<u>Submitted via Qualtrics</u>
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:

N/A (please see the response to Q3).

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:

N/A (please see the response to Q3).

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)?

No, reasons as follows

If not, please provide reasons:

Currently the cost of HKEX execution is already higher than the spread in large cap names, which makes systematic liquidity provision (i.e. without obligation) or registered market making (with obligations) challenging as they only earn the spread for their service. Tick size reduction further disincentivizes such activities by spread compression and further increase in execution costs (throttles, message capacity etc.). Lack of sophisticated MM leads to higher volatility and harms unsophisticated investors.

HKEX spread is 16bps vs Cost of roundtrip execution is 24bps at least for wholesale investors. TSE spread is 4.5bps vs Cost of roundtrip execution is 1bps at least for wholesale investors. This lead to move diversified investors, better quality liquidity, and better price discovery.

This proposal passes costs to Brokers and Market makers improved revenue to HKEX. (additional throttle usage). HKEX can make a larger dent on spreads by reducing its own charges, assuming reducing stamp duty is outside HKEX jurisdiction.

Given the current spreads and total cost of execution on HKEX, this tick size reduction is not complemented by necessary changes to cheaper bandwidth and further shuns sophisticated MMs from the market, hence we do not see this as a favorable/welcome change.

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)?

No, reasons as follows

If not, please provide reasons:

Please see the response to Q3.

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:

The cost of continuous review and revision of eligible securities.

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:

Best to get rid of the 24 spread quoting restriction and only use the 3.5%

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.

Smaller tick size most likely would lead to more frequent quote updates from MM clients, i.e. higher throttle consumption. It might make more sense if some form of discount program is introduced along with the tick reduction.

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?

4 - 6 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?

N/A