

Research & Corporate Development

CASH MARKET
TRANSACTION SURVEY 2008/09

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Hong Kong Exchanges and Clearing Limited
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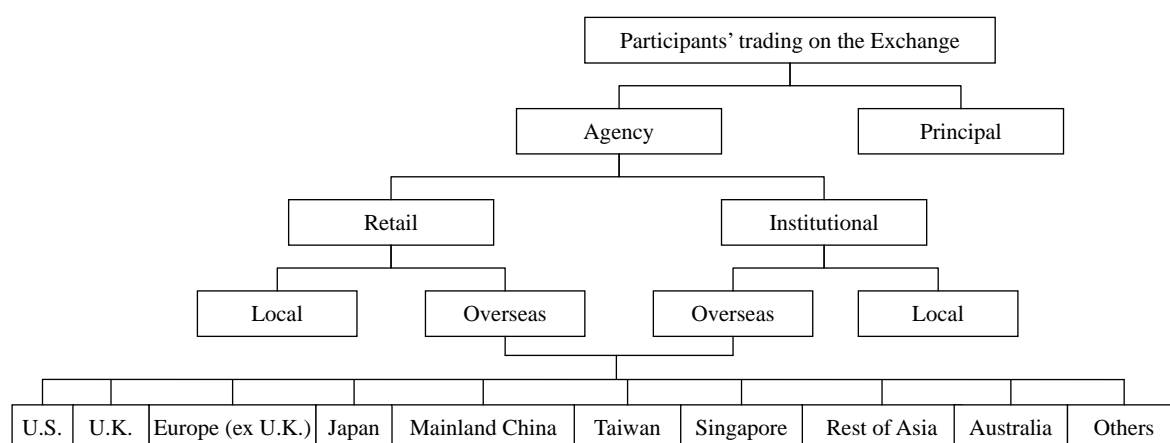
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1. INTRODUCTION

The Cash Market Transaction Survey (CMTS) has been conducted annually since 1991 to study the trading composition of Stock Exchange Participants (EPs). The main objective is to understand the relative contribution of trading value in the HKEx securities market, including the Main Board and the Growth Enterprise Market (GEM), by investor type (see classification chart below). The market share of online trading¹ has been covered since 1999/2000.

Classification of Stock Exchange Participants' trading



The Cash Market Transaction Survey 2008/09 covered EPs' transactions on both the Main Board and the Growth Enterprise Market for the 12-month period from October 2008 to September 2009. Fieldwork was conducted during October 2009 to December 2009.

Survey questionnaires were mailed to 440 EPs in the target population. Out of the 440 questionnaires sent, 410 duly completed questionnaires were received, representing an overall response rate of 93% by number or 99% by turnover value in the target population.

¹ Please refer to "Glossary" for definition.

2. KEY FINDINGS

In the context of a year-on-year decrease of 36% in the total turnover value of the HKEx cash market to HK\$14,543,597 million during the study period, the following are the key findings of the survey.

Trading value by investor type

- (1) There was little change in the distribution pattern of market turnover by trade type in 2008/09 in comparison with the previous year, except that the contribution from local investors slightly decreased while that from EP principal trading slightly increased.
- (2) In 2008/09, *local investors* contributed 50% of total market turnover compared to 52% in 2007/08. It was the lowest level since the survey started in 1991. Over the past decade, local investors contributed 53% of the cumulative market turnover.
- (3) In 2008/09, *overseas investors* contributed 42% of total market turnover, similar to their contribution in 2007/08 (41%). Their cumulative market share in the past decade was 41%.
- (4) The contribution to total market turnover from *institutional investors* decreased to 62% in 2008/09 from its highest level of 65% in 2007/08.
- (5) *Retail investors'* contribution to total market turnover in 2008/09 was 30%, similar to 29% in 2007/08.
- (6) The contribution to total market turnover from *EP principal trading* increased to 8% in 2008/09 from 6% in 2007/08. This was the highest level since the survey started in 1991.
- (7) The contribution to total market turnover from *local retail investors* was 25% in 2008/09, compared to 26% in 2007/08, and was the lowest level since the survey started in 1991. The contribution from *local institutional investors* decreased to 24% from 27% in the previous year.
- (8) The largest contributing type, *overseas institutional investors*, contributed 38% of total market turnover in 2008/09, similar to their contribution in 2007/08.
- (9) In 2008/09, all types of investor trading and EP principal trading fell *in value terms*. The fall in the trading value of local institutional investors (by 41%) was the most significant.

