

From: Michael Sze [michaelsze@baroncapital.com.hk]
Sent: Wednesday, October 6, 2004 11:28
To: Feedback
Subject: Fw: Fw: Consultation Paper - Reduction of Minimum Spreads

Final Version
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Dear Sir/Madam,

I write as a securities practitioner in response to your "Consultation Paper on Minimum Spreads." What I want to say is that the present minimum spreads have its basis and history and has been accepted by the market which is working sufficiently well. The basis of the present spread is similar to the basis of the Futures Contracts. In the Futures Contracts, between one and two spreads, the investors would have covered their costs and they have the confidence that any further spreads will bring them gains or losses. I believe investors wants to cover their cost more important than to speculate for gains and losses. I am of the opinion that if one system is working well, it should not be changed just for the change sake. Let the market decide and do not interfere with the market force.

I hear a lot of bad feelings among brokers that many changes are not necessarily changes for the good of the market and only to certain sectors of the market participants and that is a very bad sign. I believe the Regulators should interfere where there are certain forces trying to change the market to their advantage. This is what I call "Manipulation of Market".

The Consultation Paper has suggested that by reducing the trading spread may have the following effect:-

- 1) increase the competitiveness of the market,
- 2) improve market operation efficiency, and
- 3) boost market liquidity.

NOTE: These are academic theories, the market is practical and it has shone that it is operating exteremely well with the present spread system. I believe that I am echoing the voice of the majority of the brokers.

By listening more to the sounds of the brokers as a whole, you would understand how the market behaves and works. We have been preaching the protection of the retail investors and by reducing the munimum spreads and making investments more speculative, it is like teaching young children to bet on horses or football. It is like working against the principles of protecting retail investors.

Yours Truly
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