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?

Yes

If not, please provide reasons:

N/A

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?

Yes

If not, please provide reasons:

N/A

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 comment

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:

N/A

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?

Yes

If not, please provide reasons:

N/A

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?

No

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

N/A

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?

Yes

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

N/A

Question 10:

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

Under 3 months

Others, please specify and give reasons for your view:

N/A

Question 11:

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

As a market maker in stock options, *[redacted]* is most concerned about the impact of tighter base underlying spreads (BUS) on the obligations of the stock options quotes.

We agree with the consultation paper (paragraph 3) that there is a trade-off between spread width and book liquidity. So we are concerned that stock option obligations are only reliant on the BUS width and do not consider the bid and offer size. We understand that average market size is used to determine liquidity level and market size has never been part of the real-time option obligation calculation. But with an expected reduction in market liquidity, we are concerned that we are obligated to quote the same number of options but with much tighter spreads (after the provisional phase).

We believe that basing options obligations on the BUS with a wide range of tick-to-price ratios is the main problem. On the lower end of the ratio (4-5bps), the resulting option obligations will be unreasonably tight accounting for all the market risks. Whereas the higher end of the ratio will result in very wide option obligations, and the actual width will be much tighter in the market. By lower the minimum spread, we have broken up the ratio ranges into smaller sections but the resulting extremes are still problematic.

If it is not realistic to move away from the current BUS-based obligation model in the immediate future, we hope the exchange can still offer some permanent relief on the option obligation where the tick-to-price ratio is only 4 or 5 bps. One idea would be to increase the minimum option spread obligation from BUS+0.05 to BUS+0.08.