Trading value by overseas investors by origin

- (10) In 2008/09, *US investors* remained the largest contributors to overseas investors trading. Their contribution further increased to 36% of overseas investor trading from 35% in 2007/08. *UK investors* ranked second; they contributed 23% of overseas investor trading (up from 22% in 2007/08). On the other hand, the contribution from *Continental European investors* decreased sharply to 10% from 16% in 2007/08.
- (11) *Asian investors* contributed in aggregate more than one-fourth of total overseas investor trading in 2008/09 (26%), up from 22% in 2007/08. Investors from *Mainland China* were the largest contributors among Asian investors, with their share in overseas investor trading grew further to 12% from 8% in 2007/08. They were followed by Singaporean investors, who had an 8% share of overseas investor trading, similar to the level in 2007/08.

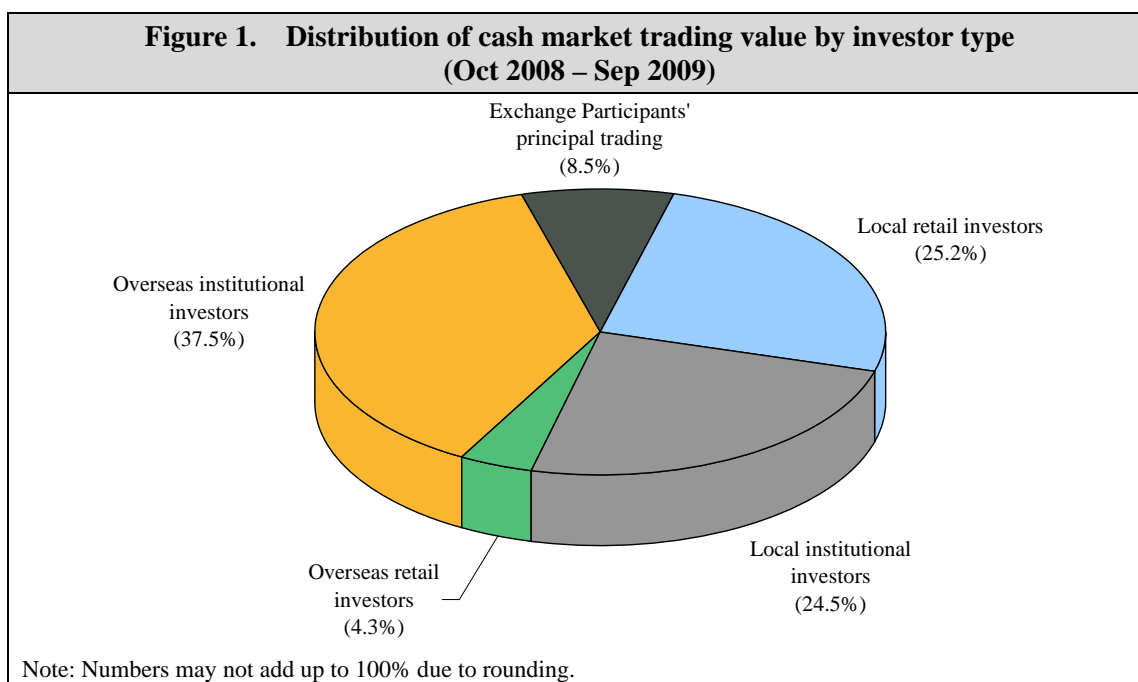
Retail online trading²

- (12) In 2008/09, the percentage share of retail online trading increased to 21% of total retail investor trading from 17% in 2007/08; and to 6% of total market turnover from 5% in 2007/08.
- (13) In value terms, retail online trading value fell by 20% in 2008/09 compared to the previous year, much lower than the 36% drop in the total market turnover value during the period.
- (14) About 42% (or 173 EPs) of all responding EPs reported themselves as online brokers in 2008/09, up from 38% (or 155 EPs) in 2007/08. Online trading constituted 16% of the total turnover of online brokers in 2008/09, compared to 15% in 2007/08.

