

CB(1)447/12-13(30)

18 January 2013

Clerk to Panel on Financial Affairs
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Sir/Madam,

Re: After-hours Futures Trading (AHFT) proposed by Hong Kong Exchanges and Clearing Limited

Phenix Professional Ltd is a consultancy specializing in the financial services industry and financial regulation. The Managing Director and principal consultant has over 25 years experience in financial regulation in Hong Kong, Australia and Malaysia.

We note that the Legislative Council Panel on Financial Affairs has a meeting on 28 January 2013 to discuss proposals for AHFT by HKEx. We would like to submit our views for the consideration of the Legislative Council Panel.

We support HKEx's proposal to introduce AHFT because, in our view, it will improve risk management, increase the attractiveness of the Hong Kong financial markets to investors and brokers, be a significant response to competition from other financial markets and ensure Hong Kong's position as a key global financial centre.

AHFT allows investors to manage their risk exposures promptly and when some of the most harmful and unknown risks can occur i.e. after hours, when, without AHFT, investors are exposed to overnight market risks.

Given that Hong Kong lies roughly half way between the two main trading centres; Europe / London and the USA/East Coast, there is a particular risk exposure for Hong Kong investors when HKEx is closed but these two other centres are open. At the same time, AHFT also assists brokers to manage their client's risks which arise at close of trading. In this respect, AHFT should reduce the trading logjam at the opening of the market on the following morning when brokers rush to limit the effect of market risks revealed overnight.

We note from the media that some elements of the financial services industry in Hong Kong have concerns about the possible effects of AHFT on financial stability. From our experience in regulation in overseas markets, financial stability has not been affected. Indeed, as noted above, AHFT allows investors and brokers to manage their risk more promptly and effectively.

/.....2

18 January 2013

We are sure the Legislative Council Panel will be aware that major foreign competing markets, including SGX, ASX, CME and OSE, have been providing AHFT for many years. Our experience in Australia is that AHFT has significantly assisted risk management and market operations without any noticeable problems.

On a technical level, we think HKEx's proposed price limit (+/-5%) for its AHFT facility is about right and certainly adequate as a risk management control for potentially harmful price fluctuations. It seems to us that the limits are already verging towards the conservative edge and any tighter range limits could affect futures hedging operations.

In our view, AHFT should be implemented in Hong Kong as quickly as feasible.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Paul Phenix". The signature is written in a cursive, flowing style.

Paul Phenix
Managing Director
Principal Consultant