-off period, any (i) buy order higher than the upper price limit and (ii) sell order lower than the lower price limit will be rejected automatically, but the other orders (i.e., buy order \leq upper price limit and sell order \geq lower price limit) will still be accepted.

For full details of Volatility Control Mechanism (VCM), please refer to the microsites of VCM which is available at HKEx website: www.hkex.com.hk/vcm

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