

Information Paper on Extension of Trading Hours in the Securities Market

Background

The Hong Kong market is closely connected to the Mainland's. Around 60% of our market capitalization and 70% of our market turnover come from Mainland-related securities, while growing numbers of our Exchange Traded Funds (ETFs) and structured products have Mainland-related securities as underlying assets. At the same time, as an international financial centre with an open market environment, Hong Kong has to face fierce competition from its global competitors, especially those in the regional markets.

2. In light of this, Hong Kong Exchanges and Clearing Ltd (HKEx) consulted the market back in 2010 on extension of trading hours with two objectives in mind:

- (a) overlapping our trading hours with those of the Mainland's; and
- (b) enhancing our competitiveness by narrowing the gaps between our trading hours and those of the regional exchanges.

3. Both objectives are of paramount importance to maintain Hong Kong's competitiveness and its position as an international financial centre of China.

Consultation

4. HKEx issued a consultation paper on the extension of trading hours in September 2010. During the consultation, HKEx received feedback from both corporate and individual respondents. While most corporate respondents (mainly Exchange Participants, industry associations and listed issuers) supported the initiative, some individual respondents (mainly employees of Exchange Participants) raised concerns on the shortened lunch break after the extension of trading hours.

5. In our consultation conclusions, HKEx acknowledged the inconvenience that market practitioners might face due to the shortened lunch break. On the other hand, HKEx also believed that the initiative would be necessary for the long term development of Hong Kong's financial markets.

6. For details of the relevant consultation paper and conclusions paper, please refer to <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2010093.pdf> and <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2010093cc.pdf>.

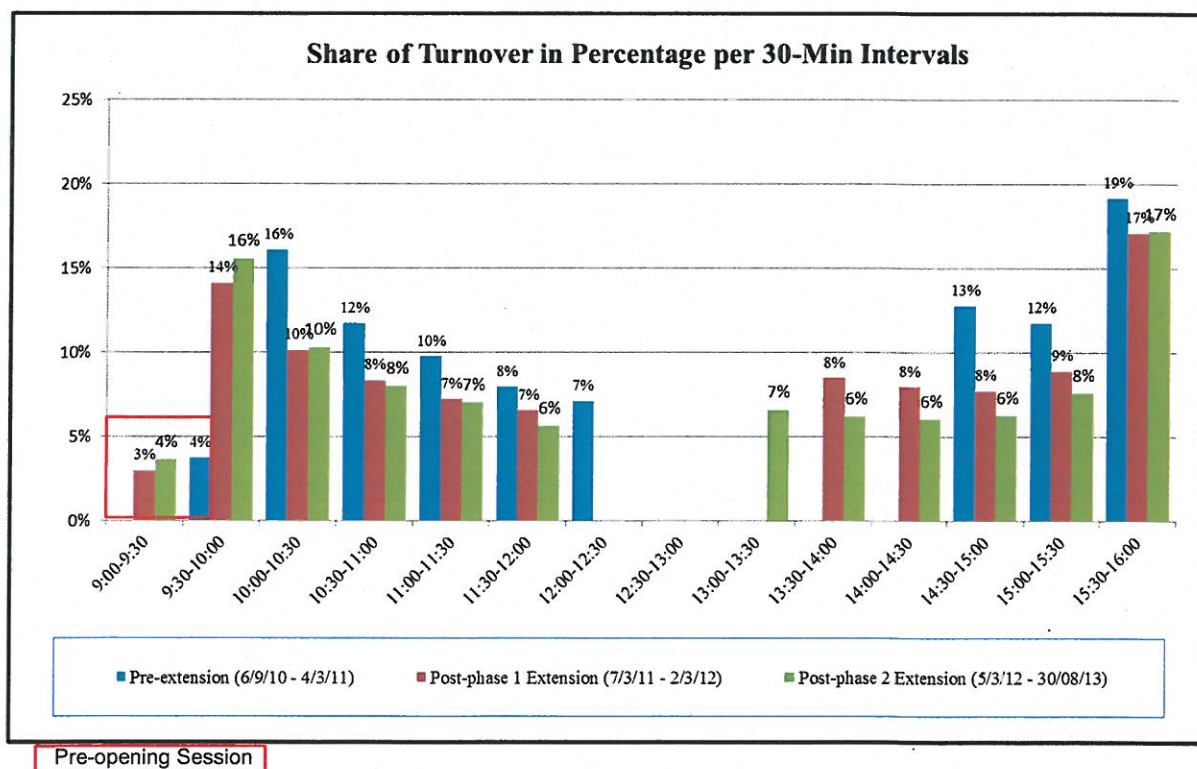
7. Recognizing the difficulties market practitioners might face, HKEx adopted a two-phased implementation approach to allow for a one-year transitional period for the market to adjust to the new trading hours:

- (a) Phase 1 (with 1.5-hour lunch break from 12:00 pm to 1:30 pm) was implemented on 7 March 2011
- (b) Phase 2 (with 1-hour lunch break from 12:00 pm to 1:00 pm) was implemented on 5 March 2012.

