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?

No, reasons as follows

If not, please provide reasons:

We support the proposal as it may enhance liquidity and acknowledge the efforts to improve market liquidity and competitiveness, which benefit all market participants.

Alternative View: Similar to practices in the US, pricing is standardized to 0.01 across all price ranges. We suggest that HKEx could consider an approach that includes additional measures, such as cancelling the block lot, to further enhance the liquidity and competitiveness of the HK market. We believe that implementing multiple changes will have a more effective impact on the market.

Below $0.5: We suggest exploring other liquidity enhancement measures instead of changing spreads.

Above $50: Consider targeted reviews to ensure that spreads remain competitive with global peers.

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:

Key Considerations:

Market Impact Analysis:

Liquidity: How will the reduction affect liquidity? Typically, narrower spreads can enhance liquidity by making it less costly to execute trades.

Volatility: Assess whether smaller spreads could lead to increased volatility, as the cost of moving the price may decrease.

Depth of Market: Consider how the changes might affect the depth of the order book, which is crucial for large volume trades. Will HKEx provide deeper order book to allow partitcipants to have free access to more price information. IT support to the market participants is also essential.

Comparative Analysis:

Benchmarking: Compare the proposed spreads with those of similar markets. If other markets with similar characteristics use narrower spreads successfully, it might be a viable move.

Historical Data: Look at historical data for the stocks priced between $10 and $50 to determine if previous adjustments to spreads had the intended effect.

Stakeholder Impact:

Retail vs. Institutional Investors: Consider how the changes will affect different types of investors. Retail investors might benefit from lower transaction costs, whereas institutional investors might focus more on market depth and order execution quality.

Market Makers: Assess how the change might impact the profitability and risk management strategies of market makers, who play a crucial role in maintaining liquidity.

Implementation and Monitoring:

Phase Implementation: Is the phased approach appropriate, and does it allow for adequate assessment and adjustment after the initial implementation?

Feedback Mechanisms: Ensure there are mechanisms to gather feedback and monitor the impact post-implementation, adjusting the strategy as necessary based on real-world outcomes.

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:

Boosting trading volume in small-cap stocks, which often suffer from low turnover and shallow depth of price, requires a multi-faceted approach beyond just narrowing the spreads. Here are several strategies that can be employed to enhance liquidity and trading activity for small-cap stocks:

1. Market Maker Incentives

Enhanced Incentives: Provide additional incentives to market makers to support small-cap stocks. This could include reduced trading fees, rebates, or financial subsidies specifically targeted at increasing their willingness to trade and maintain liquidity in these stocks.

2. Regulatory and Listing Adjustments

Relaxed Listing Requirements: Temporarily relaxing some listing standards (without compromising on critical aspects like transparency and governance) to allow more small-cap companies to access public markets.

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:

1. Increased Complexity

Understanding and Compliance: Market participants must understand diverse spread rules across different securities, which can be daunting, especially for less sophisticated investors. Compliance with these varied rules also becomes more challenging.

Operational Burden: Exchanges and trading platforms must manage and maintain multiple spread tables, which increases the complexity of their operations and requires more sophisticated systems and technologies.

Cost Implications

Implementation Costs: Developing, testing, and deploying a system capable of managing multiple spread tables involves significant initial and ongoing costs.

Operational Costs: Continuous updates, monitoring, and compliance enforcement related to multiple spread tables increase operational expenses for exchanges and trading platforms.

Small Investors: The complexity of multiple spread tables may disproportionately affect retail and smaller investors who might not have the resources to understand or adapt to these changes as quickly as institutional players.

Market Access: Increased costs and complexity could potentially limit market access for new entrants or smaller firms, affecting overall market competitiveness.

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:

Increased Complexity: Introducing an additional layer of rules (percentage-based on top of spread-based) complicates the trading environment. Traders, especially smaller or less sophisticated ones, may find it more difficult to comply with or understand these compounded requirements.

Operational Burden: For the exchanges and regulatory bodies, monitoring compliance with more complex rules requires more advanced systems and potentially more resources, increasing operational costs.

Potential for Unintended Consequences: The combination of spread and percentage-based requirements might lead to unintended market behaviors, such as reduced liquidity or increased trading costs, especially in less liquid stocks or during unusual market conditions.

Market Fragmentation: Different requirements for different trading sessions or transactions concluded on and off the exchange's systems might lead to fragmentation. This could make it harder for investors to execute strategies efficiently across different platforms or times.

Flexibility Concerns: While percentage-based limits provide adaptability relative to the price of a security, they might also reduce flexibility in how market makers and traders manage their positions, especially in fast-moving markets where adherence to strict percentage limits could impede effective risk management.