² Since EPs might not be able to identify retail online trading channeled via banks (which might be regarded as their institutional clients), the level of retail online trading might be subject to under-estimation.

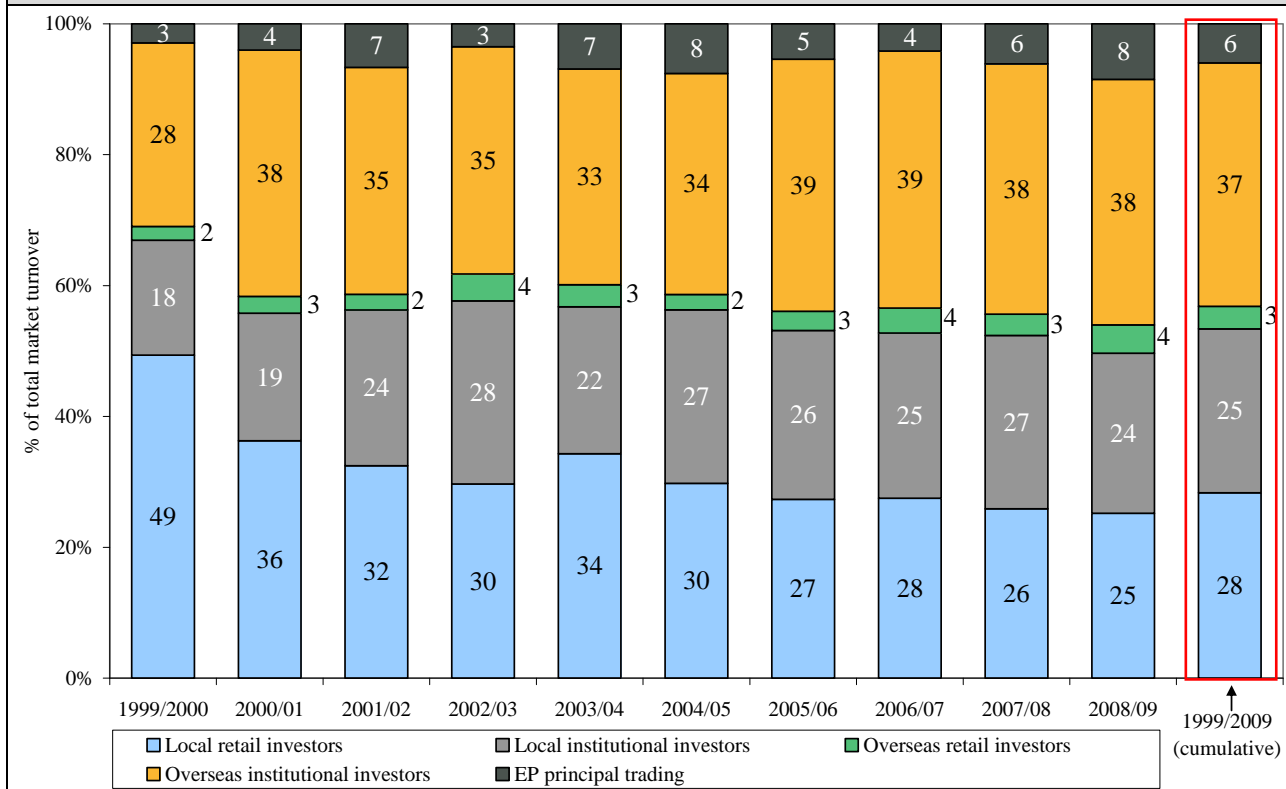
3. FIGURES AND TABLES

3.1 Distribution of market trading value by investor type



Type of trade	2006/07	2007/08	2008/09
All trading			
Agency	95.85	93.88	91.51
Principal	4.15	6.12	8.49
	100.00	100.00	100.00
Agency trading			
Retail	32.67	31.02	32.26
Institutional	67.33	68.98	67.74
	100.00	100.00	100.00
Agency trading			
Local	55.03	55.81	54.27
