17 Dec 2024

Consultation Conclusions

Proposed Reduction of Minimum Spreads in the Hong Kong Securities Market

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DEFINITIONS

Term	Definition
“Applicable Securities”	All securities, other than the debt securities, Exchange Traded Options, Exchange Traded Products and Structured Products
“Bid-ask spread”	Difference between the best bid price and the best ask price of a security
“Bps”	Basis points
“Consultation Paper”	Consultation Paper on Proposed Reduction of Minimum Spreads in the Hong Kong Securities Market published on 28 June 2024
“Exchange” or “We”	The Stock Exchange of Hong Kong Limited
“Exchange Participant”	Means a person: (a) who, in accordance with these Rules, may trade on or through the Exchange; and (b) whose name is entered in a list, register or roll kept by the Exchange as a person who may trade on or through the Exchange as an Exchange Participant and “Exchange Participantship” shall be construed accordingly
“Exchange Traded Option” or “ETO”	Means Options Contract traded on the Exchange pursuant to the Options Trading Rules
“Exchange Traded Product” or “ETP”	Exchange Traded Product, which includes Exchange Traded Funds and Leveraged and Inverse Products
“HKEX”	Hong Kong Exchanges and Clearing Limited
“Minimum spread”	The smallest allowable price change for a stock traded on an exchange
“Quotation Rules”	The relevant quotation rules that govern the order input prices currently expressed in the number of 24 trading spreads during the Continuous Trading Session under Chapter 5 of the Rules of the Exchange
“REIT”	Real Estate Investment Trust
“SFC”	Securities and Futures Commission
“Structured Product”	Has the same meaning as in Chapter 15A of the Main Board Listing Rules
“Tick-to-price ratio”	The ratio between the minimum spread and the stock price

EXECUTIVE SUMMARY

Purpose

1. This paper sets out conclusions ("Conclusions") to the Exchange's Consultation Paper on the Proposed Reduction of Minimum Spreads in the Hong Kong Securities Market ("Consultation Paper").

Background

2. On 28 June 2024, we published the Consultation Paper to seek market views and comments on the proposed reduction of minimum spreads of the Applicable Securities in two phases. The consultation period lasted for 12 weeks and ended on 20 September 2024.

3. The proposed changes reflect our ongoing commitment to enhancing market microstructure with a goal to improve market liquidity and global competitiveness of the Hong Kong market by facilitating bid-ask spread reduction and transaction costs savings.

Market Feedback

4. We received 110 non-duplicate responses to the Consultation Paper from a wide spectrum of market segments, including

   - 57 HKEX Exchange Participants (EPs) representing approximately 89% of market share[1];
   - 8 major industry associations representing both retail and institutional interests in the Hong Kong market, such as brokers, investors and other market participants based in Hong Kong, the Mainland and overseas;
   - 9 institutional investors and 3 other corporate entities including system vendors; and
   - 33 individuals, most of them being local retail investors in Hong Kong.

   A full list of respondents is set out in **Appendix I**.

5. The majority of respondents expressed support for the proposed two-phased minimum spreads reduction as outlined in the Consultation Paper. The market has acknowledged the positive impact on reducing transaction costs and improving market liquidity with a tighter minimum spread of the Applicable Securities. However, some respondents raised concerns regarding phase 2, particularly its potential impact on

[1] The market share of all EPs in the cash market as of June 2024. Source: HKEX.

trading of smaller-priced securities.

6. Furthermore, we received feedback regarding the adjustments needed for Quotation Rules governing order price inputs, the market-making obligations associated with single stock options, stock settlement fees payable to the Exchange, and other market structure enhancement ideas by respondents.

