

Introducing smaller tick size to Hong Kong ETFs

Increasing price efficiency and liquidity

To foster liquidity growth in Hong Kong's Exchange Traded Product (ETP) market and to create greater trading flexibility for ETP investors, HKEX has introduced a new spread table with reduced tick size for Hong Kong-listed ETPs.

NEW SPREAD TABLE FOR ETPs

Currency Unit				New Tick Interval	Old Tick Interval
From	0.01	to	0.25	0.001	0.001
Over	0.25	to	0.50		0.005
Over	0.50	to	1.00		
Over	1.00	to	5.00	0.002	0.010
Over	5.00	to	10.00	0.005	
Over	10.00	to	20.00	0.010	0.020
Over	20.00	to	100.00	0.020	0.050
Over	100.00	to	200.00	0.050	0.100
Over	200.00	to	500.00	0.100	0.200
Over	500.00	to	1,000.00	0.200	0.500
Over	1,000.00	to	2,000.00	0.500	1.000
Over	2,000.00	to	5,000.00	1.000	2.000
Over	5,000.00	to	9,999.00		5.000

What is a spread table?

A spread table maps out the minimum price movements (i.e. tick intervals) for securities trading at different price ranges.

For example, in the new spread table for ETPs, for a product trading at \$15, i.e. in the price range of \$10 to \$20, the new tick interval will be \$0.010 – a 50% reduction from the old tick interval of \$0.020.

BENEFITS OF TICK SIZE REDUCTION

Greater flexibility

Give investors greater flexibility to react to small market changes.



Increase price efficiency

Allow market prices to adjust to new information more promptly, so that prices can better reflect the prevailing market conditions.



Potential for lower costs

Lay the basis for the further narrowing of bid-ask spreads, which can potentially lead to lower transaction costs.



Case study*

The reduction in tick size for ETPs will effectively reduce their minimum achievable spreads, which is favourable to the further tightening of trading spreads of liquid, tick-constrained ETPs.

The following case study selects five liquid ETPs in Hong Kong that are trading at minimum spread for over 90% of the time. The analysis shows that the spread of ETPs can potentially be reduced by 50-60%.

Representative ETF in Hong Kong Market	Closing Price [^]	Est. % of Time Trading at Minimum Spread	Average 90-day Spreads (bps)	Existing minimum achievable spread (bps)	New minimum achievable spread (bps)	Reduction
ETF A	\$28.5	91%	19.1	17.6	7.0	-60%
ETF B	\$113.4	99%	10.2	8.8	4.4	-50%
ETF C	\$15.2	95%	13.8	13.1	6.6	-50%
ETF D	\$15.3	95%	13.7	13.1	6.5	-50%
ETF E	\$46.4	91%	11.7	10.8	4.3	-60%

* The case study is for illustration purpose only. The actual spread may differ from the minimum achievable spread.

[^] Source: Bloomberg, data as of 31 December 2019.

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