

Submitted via Qualtrics
Company / Organisation view

1. Do you agree that the board lot value floor guidance should be revised? If not, please provide reasons.

Yes. We support the revision of the board lot value floor guidance. The current floor of HK\$2,000 has remained unchanged for at least a decade, during which period the cost of executing low-value trades has materially decreased, with most fixed notional fees having been replaced by fees based on value traded. A revised floor guidance level that is more commensurate with current execution costs is a sensible and proportionate measure that will enhance market accessibility without introducing undue risk of negative value trades.

2. Do you agree that the board lot value floor guidance should be revised to HK\$1,000? If not, please provide reasons.

Yes. We consider HK\$1,000 to be a reasonable and appropriately calibrated level for the revised floor guidance. As noted in the Consultation Paper, this level allows for increased flexibility in smaller-size trading while continuing to safeguard against negative value trades, even accounting for a reasonable degree of share price depreciation. We further note that the Exchange's analysis indicates that reducing the floor to HK\$1,000 would result in an estimated increase of only 1.9% in daily trades, which is within an acceptable range for market infrastructure. Lower thresholds such as HK\$500 or HK\$250 were found to increase the longer-term risk of negative value trades and more materially increase trade volumes, and we agree that such levels would be inadvisable at this time.

3. Do you agree with introducing board lot value ceiling guidance? If not, please provide reasons.

Yes. We agree in principle, subject to the qualification set out below regarding the exemption for securities with board lot units of 100 shares or fewer.

The introduction of board lot value ceiling guidance is a reasonable measure aimed at encouraging greater retail investor participation. We note the Exchange's analysis indicating that retail participation rates decline notably when board lot values exceed HK\$50,000, suggesting that high board lot values do act as a barrier to entry. We support the policy objective of reducing this barrier.

Under the proposed framework, the board lot value ceiling guidance would not apply to companies with board lot units of 100 shares or fewer. We consider this exemption to be essential and appropriate, and our support for the introduction of the ceiling guidance is expressly conditional on the retention of this exemption, for the reasons set out in our response to Q5 below.

4. Do you agree that the board lot value ceiling guidance should be set at HK\$50,000? If not, please provide reasons.

Yes. We support setting the ceiling at HK\$50,000. The Exchange's empirical analysis demonstrates that retail participation remains relatively stable for securities with board lot values between HK\$10,000 and HK\$50,000, but declines notably above the HK\$50,000 threshold. This data-driven approach to determining the ceiling level is sound and we consider HK\$50,000 to strike an appropriate balance between encouraging retail accessibility and maintaining practicality for issuers.

5. Do you agree with applying the board lot value ceiling guidance only to issuers whose board lot units exceed 100 shares in order to facilitate potential future adoption of a single board lot unit and support alignment with Chinese Mainland markets? If not, please provide reasons.

Yes. We strongly support this design feature of the proposal. The exemption for issuers with board lot units of 100 shares or fewer is critical for the following reasons.

First, requiring issuers already using a board lot unit of 100 shares to reduce their board lot unit further (for example, to 50 or 1 share) solely to comply with the ceiling guidance would be counterproductive to the longer-term objective of facilitating a transition to a single unified board lot unit, which the Exchange itself acknowledges as a desirable future state. An issuer at 100 shares is already positioned at the board lot unit most commonly adopted by major international exchanges and the Chinese Mainland markets.

Second, the exemption correctly recognises that high board lot values arising from share price appreciation in companies with small board lot units reflect positive market outcomes and should not be penalised through forced structural changes. As the Consultation Paper illustrates by example, a stock priced at HK\$605 with a board lot unit of 100 shares would exceed the HK\$50,000 ceiling but would not be expected to reduce its board lot unit. We consider the exemption to be both principled and practically necessary. Alternative means of improving retail access to higher-priced securities, such as fractional share trading or the development of associated products, may be more appropriate than mandating further board lot unit reductions for companies already at or below 100 shares.

6. Do you support further reduction of the board lot value ceiling guidance in the future? If not, please provide reasons.

