

THE
HONG KONG
ASSOCIATION
OF
BANKS
香港銀行公會

Room 525, 5/F., Prince's Building, Central, Hong Kong
Telephone: 2521 1160, 2521 1169 Facsimile: 2868 5035
Email: info@hkab.org.hk Web: www.hkab.org.hk

香港中環太子大廈5樓525室
電話：2521 1160, 2521 1169 圖文傳真：2868 5035
電郵：info@hkab.org.hk 網址：www.hkab.org.hk

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By e-mail and post

Hong Kong Exchanges and Clearing Limited
11th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Dear Sirs

Consultation Paper on the Reduction of Minimum Spreads


We write with the Association's comments in response to the above consultation paper published by HKEx on 6 August 2004.

We support in principle the proposal of reducing the minimum spreads as this may increase overall market liquidity and benefit general investors. We support the proposed reduction in Phase 1 but consider that the change in Phase 2 would be more suitable for derivatives such as warrants, stock options rather than stocks.

System adjustment to accommodate the reduction of minimum spread configuration may be required and a reasonable lead time should be allowed to effect such changes. System and throttle capacity will also need to be monitored and adjusted accordingly in anticipation of possible higher trading volume and other changes in investor behaviour. This needs to be reviewed more thoroughly after Phase 1.

In addition, there are also possibilities that banks and other market participants may incur higher costs owing to the higher chance of multiple price execution for one order, given that current system set-up may generate transaction advice for each executed price. Demand for real-time market quotes may also increase owing to more rapid changes in price. Should this happen, we recommend HKEx review the charge of real-time quotes in support of this change to reduce the high costs borne by banks.

Yours faithfully



Katie Yip
Secretary

Chairman Standard Chartered Bank
Vice Chairmen The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Ltd
Secretary Katie Yip

主席 渣打銀行
副主席 香港上海匯豐銀行有限公司
中國銀行(香港)有限公司
秘書 葉其葵