7. A summary of feedback and our responses to the key comments are set out in Chapter 2.

Implementation

8. In light of the positive market feedback received, we will move forward with the implementation of phase 1, where minimum spreads of Applicable Securities that fall within the price bands of $10 to $20, and $20 to $50, will be reduced by 50% and 60% respectively. To ensure that the market is adequately prepared for this transition, a lead time of at least six months will be provided prior to the implementation, which is set to launch around mid-2025, subject to market readiness, regulatory approvals and other inter-dependent rollouts affecting the securities market of Hong Kong.

9. The implementation plan will be discussed in Chapter 3 of this paper.

10. Following the implementation of phase 1 and a subsequent review of the results, we will make a further announcement to the market separately regarding the implementation plan of phase 2 if no undesirable impact is observed in the review. Implementation of phase 2, if any, will be around mid-2026 tentatively subject to market readiness.

11. In addition to changes to the minimum spreads, the Consultation Paper also noted that we would review our stock settlement fee structure. The proposal is under consideration by the SFC. Further details, including the fee rates, will be announced in 2025 subject to regulatory approval.

12. We will also implement two associated changes, including the revisions of Quotation Rules and single stock options' market making obligations along with the launch of phase 1, subject to relevant market readiness and regulatory approvals. Details of these modifications are outlined in Chapter 2.

13. The summary conclusions are shown in **Appendix II** for easy reference.

14. The Exchange would like to take this opportunity to thank those who have shared their views and comments during the consultation process, better support the continued development of our securities market.

CHAPTER 1: INTRODUCTION

The Consultation Proposal

15. The consultation model of the proposed reduction of minimum spreads entails the following key features:

    a. Scope: The Applicable Securities, i.e. equities, Real Estate Investment Trusts ("REITs"), equity warrants and all other securities, excluding Exchange Traded Products ("ETPs"), debt securities, Exchange Traded Options ("ETOs") and Structured Products. The minimum spreads applied to these excluded securities will remain unchanged.

    b. Price bands and magnitude of reduction: In phase 1, the minimum spreads of the two price bands between (i) $10 and $20; and (ii) $20 and $50 will be reduced by 50% and 60% respectively (see Table 1 for details). In phase 2, the minimum spread of the price band between $0.5 and $10 will be reduced by 50% (see Table 2 for details).

    c. Spread table arrangement: Maintain existing single spread table model for Applicable Securities, i.e. all Applicable Securities will share the same spread table as stated in Table 1 below.

Table 1: Proposed minimum spreads for the Applicable Securities in phase 1

Price Band (currency unit)[2]	Original minimum spread	Proposed minimum spread	Original tick-to-price ratio (bps)	Proposed tick-to-price ratio (bps)
From 0.01 to 0.25	0.001		40-1000	
Over 0.25 to 0.50	0.005		100-200	
Over 0.50 to 10.00	0.010		10-200	
0.50 to 1.00	*0.010*		*100-200*	
1.00 to 2.00	*0.010*		*50-100*	
2.00 to 5.00	*0.010*		*20-50*	
5.00 to 10.00	*0.010*		*10-20*	
Over 10.00 *to* 20.00	**0.020**	**0.010 (-50%)**	**10-20**	**5-10 (-50%)**
Over 20.00 *to* 100.00	**0.050**	**0.020 (-60%) /0.050**	**5-25**	**4-10 (-60%) / 5-10**
20.00 to 50.00	***0.050***	***0.020 (-60%)***	***10-25***	***4-10 (-60%)***
50.00 to 100.00	*0.050*		*5-10*	
Over 100.00 to 200.00	0.100		5-10	
Over 200.00 to 500.00	0.200		4-10	
Over 500.00 to 1,000.00	0.500		5-10	
Over 1,000.0 to 2,000.00	1.000		5-10	
Over 2,000.0 to 5,000.00	2.000		4-10	
Over 5,000.0 to 9,995.00	5.000		5-10	

[2] Applicable to all currency units including Hong Kong dollar.

