Submitted via Qualtrics
Company / Organisation view

Question 1:

It is proposed that only the Applicable Securities, i.e. equities, REITs and equity warrants, will undergo minimum spread reduction. Do you agree?

Yes

If not, please provide reasons:

N/A

Question 2:

Do you agree with the Exchange's proposal to keep the minimum spreads of price bands below $0.5 and above $50 unchanged?

No, reasons as follows

If not, please provide reasons:

Keeping spreads of stocks below $0.50 at their current values is appropriate. Currently, those stocks make up a very small amount the market's turnover, and usually garner lesser interest from the investment community. Unless changes are made for consistency's sake, maintaining the status quo for stocks below $0.50 is reasonable.

However, excluding stocks above $50.00 from any tick adjustment will forgo an opportunity to stimulate activity to a subset of the most popular stocks in the market today. Based on data presented, just under half of the market's turnover fall come from stocks above $50.00. Given the relatively high average ADT of these stocks, even a small percentage increment to turnover in a few stocks will produce a large increase in trading value. Also, the demarcation at $50.00 creates another price band, which adds to the already complex table. HKEX could consider additional development items to make SEHK trading in smaller securities more attractive, such as employing a minimum order size (in relevant securities) which may increase the economic meaning of resting orders at Best Bid/Offer.

Question 3:

Do you agree with the proposed selection of the price bands and/ or the proposed magnitude of reduction of minimum spreads for phase 1 (i.e. 50% to 60% reduction to stocks priced between $10 and $50 to achieve 4 to 10 bps for tick-to-price ratios)?

No, reasons as follows

If not, please provide reasons:

Disagree.

As much as possible, minimum spreads should move towards $0.01 for as many stocks as possible. This will help align spread sizes in Hong Kong with those in mainland China, and simplify trading for the growing southbound connect. “Tick-to-price” ratio targets should not be the singular driver of spreads.

Question 4:

Do you agree with the proposed selection of the price band and/ or the proposed magnitude of reduction of minimum spreads for phase 2 (i.e. 50% reduction to stocks priced between $0.5 and $10 to achieve 5 to 100 bps for tick-to-price ratios)?

Yes

If not, please provide reasons:

N/A

Question 5:

Continued use of a single spread table model with increasing minimum spreads along with price bands is proposed. Do you agree?

Yes

If not, please provide reasons:

N/A

Question 6:

Are you supportive of a multiple spread table model for the same type of securities?

No. Potential challenges as below:

If so, what eligibility criteria would you suggest?

N/A

If not, what challenges would you foresee in the implementation of a multiple spread table model? Please elaborate:

Disagree. The one-time implementation costs (e.g. system rewrite) across the industry locally and globally will be immense. Also, the multiple table model necessitates periodic review, which also increases costs and complexity. Benefits from this model do not outweigh the costs.

Question 7:

Do you agree to the inclusion of percentage-based requirement on top of the existing spread based requirements (i.e. either ±24 spreads or 3.5% from the reference price, whichever is greater in percentage terms) in the quotation rules, including the relevant rules applicable in different trading sessions and transactions concluded on and outside of the Exchange's trading system?

Yes

If not, please provide reasons:

N/A

Question 8:

Are you aware of any infrastructure impact which may arise from the proposed minimum spread reduction, including but not limited to a 3 decimal place system set up for Exchange Traded Options trades?

Yes, details as follows

Please elaborate and explain the potential impact, including the possible lead time required for the additional infrastructure changes, if any.

The spread reductions will lead to smaller sized resting orders at Best Bid/Offer resulting in a reduction in execution sizes. We therefore expect this would increase in the number of smaller executions, which will make trading on SEHK prohibitively expensive due to the $2 minimum settlement fee. Without an adjustment or repeal of this minimum charge, existing investor behavior will be unlikely to change, thus nullifying any intended benefits of the new spread regime. It is also possible that the new spread regime will further discourage trading in Hong Kong, as the only way to avoid charges will be to completely abstain from the market. We note that the $2 minimum settlement fee is not mentioned in the consultation response questions, despite it being a critical point to address. We therefore ask HKEX to respond to market concerns and appropriately calibrate the settlement fee in order to provide for an enhanced spread regime. *[Redacted]* is not supportive of any change to the spread regime without (in sequence) HKEX addressing the minimum settlement fee in advance of any changes to the spread regime.

Question 9:

Do you agree with the proposed six-month lead time before effecting the new Spread Table for the Applicable Securities under phase 1?

No, recommended length and reasons as follows

If not, what would be a reasonable length and why?

Agree. As at answer to 8, the minimum settlement fee issue must be addressed in advance of any change to the spread regime.

Question 10:

If the Exchange decides to implement phase 2 proposed after the review of phase 1, how much lead time would you need?

7 - 12 months

Others, please specify and give reasons for your view:

N/A

Question 11:

Do you have any other comments regarding the proposed minimum spread reduction in the Hong Kong securities market?

As outlined in the response to Q8, the $2 minimum settlement fee must be repealed or reduced in order for the spread reduction program to be meaningful for the brokerage community.