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.

Infrastructure Impacts

System Upgrades:

Trading Systems: Exchanges and trading platforms will need to update their systems to handle increased precision in pricing. This involves modifying databases, trading algorithms, and user interfaces to accommodate 3-decimal places.

Back-End Processing: Settlement, clearing, and reporting systems must also be updated to ensure accurate processing and compliance.

Data Management:

Increased Data Volume: More precise pricing could lead to a significant increase in data volume. Systems must efficiently handle and store this additional data.

Data Integrity: Ensuring the accuracy and consistency of data across all systems will be crucial to prevent discrepancies.

Latency and Performance:

Processing Speed: Additional decimal places may require more computational power, potentially impacting system latency. Optimizing performance will be necessary to maintain efficient trading operations.

Testing and Validation:

Comprehensive Testing: Extensive testing will be required to ensure that all systems function correctly with the new pricing precision. This includes unit tests, integration tests, and user acceptance tests.

Regulatory Compliance:

Adherence to Standards: Ensure all changes comply with regulatory requirements, which may involve additional audits and certifications.

Lead Time Considerations

Development and Implementation:

Timeframe: The lead time for implementing these changes can vary but typically ranges from several months to over a year, depending on the complexity of the existing infrastructure and the scope of changes needed.

Coordination with Stakeholders:

Collaborative Planning: Coordination with brokers, market makers, and other stakeholders is essential. This involves communicating changes, timelines, and conducting joint testing sessions.

Training and Support:

User Training: Providing adequate training for traders, analysts, and support staff on the new systems and processes will be crucial for a smooth transition.

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 suggest to consider to extend the lead time to nine months to provide more flexibility to stakeholders to assess the impact and upgrade the system.

Considerations for Lead Time

Complexity of Changes:

System Modifications: Assess the complexity of required system updates. If changes are extensive, more time might be needed.

Stakeholder Readiness:

Market Participants: Ensure brokers, market makers, and traders have enough time to adjust their systems and processes.

Training and Communication: Allow time for comprehensive training and effective communication with all stakeholders.

Testing and Validation:

Thorough Testing: Ensure there is ample time for rigorous testing, including simulations and phased rollouts.

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:

If the Exchange plans to implement phase 2 after reviewing phase 1, a lead time of six to nine months would be advisable. This duration allows for:

Comprehensive Review: Analyzing feedback and data from phase 1 to understand its impact.

System Adjustments: Making necessary adjustments based on phase 1 outcomes.

Stakeholder Preparation: Ensuring all participants are informed and ready for changes.

Testing and Validation: Conducting thorough testing to ensure smooth implementation.

Question 11:

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

The reduction of spreads aims to enhance the attractiveness and effectiveness of the Hong Kong stock market. We suggest canceling the block lot alongside narrowing spreads. Market reforms should be viewed as a holistic solution, as changes in one area can affect others. To maximize effectiveness and accelerate reform, the consultation should consider additional revamps.

Given the concerns about the potential impacts of smaller spreads on the depth of the order book, We suggest HKEx to provide deeper price order information for free to support market participants. This could offer several benefits:

Benefits of Providing Deeper Price Order Information for Free

Enhanced Market Transparency:

Offering deeper insights into price orders can help traders make more informed decisions, potentially leading to more efficient pricing and less volatility.

Improved Liquidity:

Access to more detailed order book information can encourage participation from a broader range of traders, including institutional and retail investors, thereby enhancing overall market liquidity.

Increased Trader Confidence:

With better visibility into upcoming buy and sell orders, traders might feel more confident in executing larger transactions or entering new positions, contributing to a more dynamic market environment.

Support for Smaller Spreads:

By making the order book depth more accessible, traders can better navigate the market with narrower spreads, mitigating risks associated with reduced visibility into market movements.

To enhance turnover among smaller-cap companies, the impact of reducing spreads on them is minimal. We suggest to relax listing requirements for small-cap companies to facilitate easier changes in their core business is an innovative approach to enhance their attractiveness and potentially increase turnover.

Benefits of Relaxing Listing Requirements

Increased Flexibility:

Allowing small-cap companies to pivot their business models more freely can help them adapt to market changes and emerging trends, enhancing their survival and growth prospects.

Attraction of New Investments:

Easier transformation could make these companies more appealing to investors looking for high-growth opportunities, particularly if these changes align with evolving economic sectors or technologies.

Enhanced Market Dynamism:

Encouraging innovation and adaptation among small-caps can contribute to overall market vitality, with new ideas and business models fostering healthy competition.