



# Consultation Conclusions - Proposed Reduction of Minimum Spreads in the Hong Kong Securities Market

Trading, Operations

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# Agenda

- 01 | Consultation Proposal and the Conclusions**
- 02 | Associated Changes**
- 03 | Quotation Rules : Examples of Allowable Price Limit**
- 04 | Implementation Timeline**



# 01 | Consultation Proposal and the Conclusions

(Reference: Consultation Conclusions Ch.1)

- **Feedback summary:** 110 responses received, 70% support on Phase 1, 64% support on Phase 2<sup>1</sup>.
- **Scope:** Equities, REITs, equity warrants and all other securities except ETPs, debt securities, Exchange Traded Options and Structured Products

Proposed Spread Table for the Applicable Securities in Phase 1

Price Band (currency unit) <sup>2</sup>				Original minimum spread	Proposed minimum spread in Phase 1
From	0.01	to	0.25	0.001	
Over	0.25	to	0.50	0.005	
Over	0.50	to	10.00	0.010	
<b>Over</b>	<b>10.00</b>	<b>to</b>	<b>20.00</b>	<b>0.020</b>	<b>0.010 (-50%)</b>
<b>Over</b>	<b>20.00</b>	<b>to</b>	<b>50.00</b>	<b>0.050</b>	<b>0.020 (-60%)</b>
Over	50.00	to	100.00	0.050	
Over	100.00	to	200.00	0.100	
Over	200.00	to	500.00	0.200	
Over	500.00	to	1,000.00	0.500	
Over	1,000.00	to	2,000.00	1.000	
Over	2,000.00	to	5,000.00	2.000	
Over	5,000.00	to	9,995.00	5.000	

Proposed Spread Table for the Applicable Securities in Phase 2

Price Band (currency unit) <sup>2</sup>				Original minimum spread	Proposed minimum spread in Phase 2
From	0.01	to	0.25	0.001	
Over	0.25	to	0.50	0.005	
<b>Over</b>	<b>0.50</b>	<b>to</b>	<b>10.00</b>	<b>0.010</b>	<b>0.005 (-50%)</b>
Over	10.00	to	20.00	0.010	
Over	20.00	to	50.00	0.020	
Over	50.00	to	100.00	0.050	
Over	100.00	to	200.00	0.100	
Over	200.00	to	500.00	0.200	
Over	500.00	to	1,000.00	0.500	
Over	1,000.00	to	2,000.00	1.000	
Over	2,000.00	to	5,000.00	2.000	
Over	5,000.00	to	9,995.00	5.000	

**Phase 1 will be implemented with broad-based support;  
Phase 2 will be implemented if no undesirable impact in Phase 1's review**



<sup>1</sup> Counted by total number of responses.

<sup>2</sup> Applicable to all currency units including Hong Kong dollar.

## 02 | Associated Changes

(Reference: Consultation Conclusions Ch.2)

### 1. Quotation Rules

- For all securities except ETPs
- Update price limit from:  
 $\pm 24$  spreads from the ref. price



**NEW:**

**$\pm 24$  spreads or 5% from the ref. price, whichever is greater in %\***


### 2. Market Making Obligations (Single Stock Options)

- Temporary adjustment
- With a transition period

### 3. Stock Settlement Fees

- **Replace with a fee based on notional value traded.**  
Removed the floor and ceiling of settlement fee
- Separate provision for qualified ETP market making trades
- Subject to regulatory approval

**Changes will be implemented along with Phase 1. Details will be announced in due course.**

 \*When 5% from the reference price is adopted, if the limit price calculated does not meet the minimum spread, the lower limit should be rounded up to the nearest spread, while the upper limit should be rounded down to the nearest spread. Please refer to the example in slide 5.

