Submitted via email
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:

In general, members agree and prefer consistent tick sizes across instrument classes. We notice that the proposed changes will, to a certain extent, unify the minimum spread of equities, REITs, equity warrants with that of ETFs.

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:

Members have no issues with the scope (stocks between $0.5 and $50) for the minimum spread. In general, members agree with the Exchange's proposal and believe it is an excellent first step to bring Hong Kong in line with other APAC markets. Members are also of the view that the minimum spread reduction may be expanded to other price bands in the future, following a suitable period of analysis and consultation.

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:

Members have no objection.

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:

Members have no objection.

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:

Members agree that a single spread table is preferable from an operational perspective due to its simplicity and ease of implementation.

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:

Members are conscious that a multiple spread table model would increase complexity and cost for market participants and is, therefore, less desirable. Notably, when using a multiple spread table model, decreasing spreads on illiquid names could create overly thin order books. However, tighter spreads could be considered for highly liquid stocks in HSI, HSCEI, and HSTECH indices, which are usually more liquid than the rest of the market. It is important that a data-driven process that considers stock liquidity is followed when determining appropriate tick sizes, and that there are clear guidance and rules surrounding the definition of liquidity. The consequences that inappropriate tick sizes may lead to should also be considered.

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:

Members observe that the maximum of 24 spreads and ±3.5% have been in place as a price check for ETF trading on HKEX for a while. It would be a preferable end state for the quotation rules to be standardized across all securities.

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.

Members once again appreciate HKEX's commitment to reviewing the settlement fees and eliminating the minimum charge that would otherwise apply to an increasing number of smaller orders as expected under the new spread regime.

As a potentially related issue, we would like to highlight to the Exchange an expected spike in throttle usage due to the increased volume of smaller orders trading the same notional amount, which has been observed in other markets when tick sizes are narrowed. In general, as the Hong Kong market evolves, members also expect to see more client flow (DMA), increasing the pressure on trading system capacity. As a result, members will likely need higher front-to-back processing capabilities. We would greatly appreciate it if the Exchange could reconsider the current throttle capacity constraints. Moreover, we wonder if fees can be reduced on exchange throttle usage in the context of the anticipated higher transaction volumes following the proposed minimum spread reduction.

Reducing tick sizes in equities could lead to an increase in costs for market makers to maintain quote requirements in the related Single Stock Option space. As a mitigating action, increasing the number of spreads in the SSO market making obligations correspondingly could help to mitigate this negative impact.

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?

The industry would prefer a six-to-nine-month lead time for change to the spread tables and may need more time if the ±3.5% price requirement is enacted. In addition, it would be highly preferable to implement the proposed reforms to the settlement fees (i.e. the $2 minimum) before implementing changes to the spread table. From this, members would also highlight the importance of having an adequate time gap between the proposed fee reform (on the two-dollar minimum) and the implementation of tick size reduction to ensure that the impacts from each change can be analyzed and understood independently by market participants.

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:

There is no industry consensus around this query; some members prefer less than 3 months while others prefer 7-12 months. Choosing an appropriate date / time period for implementation away from other notable events (such as public holidays and other exchange upgrades) would be welcome.

Question 11:

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

N/A