

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

13 September 2004

Our Ref: JT/L097/04

Dear Sir/Madam

### **Consultation Paper on the Reduction of Minimum Spreads**

We refer to the captioned consultation paper and present our comments as follows.

We support the Exchange's proposal of reducing the minimum spreads. We believe that this will increase the overall market liquidity and benefit general investors but will probably have a negative short term effect on speculators and day-traders. We support the narrowing as proposed in Phase 1 but we have reservation for both sets of options proposed in Phase 2. We think that narrowing spreads for penny stocks would not bring any additional benefit to the market. We would propose that the change depicted in Phase 2 would be more suitable for derivatives such as warrants, stock options rather than stocks.

We are uncertain of the effect of reducing minimum spreads on price volatility and market depth. However, we would agree in principle with the relaxation of the quotation rule and the increase of matching queues for Enhanced Limit Order and Special Limit Order as proposed to minimize any undesirable effect resulting from the change. Depending on the effect of narrowing the spreads on retail investor's behaviour, the Exchange may need to increase the number of outstanding orders each participant can place to the trading system.

Yours sincerely



Jennifer S Teng  
Legal Adviser/Compliance Officer

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