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:

We agree in principle that the exchange should have consistent tick sizes across different instruments. We note that these spread changes will also bring the equities market into line with the ETF Spreads in the 10 – 20 and 20 – 100 price bands.

Our concern is that whilst the adjustments only relate to Equities, REITs etc they will have the potential to impact single stock option market making (MM). The current options MM quote obligations are based on the lower of a percentage of the underlying price or multiple of the spread in the stock. Given the spreads in the underlying equities will be halved, if the existing MM obligations are applied in their current state it will result in tighter option spreads. With less liquidity on the bid/offer in the underlying stocks the tight spreads for the options may result in extra risk being taken by MM.

We would recommend that HKEX make adjustments to the market maker obligations table to ensure the options spreads are reflective of the liquidity available in the equity market rather than the actual spread in the underlying stock. We do not want to see the option MM obligations tighten in line with the tightening of the spread in the underlying stocks. We think this should only be considered if the top of book liquidity increases over time.

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:

Yes, we agree with keeping the price band unchanged outside of the $0.5 - $50 range. The adjustments will also generally bring into line the average basis point spread for stocks with a value of greater than $5.

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?

Yes. The following eligibility criteria is suggested:

If so, what eligibility criteria would you suggest?

We would be in Favour of a standardized spread table, but we also understand that liquidity in certain names may not necessarily justify the tighter spreads. Other markets face a similar challenge.

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?

No, reasons as follows

If not, please provide reasons:

Yes, we agree with the inclusion of a percentage-based requirement. This would align ETFs and Equities into the same spread based requirements and maintains the allowable price limits in their current form.

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 comfortable that this will have minimal impact for [*redacted*] from an infrastructure perspective. Although, we would note that as the spreads tighten there will generally be an increase in the number of messages sent to market. As a recent comparison, it may be worth looking at the experience Japan has had in tightening their equity spreads and the impact it has had on data dissemination.

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?

We will reiterate our concerns on the impact that tightening the equity spread could have on the options market makers.

We would like to also highlight that whilst the adjustments only relate to Equities, REITs etc. they will have the potential to impact single stock option market making (MM). The MM quote obligations are based on the lower of a percentage of the underlying price or multiple of the spread in the stock. Given the spreads will be halved, if the existing MM obligations are applied in their current state it will result in tighter option spreads. With less liquidity on the bid/offer in the underlying stocks the tight spreads for the options may result in extra risk being taken by MM.

We would recommend that HKEX make adjustments to the market maker obligations table to ensure the options spreads are reflective of the liquidity available in the equity market rather than the actual spread in the underlying stock. We do not want to see the option MM obligations tighten in line with the tightening of the spread in the underlying stocks. We think this should only be considered if the top of book liquidity increases over time.