Table 2: Proposed minimum spreads for the Applicable Securities in phase 2

Price Band (currency unit)	Original minimum spread	Proposed minimum spread	Original tick-to-price ratio (bps)	Proposed tick-to-price ratio (bps)
From 0.01 to 0.25	0.001		40-1000	
Over 0.25 to 0.50	0.005		100-200	
Over 0.50 to 10.00	**0.010**	**0.005**	**10-200**	**5-100**
0.50 to 1.00	*0.010*	*0.005 (-50%)*	*100-200*	*50-100 (-50%)*
1.00 to 2.00	*0.010*	*0.005 (-50%)*	*50-100*	*25-50 (-50%)*
2.00 to 5.00	*0.010*	*0.005 (-50%)*	*20-50*	*10-25 (-50%)*
5.00 to 10.00	*0.010*	*0.005 (-50%)*	*10-20*	*5-10 (-50%)*
Over 10.00 to 20.00	0.010		5-10	
Over 20.00 to 50.00	0.020		4-10	
Over 50.00 to 100.00	0.050		5-10	
Over 100.00 to 200.00	0.100		5-10	
Over 200.00 to 500.00	0.200		4-10	
Over 500.00 to 1,000.00	0.500		5-10	
Over 1,000.00 to 2,000.00	1.000		5-10	
Over 2,000.00 to 5,000.00	2.000		4-10	
Over 5,000.00 to 9,995.00	5.000		5-10	

16. Other than seeking market views on the consultation model as outlined above, in order to manage the impact of spread changes, we have also consulted on the inclusion of a percentage-based requirement in addition to the existing spread-based requirements of the Quotation Rules, i.e. either ±24 spreads or 3.5% from the reference price[3], whichever is greater in percentage terms. The consultation questionnaire also solicited respondents' views on anticipated technical challenges and the lead time necessary for the implementation of both phases for market participants, as well as any other feedback that market participants may have on the Consultation Paper.

Respondent Profile

17. We received a total of 110 non-duplicate responses to the consultation, of which 77 were institutional responses and 33 were individual responses. A full list of respondents to the Consultation Paper is set out in **Appendix I**, and the responses are available on the Exchange website. A breakdown of the respondents by category[4] is set out in Table 3 below.

[3] Most of the time, the reference price is the best bid price or the best ask price, or any other price as the case maybe. Please refer to Chapter 5 of the Rules of the Exchange for details.

[4] Respondents are grouped using their input in the consultation responses and are further categorised with the most appropriate descriptions.

Table 3: Breakdown of respondents by category

Category	Number	Percentage
Exchange Participants	57	52%
Industry associations	8	7%
Individuals	33	30%
Institutional investors	9	8%
Others	3	3%
Total	**110**	**100%**

Respondent Counting Methodology

18. A qualitative analysis has been adopted to consider the broad spectrum of respondents and their views appropriately. The qualitative analysis enabled us to give due weight to responses submitted on behalf of multiple persons or institutions and the underlying rationale for a respondent's position.

19. A quantitative analysis has also been used to determine the level of support, in purely numerical terms, for the proposals. Such analysis is set out in **Appendix III**.

20. For the avoidance of doubt, the number of responses received has been counted rather than the number of underlying respondents represented by those submissions in the quantitative analysis set out in **Appendix III**. For example, a submission by a professional body is counted as one response even though that body may represent multiple members.

CHAPTER 2: MARKET FEEDBACK AND OUR RESPONSES

21. In this chapter, we have consolidated the market feedback and have provided our responses to the key comments.

General Comments on the Consultation Proposal

Scope, magnitude of reduction and spread table arrangements

22. The majority of responses were supportive of the proposal of the two-phased minimum spreads reduction as outlined in the Consultation Paper, as most respondents acknowledged the reduction in minimum spreads would reduce transaction costs, and promote trading liquidity and market efficiency. These feedback align with the objectives of this initiative.

