

By Email

7 October 2021

Hong Kong Exchanges and Clearing Limited ("HKEX")

ASIFMA Letter to HKEX on China Connect Odd Lot Trading Requirement

Dear HKEX Team

On behalf of the Asia Securities Industry & Financial Markets Association ("ASIFMA")¹ and our members, we would like to seek guidance from HKEX on (i) [Chapter 14A06.\(3\) of China Connect Service Special Rule for Shanghai-Hong Kong Stock Connect](#); and (ii) [Chapter 14B06.\(4\) of China Connect Service Special Rule for Shenzhen-Hong Kong Stock Connect](#) in relation to the odd lot trading requirement ("odd lot trading requirement").

Pursuant to the odd lot trading requirement, China Connect buy orders involving odd lots are not allowed. A sale of odd lots is allowed provided that the China Connect sell order relates to the sale of all, and not part, of the odd lots held in respect of a China Connect Security for a China Connect Exchange Participant ("CCEP") or for a client (as the case may be).

Based on the feedback received from our members, we are mindful that there are some uncertainties and challenges faced by the industry regarding the odd lot trading requirement. ASIFMA would like to take this opportunity to seek clarification from HKEX by listing the issues and feedback made by our members in the follow table:

#	Issues	ASIFMA's feedback/questions
1	Completing round lot orders	<p>If the client sends a round lot order e.g. 1000 shares, and receives an odd lot fill in the market due to queue priority, can an odd lot be sold to complete the client's intended round lot order?</p> <p>In the case where the round lot order is executed via an algo, since the algo does not have visibility into all the odd lot positions that the client has in the same security with other institutions, would CCEPs be expected to block algos from selling odd lots? This would create issues from a best execution perspective, as the client would have expected to</p>

¹ ASIFMA is an independent, regional trade association with over 150 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, professional and consulting firms, and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

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		<p>get a complete fill when entering the round lot order, and it would be impractical for a trader to monitor all algo orders to check with the client on their overall position if a residual odd lot position remains unsold. Would it be sufficient for the algo to ensure that all resulting odd lots from that round lot order are split to HKEX in one slice?</p>
2	Second odd lot created	<p>It would be unavoidable that odd lot balance was created during execution as order was partially filled, regardless of whether the client's initial order quantity is odd lot or round lot quantity.</p> <p>For example, when 200 shares of total 250 shares are sent for execution over the day and then the remaining 50 shares are sent directly to the market BEFORE all of the 200 shares are executed, there will be a situation where the residual of the 200 shares is an odd lot. When the residual odd lot is pulled back from the market (hypothetically say 25 shares left), CCEP will have an odd lot left to place to the market.</p> <p>In this regard, at the time of placing 50 shares, the odd lot balance was 50 shares and hence it is a compliant odd lot order. Where the original 50 shares odd lot remains unexecuted in the market, the placement of the odd lot order of 25 shares, at the time of order placement, represents the residual odd lot balance of the order.</p> <p>Based on the feedback received from our members, it is suggested that the scenario described above is NOT an issue with the odd lot requirement, through an informal discussion with the Mainland Exchanges.</p> <p>In light of this, ASIFMA would like to confirm with HKEX that, to the extent odd lot balance is created during execution, CCEP only needs to make sure such odd lot balance, at the time of order placement by CCEP, was the residual odd lot balance without creating further slices with smaller quantity.</p>
3	Desk/Strategy level inventory	<p>For affiliate client who may have multiple desks with different strategies trading at China Connect market (e.g. hedging for structured products for different underlying clients, inventory management, etc.), if one desk places odd lot sell order, the rule implies it has to at the same time sell all odd lot positions the entity (including all other desks) hold. It would be challenging and increasing the difficulties to implement controls. It will also defeat the purpose of segregation between various desks within the affiliate client.</p> <p>Could HKEX propose to allow exemptions for scenarios like this?</p>
4	Lack of visibility on odd lot balance and difficulties to combine order of fund level BCANs	<p>Where clients are placing order through multiple trading channels, it would be difficult for CCEP to confirm clients' odd lot balance on a real time basis.</p> <p>For clients executing orders via DMA channel with brokers, multiple orders would usually be placed on the same stock within a day. Due to</p>

		<p>the nature of a DMA trade, broker pass the order to market for execution directly. Without knowing the client's inventory, it is impossible for the broker to confirm if such DMA sell order is in full size or not.</p> <p>Further, some clients might have requested for fund level BCANs and they need to place multiple orders for each BCAN. In this regard, it would be difficult for CCEP to combine those odd lot orders despite the fact that those odd lot orders may not represent odd lots held by the client. There could also be practical difficulties with getting confirmation from clients since individual traders may be responsible for different portfolios and not have visibility into holdings at the BCAN level. This situation is also applicable to fund manager BCANs as traders might place multiple orders for different funds/strategies under the same fund manager BCAN.</p> <p>Could HKEX propose to allow CCEPs exemption from monitoring for these scenarios?</p>
5	Confirmation of client odd lot balance	<p>Would it be sufficient to use the CCEP's Terms of Business or a blanket confirmation from the client to cover the CCEP's obligations under this rule? This would be particularly important because of difficulties aforementioned above.</p>

ASIFMA would welcome an opportunity to discuss this further with HKEX, or to receive any comments HKEX might have on the matters set out above.

Should you have any queries, please do not hesitate to contact Patrick Pang (ppang@asifma.org).

Yours sincerely,
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