Overseas	44.97	44.19	45.73
	100.00	100.00	100.00
Retail investor trading			
Local	87.84	88.88	85.36
Overseas	12.16	11.12	14.64
	100.00	100.00	100.00
Institutional investor trading			
Local	39.11	40.94	39.47
Overseas	60.89	59.06	60.53
	100.00	100.00	100.00
Local investor trading			
Retail	52.14	49.40	50.74
Institutional	47.86	50.60	49.26
	100.00	100.00	100.00
Overseas investor trading			
Retail	8.83	7.81	10.33
Institutional	91.17	92.19	89.67
	100.00	100.00	100.00

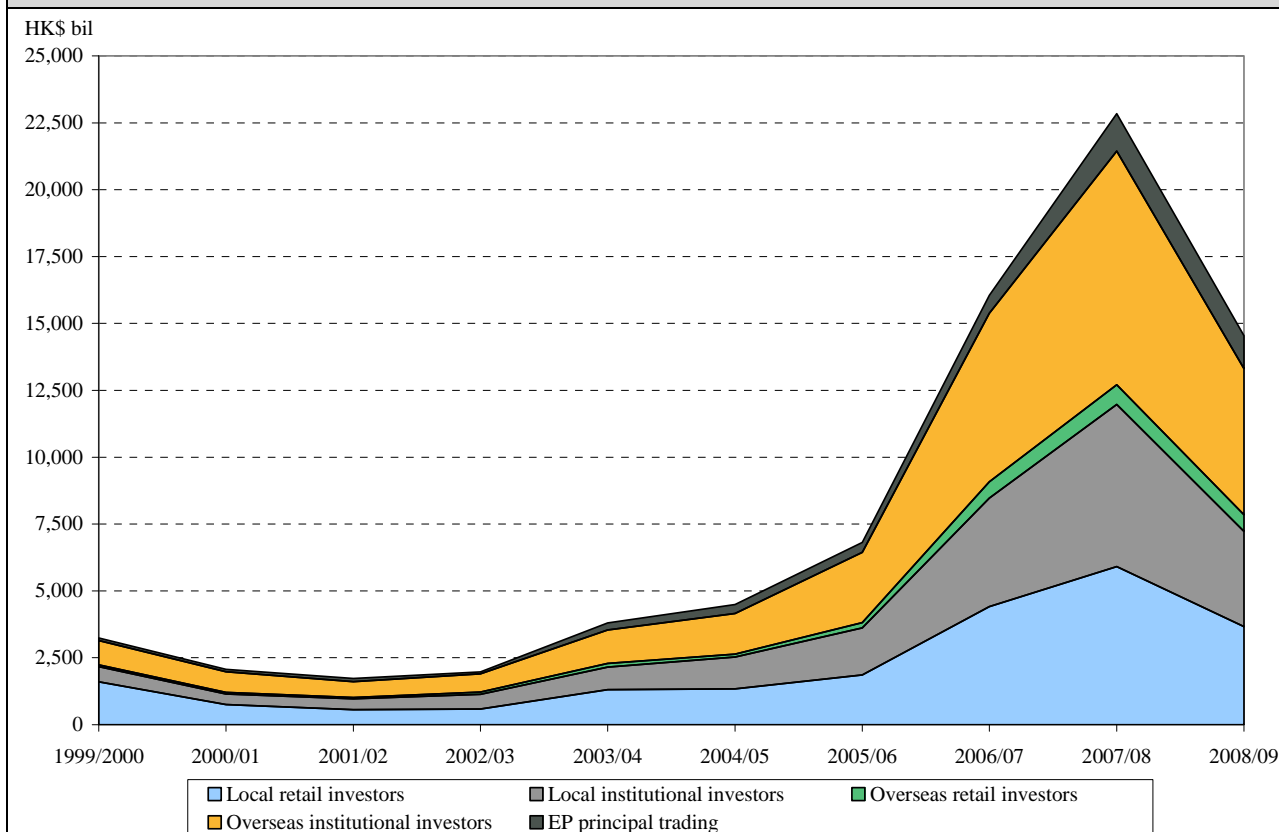
Figure 2. Distribution of cash market trading value by investor type (1999/2000 – 2008/09)