23. By the number of responses, an overall support of 70% for phase 1 and 64% for phase 2 of the proposal in terms of the scope of the Applicable Securities and the selection of price bands were observed. Meanwhile we note that a number of individual respondents were concerned that if a tighter minimum spread is applied to the Applicable Securities which are smaller priced in phase 2 of the proposal, turnaround trading of these securities may be discouraged. On the contrary, there were a few responses calling for the Exchange to review and reduce the minimum spreads of securities priced below $0.5 and/ or above $50.

24. Of the Exchange Participants that have responded, they collectively represent around 89% of the market share. After excluding those indicating “no comment” to the two-phased proposal, 65% and 60% by market share expressed support while 13% and 15% by market share did not support the two phases respectively. A breakdown of comments received on both phases is set out in Table 4 below.

Table 4: **Breakdown of comments received on both phases by number**[5]

Category	Response received	Support phase 1	Against phase 1	Support phase 2	Against phase 2
Institutional					
Exchange Participants (*Market share %*)	57 *89%*	41 *65%*	6 *13%*	40 *60%*	6 *15%*
Industry Associations	8	8	0	7	1
Institutional Investors	9	8	1	7	2
Others (Incl. Vendors)	3	2	0	2	0
Individual					
Total	33	18	7	15	14

25. Additionally, 80% of respondents by number have expressed a preference for maintaining a single spread table model to a multiple spread table model, as the latter may add complexity in system design and create operational challenges.

Our response

26. We are pleased to receive overall supportive feedback from the market regarding the proposed minimum spreads reduction as a market microstructure enhancement measure. As explained in the Consultation Paper Chapter 1, securities priced below \$0.5 and/ or above \$50 are not in the scope after careful consideration in liquidity profile, book depth, and optimal tick-to-price ratio. **We will proceed with the implementation of phase 1, while phase 2 will be subject to a review of the implementation of phase 1 where no undesirable impact is observed.**

Associated Changes with Phase 1 Rollout

Quotation Rules for order input price limit

27. We have consulted the market on the inclusion of a percentage-based (3.5%) requirement on top of the existing Quotation Rules, which govern the order input price limit during the Continuous Trading Session, i.e. at the point of order input a passive bid (ask) order cannot have its price more than 24 spreads away from the respective reference price. This adjustment aims to mitigate any unintended consequences arising from the narrowed price limits following the minimum spreads reduction, which may reduce investors' flexibility for setting prices in order placement. While most of the responses agreed to the direction of adjustment, some further suggested to adjust the allowable price limits governed by the Quotation Rules by alternative ways, such as

[5] Responses indicating "no comment" are included in total counts of the response received and in market share, but not shown as separate columns in the table.

doubling the ±24 spreads limit to ±48 spreads, or raising the additional percentage requirement from the proposed 3.5% to a higher percentage such as 5%.

Our response

We have evaluated the suggestion of doubling the existing quotation limit to ±48 spreads carefully. While we appreciate the merits of its simplicity and Hong Kong market's familiarity, we believe that a percentage-based setting would achieve the same objective of allowing better order input flexibility, while at the same time it would also further align with global practices that have moved towards to a percentage-based approach.

The newly proposed percentage limit of 5% (instead of 3.5%) for all securities except ETPs from some respondents was also considered carefully. 5% is slightly wider than the original proposal of 3.5%, which is currently adopted for ETPs, and would reflect the characteristics that single stocks would usually have larger price volatility compared to ETPs representing a basket of securities. Besides, setting it at 5% would see some price ranges from $2 to $6.8 to have comparable price limits in percentage terms after spreads reduction, rather than having the price limits in these price ranges considerably narrowed (see Table 5 for further details). A wider limit also allows more passive orders to queue and facilitates the build-up of a deeper order book.

With the addition of a 5% requirement, the allowable limit for order price input for some securities, mainly those above $50, will become wider than that of today. Nonetheless, the expanded price limit of 5% is not excessive for these higher priced stocks and would primarily facilitate the queuing of more passive orders to build more order depth, maintaining good execution quality. For securities trading between $5 and $50, most of them will have quotation limits comparable to today and therefore similar pricing efficiency can be maintained. Securities at the lower end of the price range, particularly those priced below $2, will not be affected as the allowable input price range will still be dominated by 24 spreads which stands at or wider than 6% for these securities after phase 2 is implemented.