Yes. We are open to the possibility of a further reduction of the board lot value ceiling guidance in the future, provided that: (a) the exemption for securities with board lot units of 100 shares or fewer is preserved, or any change to it is subject to separate and thorough consultation; (b) any reduction is supported by updated empirical evidence regarding retail participation patterns and execution costs; and (c) sufficient lead time and transitional arrangements are afforded to affected issuers.

7. Do you support standardising board lot units as a pathway to reducing market complexity? If not, please provide reasons.

Yes. We agree that the standardisation of board lot units is a sound and pragmatic approach to reducing operational complexity across trading, clearing, and settlement processes. The current framework, comprising more than 40 distinct board lot units, has introduced inefficiencies including reduced precision in hedging, increased system configuration requirements, and a greater potential for operational errors. Standardisation addresses these concerns while preserving issuers' flexibility to select an appropriate board lot unit from within a defined set.

8. Do you support adopting the eight board lot units specified (1, 50, 100, 500, 1,000, 2,000, 5,000, 10,000 share(s))? If not, please provide reasons.

Yes. The selection of eight standardised board lot units represents a balanced outcome that achieves a meaningful reduction in complexity while limiting implementation impact. We agree that the eight-unit framework appropriately balances the considerations of operational efficiency, issuer flexibility across different price levels, minimisation of odd lot creation, and limitation of required corporate actions.

The inclusion of 100 shares in the standardised set is particularly important, as it is the board lot unit contributing the largest proportion of ADT and market capitalisation and supports alignment with Chinese Mainland markets and international practices.

9. If you do not support adopting eight board lot units, do you prefer a larger number of board lot units? If yes, please provide reasons.

N/A

10. (For issuers only) If a change is required, is six months an appropriate duration for an issuer to adjust its board lot unit or undertake other corporate action, to comply with board lot value ceiling guidance or standardisation of board lot units? If not, please provide reasons.

Yes. We consider that six months is a reasonable timeframe for straightforward board lot unit changes. However, for issuers that may need to undertake more complex corporate actions such as share consolidations or sub-divisions in order to comply, six months may prove challenging given the need for board and shareholder approvals, regulatory filings, and coordination with market participants. We would suggest that the Exchange build in a degree of flexibility, including the ability to grant extensions in cases of demonstrable complexity, and provide clear guidance well in advance of the compliance deadline.

11. Do you support aligning implementation of standardisation of board lot units with the USM initiative? If not, please provide reasons.

Yes. We agree that coordinating the implementation of the new board lot framework with the USM initiative is a sensible approach that will maximise operational efficiency and minimise market disruption. In particular, the USM initiative eliminates the need for physical share certificates, thereby removing the requirement to reprint certificates following board lot unit changes and reducing the necessity for parallel trading arrangements. This alignment allows issuers to consolidate implementation efforts and optimise resources.

We also note the phased implementation approach, under which new issuers will comply with all three components from listing, while existing issuers will comply with standardisation requirements within a specified period following their transition to uncertificated shareholding under USM. This phased approach is a pragmatic means of managing the transition.

12. Are there any anticipated challenges, such as system limitations, in implementing the proposed board lot framework?

Yes. We do not anticipate any direct implementation challenges arising from the proposed framework.

However, we wish to highlight the following considerations that we believe warrant the Exchange's attention during implementation:

First, the impact on associated products, including structured products and equity derivatives, should be carefully managed. Changes to underlying board lot units may require adjustments to contract terms, hedging mechanics, and market-making arrangements. While the Exchange has noted that these can be managed through established capital adjustment procedures, we encourage robust coordination with product issuers and market makers to ensure orderly trading is maintained.

Second, the creation of odd lots resulting from board lot unit changes will require attention. We note the Exchange's ongoing review of enhancements to the odd lot trading mechanism and strongly encourage the development of a more efficient odd lot trading framework to be implemented concurrently or in advance of the board lot standardisation requirements.

Third, clear and timely communication to issuers, investors, and market participants regarding the implementation timeline, transitional arrangements, and expectations will be essential to ensuring an orderly transition. We encourage the Exchange to publish detailed implementation guidance as early as practicable following the Consultation Conclusions.

13. Do you have any other comments regarding the board lot framework enhancements in the Hong Kong securities market?

No