Impact of Extension of Trading Hours in the Securities Market

Trading Statistics on Extension of Trading Hours in the Securities Market

8. Share of turnover in percentage per 30-minute intervals is as follows -

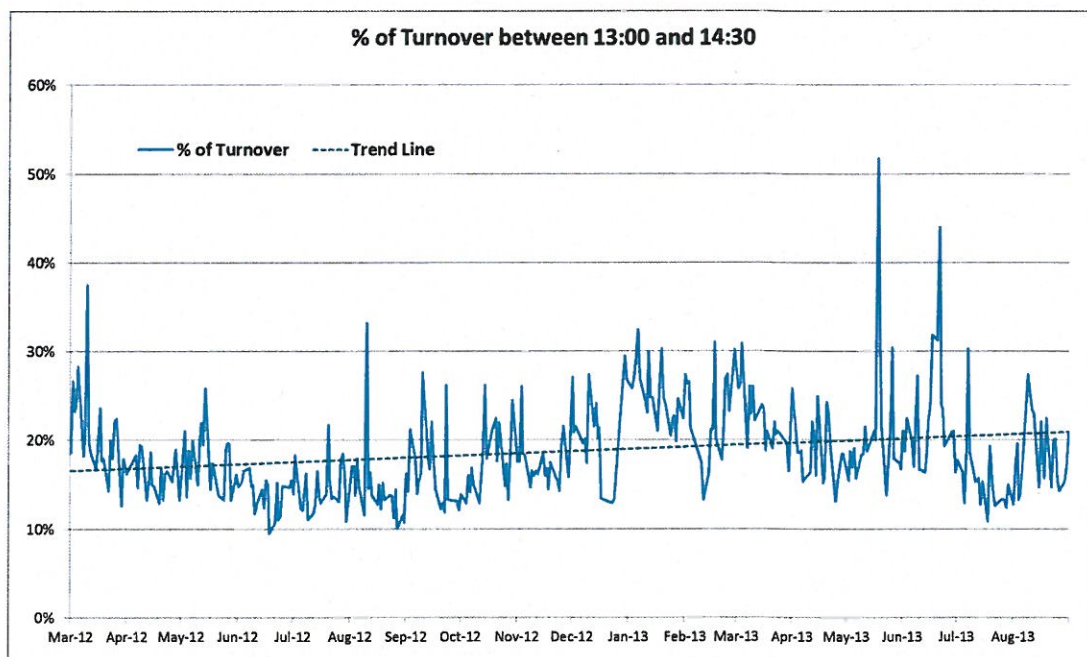


Half-hour Interval	Pre-extension (6/9/10 - 4/3/11)	Post-Phase 1 Extension (7/3/11 - 2/3/12)	Post-Phase 2 Extension (5/3/12 - 30/08/13)
9:00-9:30		3.0%*	3.6%*
9:30-10:00	3.7%*	14.1%	15.6%
10:00-10:30	16.1%	10.2%	10.3%
10:30-11:00	11.7%	8.3%	8.0%
11:00-11:30	9.7%	7.2%	7.0%
11:30-12:00	8.0%	6.6%	5.6%
12:00-12:30	7.1%		
12:30-13:00			
13:00-13:30			6.6%
13:30-14:00		8.5%	6.2%
14:00-14:30		7.9%	6.0%
14:30-15:00	12.8%	7.7%	6.3%
15:00-15:30	11.8%	8.9%	7.6%
15:30-16:00	19.2%	17.1%	17.2%
Total	100%	100%	100%

* Pre-opening Session

9. Some observations for trading in the afternoon open are as follows -

- (a) As shown by the diagram below, since the launch of phase 2 extension, there is a growing trend of daily turnover from 18% to 21% being conducted between 13:00 and 14:30. This shows that investors are well utilizing this new time period for trading.



- (b) For the three months from June to August 2013, almost all trading Exchange Participants (496 out of a total of 504 trading Exchange Participants) have participated and traded in the additional 1.5 hours from 13:00 to 14:30, indicating that this trading session is useful for them or their clients to complete orders.

Product development

10. Before the extension of trading hours, our market closed from 12:30 pm to 2:30 pm for lunch break, while the Mainland market commences afternoon trading at 1:00 pm after their lunch break. Since the extension of the trading hours, Hong Kong investors can react to the market or product-specific news in a more synchronized way with the Mainland investors and hence price discovery of the cross-border products and market co-movement have improved. We have witnessed that more cross-border products have been launched (eg Renminbi Qualified Foreign Institutional Investor (RQFII) A shares ETFs listed in Hong Kong and cross-border ETFs listed in the Mainland). Market feedback has shown that overlapping of our trading hours with the Mainland's is beneficial to cross-border product development as our investors will trade the related products in our market more.

Shortened time for issuing announcements by listed companies

11. The publication window for issuer announcements has been reduced from 1.5 hours to half an hour due to the shortened lunch break. However, there has been no adverse impact on timely delivery of issuer announcements and market transparency in this regard.

Activities conducted during lunch break

12. HKEx recognizes that the shortened lunch break would unavoidably affect activities conducted during this period. However, some business events such as IPO roadshows, industry conferences and Continuous Professional Training courses have already been shifted to after market close and some brokerage firms have also reallocated resources and made shift or roster arrangements for the lunch break. The industry has generally adjusted in accordance with the new trading hours.

13. HKEx reiterates that the objective of the extension is to overlap with the Mainland market and enhance our competitiveness. We believe it would have a positive long term impact on the development of our marketplace.