Having carefully considered the rationale of the respondents, as well as the characteristics of securities at different price ranges and possible trading impact, we will **update the proposed allowable price limit under the Quotation Rules for all securities except ETPs to either ±24 spreads or 5% from the reference price, whichever is greater in percentage terms.**

Table 5: Price bands impacted under the proposed Quotation Rule change

Price Range		# of securities in price range	Current 24 ticks (%)	After reduction 24 ticks (%)	3.5% or 24 ticks (whichever wider (%))	5% or 24 ticks (whichever wider (%))
Lower	Upper					
0.51	2.00	936	12.0 - 47.1%	6.0 - 23.5%	6.0 - 23.5%	6.0 - 23.5%
2.01	4.80	299	5.0 - 11.9%	2.5 - 6.0%	3.5 - 6.0%	5.0 - 6.0%
4.81	5.00	17	4.8 - 5.0%	2.4 - 2.5%	3.5%	5.0%
5.01	6.85	90	3.5 - 4.8%	1.8 - 2.4%	3.5%	5.0%
6.86	10.00	115	2.4 - 3.5%	1.2 - 1.7%	3.5%	5.0%
10.02	13.72	46	3.5 - 4.8%	1.7 - 2.4%	3.5%	5.0%
13.74	20.00	58	2.4 - 3.5%	1.2 - 1.7%	3.5%	5.0%
20.05	24.00	22	5.0 - 6.0%	2.0 - 2.4%	3.5%	5.0%
24.05	34.25	44	3.5 - 5.0%	1.4 - 2.0%	3.5%	5.0%
34.30	50.00	28	2.4 - 3.5%	1.0 - 1.4%	3.5%	5.0%

Source: HKEX research based on certain trading day(s) in 2024

Note: Price limit ranges compared under different scenarios with "24 ticks (%) Current" scenario: if narrowed - font in red; if widened – font in green.

Single stock options market making obligations

28. A few responses mentioned the necessity to review the market making obligations for single stock options, as reducing minimum spreads will tighten the obligations and may adversely impact market makers' quoting abilities and trading activities.

<u>*Our response*</u>

We acknowledge the feedback and in order to mitigate the impact brought by the minimum spreads reduction, <u>**we will implement temporary adjustments to the market making obligations for the relevant single stock options along with the phase 1 rollout**</u>, such that a transition period is in place to support market makers to adapt to the change in the economics of market making for the impacted stock options. Further details will be announced in due course.

Stock settlement fees

29. Some responses reflected concerns about the potential increment in stock settlement fees that may arise from minimum spreads reduction, as the number of small sized trades is expected to increase when orders are split for price optimisation.

Our response

Market structure enhancements such as reducing minimum spreads may have the potential to reduce average trade size in the cash market. The structure of the existing stock settlement fee, specifically the $2 minimum component, results in smaller trades being disproportionately more expensive than larger trades and if average trade size were to be reduced, this would lead to an increased cost of trading.

To help facilitate a smooth implementation of the reduction of minimum spreads without increasing the overall market trading cost, the stock settlement fee is proposed to be restructured. The minimum and maximum components would be removed and replaced with an adjusted fee rate charged on notional value traded. The new fee structure is designed to be cost-neutral to the market as a whole, while providing a more equitable and deterministic cost structure.

Alongside the proposed fee change for the market, a separate provision will be made for qualified ETP market making trades. The same fee structure, with an alternative fee rate, will be applied to these trades. This aims to align trading costs for ETP market makers under the proposed fee restructure with their historical trading cost.

The proposal is under consideration by the SFC. Further details, including the fee rates, will be announced in 2025 subject to regulatory approval.

