



恒利證券(香港)有限公司
Hani Securities (H.K.) Limited

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Hong Kong Exchanges and Clearing Limited
11/F, One International Finance Centre
1 Harbour View Street
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Hong Kong

Consultation Paper on the Reduction of Minimum Spreads

Dear Madam / Sir,

Re: Consultation Paper on the Reduction of Minimum Spreads

We would like to put forward the following observations regarding the subject Consultation Paper:

Phase 1 Implementation

As a balanced test we believe the introduction of Phase 1 should not be limited to securities priced above \$30 only. A range of securities including derivative warrants at various price levels should be included in the test. As already pointed out in the Consultation Paper trading behaviour varies according to the minimum spread and this is particularly true with retail investors who tend to trade securities priced below \$30. A balanced test to include securities priced below \$30 would allow market participants to gauge the effect of the change in a more equitable manner.

Transaction Costs

We are particularly concerned with the implication of transaction costs (Item 8 under Transaction Costs in the Consultation Paper). Our experience shows that retail investors definitely do prefer securities with a spread that is of sufficient size to cover their transaction costs in buying and selling shares. Since commission rates are now fully negotiable, investors have already requested the reduction of commission in order to satisfy the said criteria. As it is unlikely that the stamp duty, HKEx fee, SFC levy and Compensation Fund levy will be reduced in the future, there will be tremendous pressure on further reduction of commission in order to cope with the new reduced minimum spread. Our experience suggests that retail investors will generally accept a difference of 2 spreads to cover their transaction costs and will readily day-trade securities covering this price range. Certainly we believe a spread that is of sufficient size to cover transaction costs actually creates incentive to trade more readily and gives liquidity to the stock. But with the reduced



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minimum spread, the only way that investors can day-trade within their 2 spreads criteria is with the reduction of commission rates. Our calculation suggests that a commission rate of 0.1% or below (per buy or sell transaction) will be required in order to satisfy the 2 spreads criteria. For us this implication is quite daunting.

Whilst Table 2 under Item 3 in the Consultation Paper is both informative and interesting, we would like to point out that for U.S. securities, retail brokerage commission is charged by the number of shares in a transaction regardless of the price of the securities. In other words, the commission is the same with buying 2000 shares in Microsoft (USD 27.19) as with buying 2000 shares in Sun Microsystems (USD 3.92). Therefore for the U.S. market at least it is not a balanced comparison for minimum spread. We believe it is important to realize that the minimum spread of securities does have a direct effect on the eventual commission rates chargeable. As a market participant, we will be very wary of changes which may lead to cut-throat competitions giving rise to a situation similar to the U.S. discount brokerage.

Market And Broker Concerns

As suggested under sections "Market and Broker Concerns" and "Quotation Rules" of the Consultation Paper, the reduction of the minimum spread may add additional loading and requirements on the AMS3 system not to mention possible increases in order modifications and cancellations by clients. The current throttle rate provided by the AMS3 (1 order per second) may not be enough to handle the additional loading for a small/medium sized broker house, and an increase of the throttle rate will not be a welcome thought considering the price tag currently charged by the HKEx for such an increase.

Our Conclusion

Overall speaking, we are not at all keen on the idea of adjusting the minimum spreads. We do not see any great demand by clients for such a change. If there is a consensus to change the minimum spreads, there should also be at the same time consideration for adjusting the board lot size to single shares.

In the meantime we shall look forward to the conclusion of the Consultation Paper.

Yours sincerely,

Anthony Yeung
Director and Responsible Officer