Type of trade	Distribution of cash market trading by type of trade (%)										1999/2009 cumulative market turnover (%)
	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	
EP principal trading	2.90	4.00	6.65	3.49	6.89	7.57	5.41	4.15	6.12	8.49	5.97
Overseas investor trading	30.19	40.23	37.08	38.84	36.34	36.14	41.47	43.10	41.49	41.84	40.65
Retail	2.13	2.58	2.39	4.10	3.36	2.34	2.96	3.81	3.24	4.32	3.43
Institutional	28.06	37.65	34.69	34.73	32.99	33.80	38.51	39.30	38.25	37.52	37.23
Local investor trading	66.91	55.77	56.27	57.67	56.77	56.30	53.12	52.75	52.39	49.66	53.38
Retail	49.38	36.27	32.46	29.69	34.29	29.78	27.34	27.50	25.88	25.20	28.36
Institutional	17.53	19.50	23.81	27.98	22.48	26.51	25.78	25.24	26.51	24.46	25.02

Note: Numbers may not add up to sub-totals or 100% due to rounding.

**Figure 3. Implied value of cash market trading by investor type
(1999/2000 – 2008/09)**



Type of trade	Year-on-year % change									
	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
EP principal trading	6.61	-12.08	38.70	-39.93	280.48	29.88	8.23	80.90	110.00	-11.68
Overseas investor trading	89.43	-15.09	-23.04	19.75	80.54	17.57	73.87	144.94	36.98	-35.79
Retail	222.72	-22.66	-22.77	96.42	57.87	-17.53	91.51	202.90	21.08	-15.04
Institutional	83.67	-14.51	-23.06	14.47	83.21	21.14	72.65	140.48	38.52	-37.54
Local investor trading	109.86	-46.90	-15.73	17.16	89.91	17.25	42.96	134.03	41.35	-39.65
Retail	117.77	-53.21	-25.26	4.55	122.84	2.70	39.06	137.13	33.93	-38.02
Institutional	90.38	-29.15	1.98	34.35	54.97	39.45	47.35	130.74	49.44	-41.24
Retail investor trading	120.74	-51.95	-25.09	10.85	114.95	0.89	42.88	143.56	32.36	-35.46
Institutional investor trading	86.19	-20.14	-14.51	22.56	70.61	28.56	61.53	136.57	42.79	-39.06
Total	97.86	-36.29	-16.49	14.33	92.92	18.24	51.50	135.68	42.31	-36.33

Figure 4. Distribution of cash market trading value by investor type (local vs overseas) (1999/2000 – 2008/09)