Other Comments

Concerns on profitability of liquidity provision or turnaround trading on smaller-priced securities

30. Some respondents, who were mostly market makers or retail investors, were concerned that if a tighter spread table is applied to the Applicable Securities with smaller prices in phase 2, the potentially tighter bid-ask spread of the securities would make it harder for investors to make a profit through liquidity provision or turnaround trading, and thus failing to achieve the purpose of improving market liquidity.

Our response

Currently, smaller-priced securities (particularly those trading below $2) are trading with higher tick-to-price ratios of 40bps or above, which would impact trading velocity as an active investor would pay a relatively high spread cost to cross the spread and complete a trade. On the other hand, with this wide tick-to-price ratio, passive investors queuing at the top of the book may achieve a trading profit by completing a turnaround trade even if the stock price only moves for one minimum spread, as the price differential of one spread (40bps or above) could exceed the total transaction costs of the turnaround trade including stamp duty.

We note that trading strategies such as market making and turnaround trading would leverage on wide spread and queuing priority and hence such trading strategies may need to be re-adjusted after minimum spreads reduction. Nonetheless, reduction of minimum spreads would mean lower spread cost for active investors and hence would improve trading velocity and liquidity of the stock. As a market operator, it is crucial for us to balance the diverse needs of our investors with different profiles and investment horizons. We believe that the investing public as a whole will benefit from the lowering of transaction costs and improvement in price discovery after the implementation of this initiative, hence welcoming new entrants to the market and enhancing more market vibrancy.

Notwithstanding the above, **an observation period following phase 1 implementation will be established to assess phase 1's impact to market liquidity. The implementation plan for phase 2 will be announced if no undesirable result is observed in the assessment.**

Concerns on order book depth

31. Some respondents urged us to consider the potential negative impact on order book depth due to minimum spreads reduction, such as the reduction of displayed liquidity at each price step, which would further increase the difficulty to execute a large order.

Our response

We are aware of the potential reduction in displayed liquidity at each price step as the number of price steps increases. However, as stated in the Consultation Paper, the order book depth at the top layer of the order book has relatively adequate depth (more than nine times the average trade size) for securities priced above $10, which would provide buffer against any negative impact to the displayed liquidity. It should also be noted that the overall accumulated liquidity throughout the order book is unlikely to be adversely affected by minimum spreads reduction.

Similar rationale applies to the price band between $0.5 and $10, where securities within this price range have more than eight times of top layer book depth compared to the average trade size. However, we are aware that securities priced below $2 may have lower book depths than other securities of higher prices within the same price band. Therefore, we will duly assess the results of phase 1 before planning for the implementation of phase 2, which will be implemented if no undesirable result is observed.

Concerns on throttle usage and the related infrastructure costs

32. Some institutional respondents cited a potential increase in order messages that may lead to an increase in throttle usage and associated costs. They suggested that the Exchange should assess the impact and if necessary, review the current throttle scheme,

even though the review has not been highlighted as a pre-requisite for the implementation of phase 1.

Our response

We have been making ongoing assessments to our infrastructure arrangement and the associated costs. For phase 1 implementation, which targets only a fraction of equity securities, we estimate the impact on market's system requirements including throttles would not be significant and hence the existing arrangement needs not to be revised at this stage. Nonetheless, we will take into account of the market feedback in our phase 1 review, so that appropriate and necessary arrangements may be considered in the future.

Suggestions on other microstructure enhancements

33. There were views on other microstructure enhancements including further reduction in transaction fees, standardizing or abolishing board lot size, reducing stamp duty, as well as introducing T+1 settlement, mid-point crossing and periodic auction.

Our response

We would like to thank market participants for sharing ideas to further enhance our markets. We are committed to constantly reviewing the microstructure of our securities market, so as to further enhance Hong Kong's competitiveness as an international financial centre.

