Submitted via Qualtrics
Company / Organisation view

Question 1:

It is proposed that only the Applicable Securities, i.e. equities, REITs and equity warrants, will undergo minimum spread reduction. Do you agree?

No, reasons as follows

If not, please provide reasons:

Yes agreed. We note that tick sizes for ETFs have already been reviewed and adapted.

Question 2:

Do you agree with the Exchange's proposal to keep the minimum spreads of price bands below $0.5 and above $50 unchanged?

No, reasons as follows

If not, please provide reasons:

We agree with the phased approach as proposed. We would encourage HKEX to undertake ongoing analysis and review of impact, and then consider whether any further minimum spread optimization is required in future.

Based on analysis of tick size reform in other markets, we note that when minimum spreads sizes are narrowed this almost always results in less liquidity at each level of the order book. Market participant behaviour also changes, particularly given the dominant use of trading algorithms for execution. We note that HKEX has considered this in the proposal and we agree that based on current modeling, this should not materially harm market quality. However we would suggest that real-world impact is analysed after Phase 1 to consider further reform as needed.

Question 3:

Do you agree with the proposed selection of the price bands and/ or the proposed magnitude of reduction of minimum spreads for phase 1 (i.e. 50% to 60% reduction to stocks priced between $10 and $50 to achieve 4 to 10 bps for tick-to-

price ratios)?

Yes

If not, please provide reasons:

N/A

Question 4:

Do you agree with the proposed selection of the price band and/ or the proposed magnitude of reduction of minimum spreads for phase 2 (i.e. 50% reduction to stocks priced between $0.5 and $10 to achieve 5 to 100 bps for tick-to-price ratios)?

Yes

If not, please provide reasons:

N/A

Question 5:

Continued use of a single spread table model with increasing minimum spreads along with price bands is proposed. Do you agree?

Yes

If not, please provide reasons:

N/A

Question 6:

Are you supportive of a multiple spread table model for the same type of securities?

No. Potential challenges as below:

If so, what eligibility criteria would you suggest?

N/A

If not, what challenges would you foresee in the implementation of a multiple spread table model? Please elaborate:

A multiple spread table model can introduce additional complexity for investors and market participants. While there are some benefits, overall we prefer the single spread table model with changes being applied selectively to certain groups of stocks as proposed.

Question 7:

Do you agree to the inclusion of percentage-based requirement on top of the existing spread based requirements (i.e. either ±24 spreads or 3.5% from the reference price, whichever is greater in percentage terms) in the quotation rules, including the relevant rules applicable in different trading sessions and transactions concluded on and outside of the Exchange's trading system?

No, reasons as follows

If not, please provide reasons:

Yes, recognising that reducing the minimum spreads increases the likelihood of reaching the +/- 24 spread threshold for order inputs we agree with the proposal of adding a % from reference price rule. No objections to that being set at 3.5% to align with the range already applied to ETPs

Question 8:

Are you aware of any infrastructure impact which may arise from the proposed minimum spread reduction, including but not limited to a 3 decimal place system set up for Exchange Traded Options trades?

Yes, details as follows

Please elaborate and explain the potential impact, including the possible lead time required for the additional infrastructure changes, if any.

We are supportive of the minimum spread proposal on the condition that the fixed $2 minimum settlement fee is adjusted to a reasonable ad valorem rate to avoid financially penalising market participants for this microstructure change.

Reducing minimum spreads typically distributes the same liquidity over more levels of the order book, resulting in trading algorithms slicing trades into thinner individual orders to reduce price impact. Ie reducing minimum spreads creates a larger number of smaller orders traded in the market to execute the same notional amount. Based on analysis of changes from a reduction of minimum spreads in the Japan market, the number of individual orders doubled following the change.

As referenced in the consultation p22, HKEX currently charges a settlement fee which has a fixed $2 minimum, irrespective of the notional value of the order. Retaining a fixed-floor fee rather than an ad-valorem rate on this settlement fee would add significant cost to all market participants given the expected increase in number of orders.

On a related note, the increased order count is likely to also require extra infrastructure capacity, and particularly throttle capacity. We encourage a dialogue between HKEX and exchange members to assess the impact of the first phase of the minimum spread reduction on messaging volumes, to ensure that throttle capacity is sufficient and does not result in significant additional costs for market participants.

Question 9:

Do you agree with the proposed six-month lead time before effecting the new Spread Table for the Applicable Securities under phase 1?

No, recommended length and reasons as follows

If not, what would be a reasonable length and why?

We request that the proposed reforms to the settlement fees (i.e. the $2 minimum) which have been widely discussed with HKEX are in place before implementing changes to minimum spreads. Otherwise, six months should be sufficient lead time.

Question 10:

If the Exchange decides to implement phase 2 proposed after the review of phase 1, how much lead time would you need?

Others, please specify and give reasons for your view

Others, please specify and give reasons for your view:

Additional minimum spread adjustments should not be a big project however 4-6 months should provide sufficient lead time to incorporate into planning and make systems changes alongside any other technology development priorities which may come up regionally.

Question 11:

Do you have any other comments regarding the proposed minimum spread reduction in the Hong Kong securities market?

We are supportive of the proposed minimum spread reduction plans on condition that the settlement cost and infrastructure impacts mentioned in Q8 are addressed prior to implementation. This should help avoid additional costs for market participants and investors, which would be created by a larger number of smaller orders to trade the same notional amount if the minimum spreads are reduced.