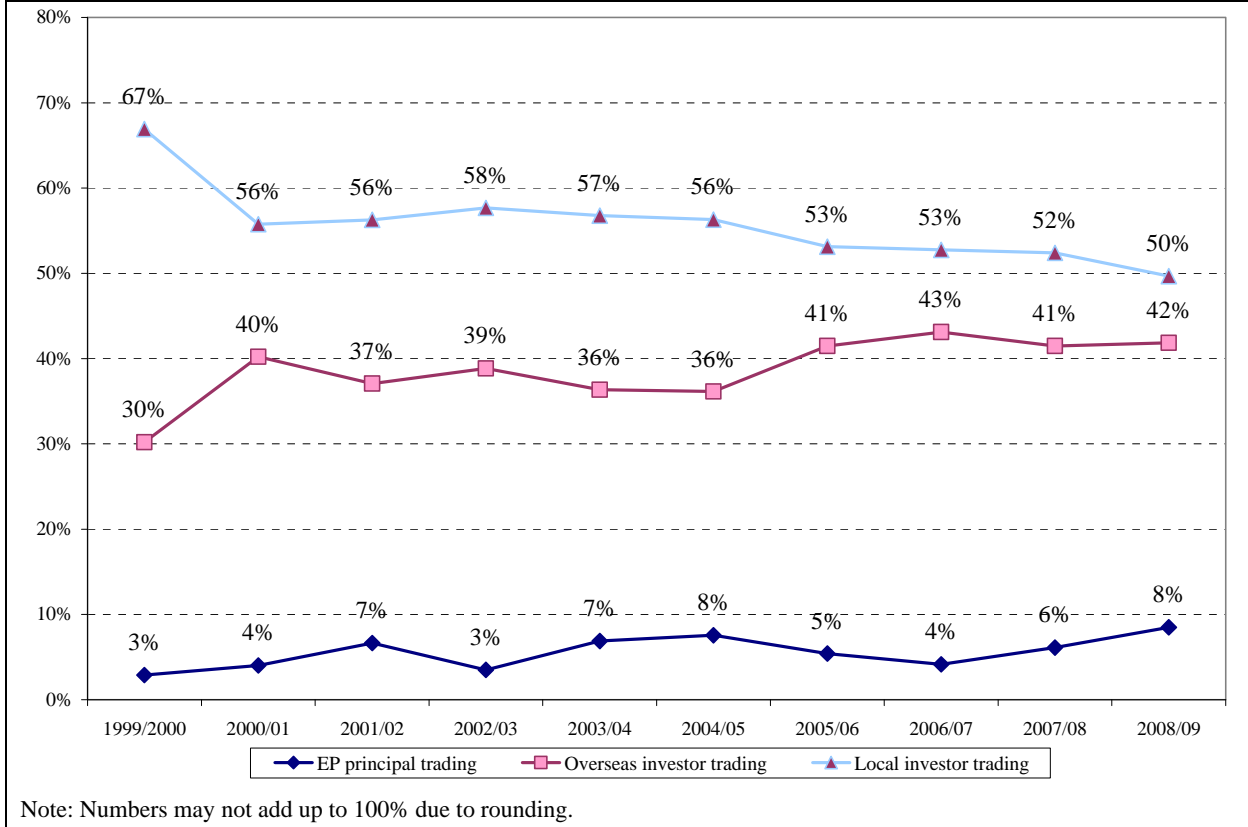
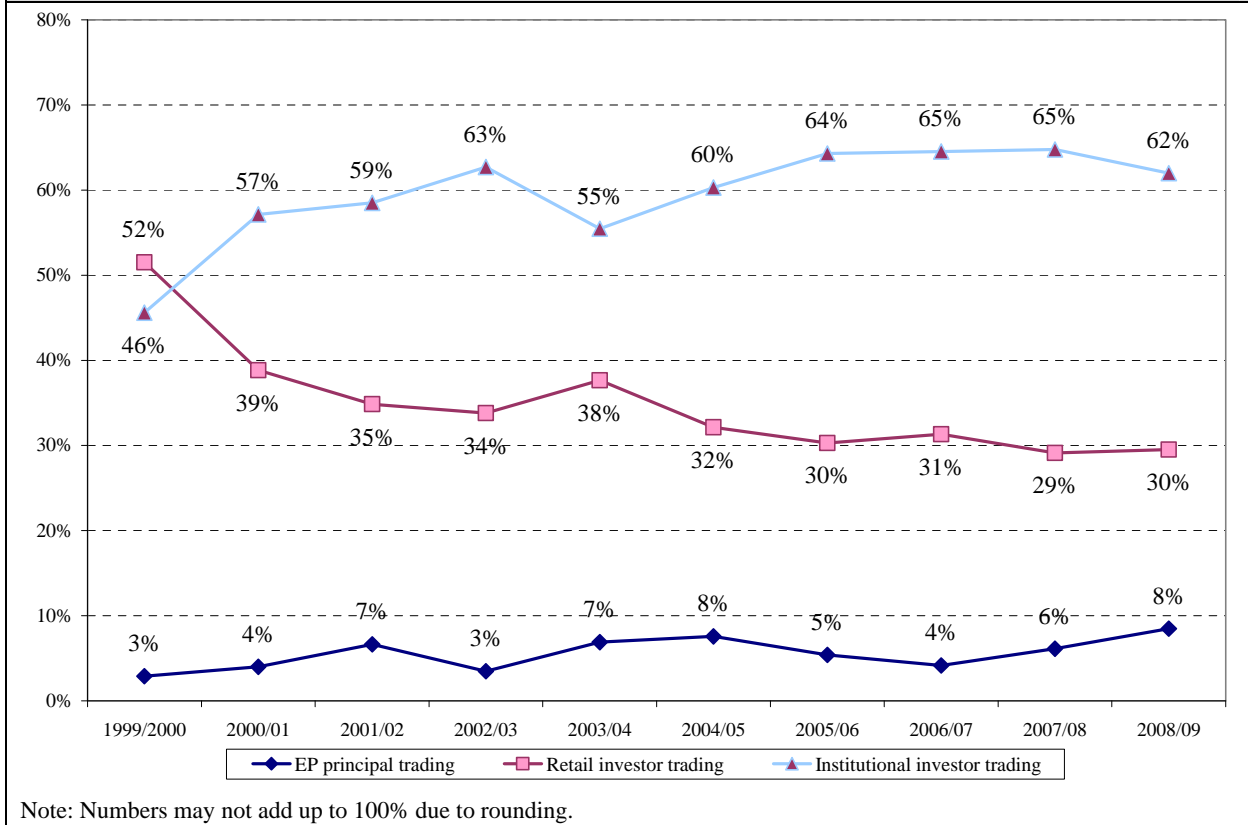