Consultation result on system setup of ETO trades to handle more than two decimal places

34. We consulted the market if they would need to perform system enhancements to handle ETO trades of more than 2 decimal places after spread reduction. No specific concerns were received in this regard.

Our response

No specific action in this regard.

Feedback on implementation lead time

35. In terms of implementation lead time for the minimum spreads reduction, for the Exchange Participants and other institutional respondents[6] who provided feedback to the question on implementation lead time, 79% and 63% of the responses by number are comfortable with a preparation period of six-month or under for phase 1 and phase

[6] Individual respondents are not expected to have system enhancement needs and hence their responses are excluded for this section.

2 respectively. However, a minority of these respondents (14% by number) requested a slightly longer preparation time, ranging from 7 months to 12 months for phase 2.

Our response

We are pleased to see supportive feedback from the market and adequate time will be given to the market to prepare for the minimum spreads reduction. **There will be at least 6 months lead time before the implementation of phase 1 and phase 2 respectively.**

CHAPTER 3: CONCLUSIONS AND TIMELINE

36. Feedback on the Consultation Paper demonstrates overall market support for the proposed minimum spreads reduction of the Applicable Securities in the Hong Kong securities market.

37. Therefore, we will proceed with the implementation of phase 1 with the spread table shown in Table 1. The minimum spreads of the price band between $10 and $20 of the Applicable Securities will be reduced from $0.02 to $0.01, and those between $20 and $50 will be reduced from $0.05 to $0.02. The single spread table will remain unchanged.

38. The majority of institutional respondents indicated a lead-time of six months to prepare for the implementation of phase 1. Phase 1 is now planned for launch around mid-2025 to give adequate preparation time for the market. The implementation details including the relevant rule changes and implementation timetable will be announced in due course.

39. Changes to Quotation Rules (from the current ±24 spreads, to ±24 spreads or 5% whichever wider in percentage terms), market making obligations and the stock settlement fee for exchange trades, will also be effective no later than the rollout date of phase 1. Details including the implementation timeline will be announced separately in due course.

40. Based on the considerations mentioned in Chapter 2, phase 2 will be implemented tentatively around mid-2026 if no undesirable impact is observed in the assessment of results from the phase 1 implementation, and subject to market readiness. Indicators such as changes in bid-ask spreads, order book depth and order message traffic may be examined.

41. We would like to express our thanks to all market participants who have shared their views and comments during the consultation process. Their valuable input is instrumental to the continuous enhancement and development of our securities market.

APPENDIX I: LIST OF RESPONDENTS

Exchange Participants

1. Guotai Junan Securities (Hong Kong) Limited
2. Interactive Brokers
3. Shenwan Hongyuan Securities Co., Ltd
4. Po Sang Securities Ltd
5. East Asia Securities Company Limited
6. Valuable Capital Ltd
7. Hafoo Securities Limited
8. China Securities (International) Brokerage Company Limited

9 - 57. Exchange Participants that requested anonymity

Industry Associations

58. Hong Kong Securities & Futures Professional Association
59. The Institute of Securities Dealers
60. The Chamber of Hong Kong Listed Companies
61. Chinese Financial Association of Hong Kong

