



New Order Types and Revised Trading Parameters for AMS/3

Hong Kong Exchanges and Clearing Limited (HKEx) will introduce two new order types to AMS/3, the Third Generation Automatic Order Matching and Execution System, and revise the trading parameters for AMS/3 on 12 February (Monday).

Stock Exchange Participants were consulted through a questionnaire that was sent to all Participants and the results have been taken into account.

The two new order types are Enhanced Limit Order (ELO) and Special Limit Order (SLO). AMS/3 currently accepts only Limit Orders, which are matched at one price. An ELO is similar to a Limit Order except that it will allow matching of up to two price queues at the same time. The input order price of an ELO can be matched up to one spread better than the best price on the other side of the market. Any unfilled quantity of an ELO after matching will be converted into a Limit Order at the input order price. An SLO is a market order which matches up to two price queues (i.e. the best price queue and the next queue at one spread away) as long as the traded price is not worse than the input limit price. Any unfilled quantity of an SLO after matching will be cancelled by AMS/3. As ELOs and SLOs can generate trades at more than one price, the AMS/3 order enquiry facilities have been expanded to display all trades associated with an order and their execution prices.

The trading parameter changes will include:

- Increase the range for order prices from within four spreads of the best bid and ask prices to within eight spreads
- Increase the maximum order size from 400 to 600 board lots per order
- Increase the maximum number of outstanding orders per broker ID from 800 to 2,000
- Increase the maximum number of orders per price queue from 1,000 to 2,000

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“We are taking advantage of AMS/3’s wide range of functions to give market participants more flexibility and increase their operational efficiency when placing orders,” said Lawrence Fok, the Deputy Chief Operating Officer of HKEx.

For more information on the new order types and revised trading parameters please see the attached explanatory notes.

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Explanatory Notes for New Order Types and Trading Parameters

1. New Order Types

1.1 Enhanced limit order (ELO)

ELO is similar to the limit order except that it will allow matching of up to **two price queues** at a time. The ask order price of ELO can be inputted at one spread lower than the current bid or the bid order price can be inputted at 1 spread higher than current ask price. Any unfilled quantity of ELO after matching will be stored in the System as a normal limit order at the input order price. The number of price queues allowed for matching can be increased in future if necessary.

Example 1 : Enhanced Limit Order (ELO) - fully matched

Table 1 (a) : Original Position

Bid		Ask	
Price	Volume	Price	Volume
\$300	100K	\$301	80K
\$299	90K	\$302	70K
\$298	80K	\$303	160K
\$297	60K	\$304	50K
\$296	180K	\$305	60K
\$295	34K	\$306	50K
\$294	100K	\$307	40K
\$293	150K	\$308	45K
\$292	18K	\$309	325K

Enhanced Limit Order: to buy 130K @ \$302

Table 1 (b) : After Execution

Bid		Ask	
Price	Volume	Price	Volume
\$300	100K	\$302	20K
\$299	90K	\$303	160K
\$298	80K	\$304	50K
\$297	60K	\$305	60K
\$296	180K	\$306	50K
\$295	34K	\$307	40K
\$294	100K	\$308	45K
\$293	150K	\$309	325K
\$292	18K	\$310	100

Trade executed 80K @ \$301
 50K @ \$302

Unfilled None

Example 2 : Enhanced Limit Order (ELO) - with unfilled quantity**Table 2 (a) : Original Position**

Bid		Ask	
Price	Volume	Price	Volume
\$300	100K	\$301	80K
\$299	90K	\$302	70K
\$298	80K	\$303	160K
\$297	60K	\$304	50K
\$296	180K	\$305	60K
\$295	34K	\$306	50K
\$294	100K	\$307	40K
\$293	150K	\$308	45K
\$292	18K	\$309	325K

Enhanced Limit Order: to buy 160K @ \$302

Table 2 (b) : After Execution

Bid		Ask	
Price	Volume	Price	Volume
\$302	10K	\$303	160K
\$301	-	\$304	50K
\$300	100K	\$305	60K
\$299	90K	\$306	50K
\$298	80K	\$307	40K
\$297	60K	\$308	45K
\$296	180K	\$309	325K
\$295	34K	\$310	20K
\$294	100K	\$311	10K

Trade executed 80K @ \$301
 70K @ \$302

Unfilled 10K @ \$302 as limit order

1.2 Special Limit Order (SLO)

A limit price has to be input for SLO but there is no restriction on the limit price with respect to the best price on the other side of the market. SLO will match up to **two price queues** (i.e. the best price queue and the secondary queue at 1 spread away) as long as the traded price is not worse than the input limit price. Any unfilled quantity of SLO after matching will be cancelled and not stored in the System. The number of price queues allowed for matching can also be increased in future if necessary.

Example 3 : Special Limit Order (SLO)

Table 3 (a) : Original Position

Bid		Ask	
Price	Volume	Price	Volume
\$300	100K	\$301	80K
\$299	90K	\$302	70K
\$298	80K	\$303	160K
\$297	60K	\$304	50K
\$296	180K	\$305	60K
\$295	34K	\$306	50K
\$294	100K	\$307	40K
\$293	150K	\$308	45K
\$292	20K	\$309	325K

Special Limit Order: to buy 160K @ \$305

Table 3 (b) : After Execution

Bid		Ask	
Price	Volume	Price	Volume
\$300	100K	\$303	160K
\$299	90K	\$304	50K
\$298	80K	\$305	60K
\$297	60K	\$306	50K
\$296	180K	\$307	40K
\$295	34K	\$308	45K
\$294	100K	\$309	325K
\$293	150K	\$310	100K
\$292	20K	\$311	10K

Trade executed 80K @ \$301
 70K @ \$302

Unfilled quantity 10K cancelled, not stored in the System.

2. Trading Parameters

2.1 Quotation Rules - 4-spread Rules

Order input prices are currently governed by the quotation rules of the Rules of the Exchange. The quotation rules were designed to ensure order prices are moving orderly within a reasonable range. The Enhanced Limit Order and Special Limit Order can match up to two price queues at a time, and the quotation rules would be relaxed (from 4 spreads to 8 spreads) to maintain market continuity and efficiency.

2.2 Maximum order size

The current maximum order size at 400 board lots was last revised on 26 May 1997. An increase of the maximum order size will enable traders to input large client orders into the System without splitting them up and will thus increase the efficiency of traders' operation. In addition, a small maximum order size will limit the use of the Enhanced Limited Order and Special Limit Order which allow the matching of two price queues at a time. Therefore, the maximum order size would increase from 400 to 600 board lots.

2.3 Maximum number of outstanding orders per broker ID

With the introduction of the new trading devices, namely, the MWS and BSS, the number of workstations for order input and hence the number of outstanding orders per broker ID has been increasing. In addition, it is anticipated that there will be more orders coming into the System through the Order Routing System "ORS" when it is implemented. This would result in a larger number of outstanding orders on average, therefore, the maximum number of outstanding orders per broker ID would be increased from 800 to 2,000 orders.

2.4 Maximum number of orders per queue

The length of queue (currently at 1,000 orders per queue) represents the maximum number of orders of a particular stock that can be queued up at the same price level. It is anticipated that with the ORS in place, the number of orders will increase. The increase of the maximum number of orders per queue from 1,000 to 2,000 orders will facilitate brokers' trading operation.