## 03 | Quotation Rules : Examples of Allowable Price Limit

### Example 1:

#### Lower Price Limit – Limit BUY Order

Current Best Bid = \$19.89 & Current Best Ask = \$19.90

Best Bid: **\$19.89**

Lower limit

Spread = \$0.01

Best Bid \$19.89 - 24 spreads = **\$19.65**

Best Bid x (1 - 5%) = **\$18.8955**

After comparison, take the lowest price,  
Lower price limit is **\$18.90** (rounded up)

### Example 2:

#### Upper Price Limit – Limit SELL Order

Current Best Bid = \$0.495 & Current Best Ask = \$0.50

Best Ask: **\$0.50**

Upper limit

Spread = \$0.01

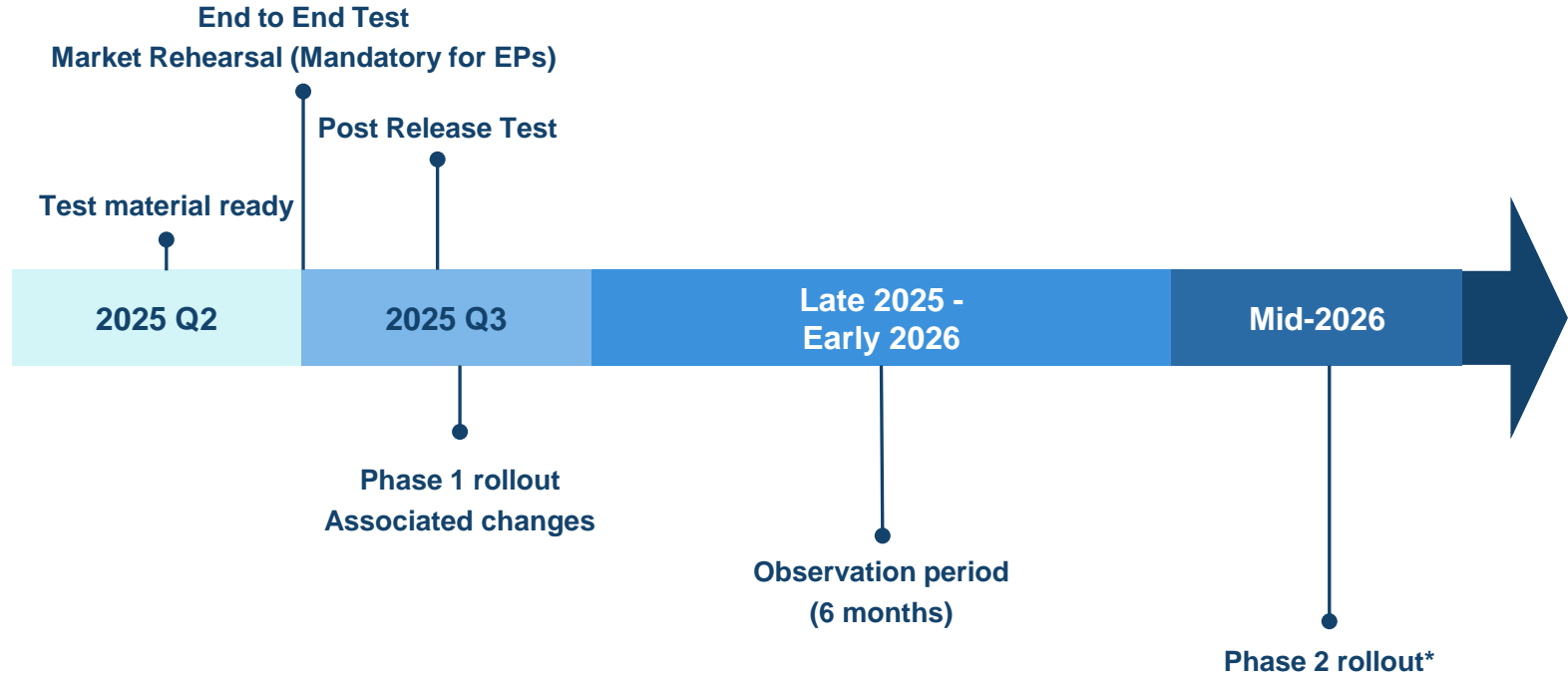
Best Ask \$0.50 + 24 spreads = **\$0.74**

Best Ask x (1 + 5%) = **\$0.525**

After comparison, take the highest price  
Upper price limit is **\$0.74**



# 04 | Implementation Timeline



\* If no undesirable impact observed during the observation period.  
\*\*All the dates are tentative, subject to market readiness and regulatory approvals.

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