62 - 65. Industry associations that requested anonymity

Institutional Investors

66 - 74. Institutional investors that requested anonymity

Others

75 - 77. Respondents that requested anonymity

Individuals

78. Carmen Cheng
79. Erik Chung
80. Leung Wai Kee
81. Peter Wong
82. LAU Suk Tung (Alton)
83. Lock Kwok Piu

84 - 110. Individuals that requested anonymity

APPENDIX II: CONCLUSIONS SUMMARY

No.	Consulted items, associated changes and other comments	Conclusions
1	Market implementation including scope, magnitude of reduction and approach	**Scope:** The Applicable Securities, i.e. Equities, Real Estate Investment Trusts ("REITs"), equity warrants and all other securities excluding Exchange Traded Products ("ETPs"), debt securities, Exchange Traded Options ("ETOs") and Structured Products. **Minimum spread reduction of different price ranges:** - Phase 1 (i) $10 and $20: 50% cut - Phase 1 (ii) $20 and $50: 60% cut - Phase 2 $0.5 - $10: 50% cut **Phased implementation:** - Phase 1: Around mid-2025 - Phase 2: Tentatively to be implemented around mid-2026 if no undesirable impact is observed in phase 1's result review
2	Quotation Rules	To update the proposed allowable price limit under the Quotation Rules for all securities except ETPs to either ±24 spreads or 5% from the reference price, whichever is greater in percentage terms.
3	Single stock options market making obligations	To implement temporary adjustments to the market making obligations for the relevant single stock options along with the phase 1 rollout.
4	Stock settlement fees	The proposal is under consideration by the SFC. Further details, including the fee rates, will be announced in 2025 subject to regulatory approval.
5	Feedback on implementation lead time	To reserve at least 6 months lead time before the implementation of phase 1 and phase 2 respectively.

APPENDIX III: QUANTITATIVE ANALYSIS OF RESPONSES

No.	Questions in the Consultation Paper	Number (%) of responses indicated:		
		Yes	**No**	**No comment**
1	It is proposed that only the Applicable Securities, i.e. equities, REITs and equity warrants, will undergo minimum spread reduction. Do you agree? If not, please provide reasons.	75 (68%)	18 (16%)	17 (16%)
		Exchange Participants' response (% market share)		
		59%	16%	14%
2	Do you agree with the Exchange's proposal to keep the minimum spreads of price bands below $0.5 and above $50 unchanged? If not, please provide reasons.	79 (72%)	11 (10%)	20 (18%)
		Exchange Participants' response (% market share)		
		64%	14%	11%
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)? If not, please provide reasons.	77 (70%)	14 (13%)	19 (17%)
		Exchange Participants' response (% market share)		
		65%	13%	11%

No.	Questions in the Consultation Paper	Number (%) of responses indicated:		
		Yes	**No**	**No comment**
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)? If not, please provide reasons.	71 (64%)	23 (21%)	16 (15%)
		Exchange Participants' response (% market share)		
		60%	15%	14%
5	Continued use of a single spread table model with increasing minimum spreads along with price bands is proposed. Do you agree? If not, please provide reasons.	88 (80%)	3 (3%)	19 (17%)
		Exchange Participants' response (% market share)		
		76%	0.4%	13%
6	Are you supportive of a multiple spread table model for the same type of securities? If so, what eligibility criteria would you suggest? If not, what challenges would you foresee in the implementation of a multiple spread table model? Please elaborate.	7 (6%)	38 (35%)	65 (59%)
		Exchange Participants' response (% market share)		
		7%	61%	21%

No.	Questions in the Consultation Paper	Number (%) of responses indicated:		
		Yes	**No**	**No comment**
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? If not, please provide reasons.	70 (64%)	9 (8%)	31 (28%)
		Exchange Participants' response (% market share)		
		59%	15%	15%
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? Please elaborate and explain the potential impact, including the possible lead time required for the additional infrastructure changes, if any.	30 (27%)	39 (36%)	41 (37%)
		Exchange Participants' response (% market share)		
		52%	34%	3%
9	Do you agree with the proposed six-month lead time before effecting the new Spread Table for the Applicable Securities under phase 1? If not, what would be a reasonable length and why?	80 (73%)	14 (13%)	16 (14%)
		Exchange Participants' response (% market share)		
		63%	16%	10%

No.	Questions in the Consultation Paper	Under 3 months	4 - 6 months	7 - 12 months	No comment	Others
10	If the Exchange decides to implement phase 2 proposed after the review of phase 1, how much lead time would you need?	24 (22%)	37 (34%)	19 (17%)	20 (18%)	10 (9%)
		Exchange Participants' response (% market share)				
		14%	42%	6%	14%	13%