Figure 5. Distribution of cash market trading value by investor type (retail vs institutional) (1999/2000 – 2008/09)



3.2 Distribution of overseas investor trading value by origin

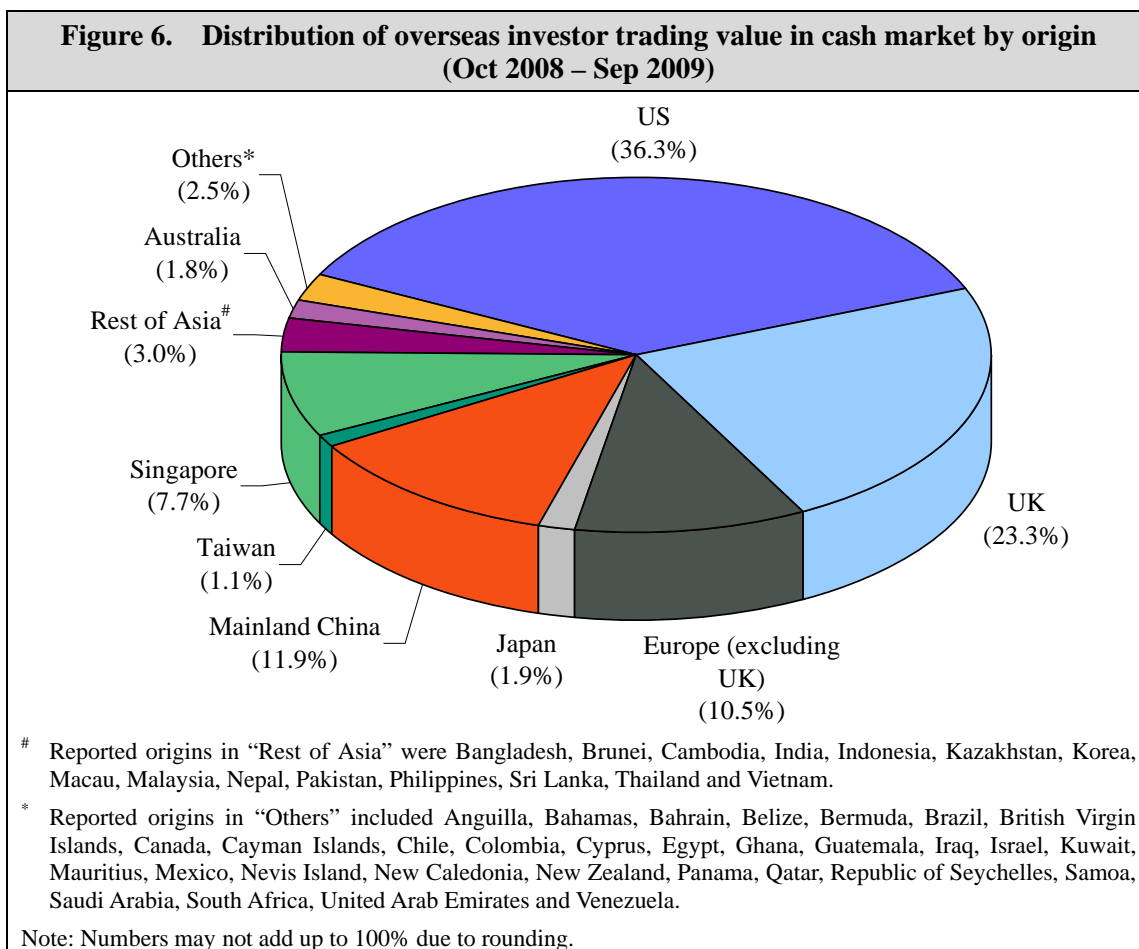
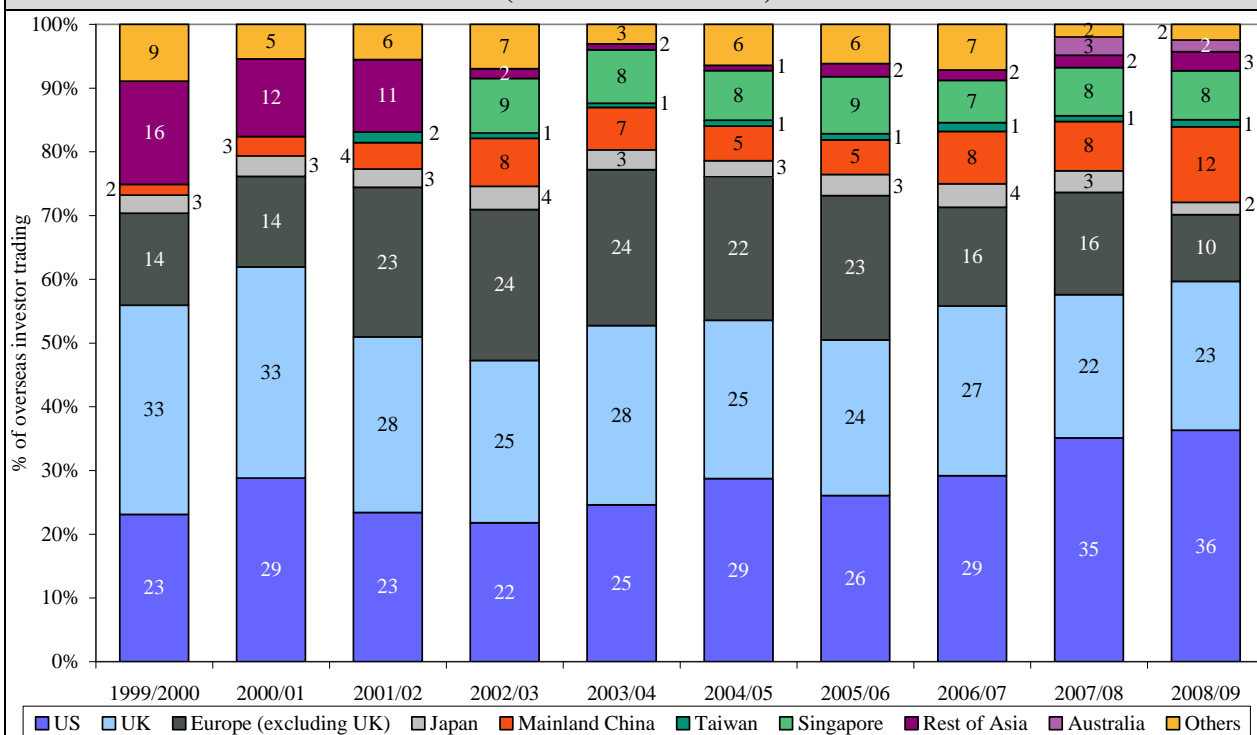


Figure 7. Distribution of overseas investor trading in cash market by origin (1999/2000 – 2008/09)

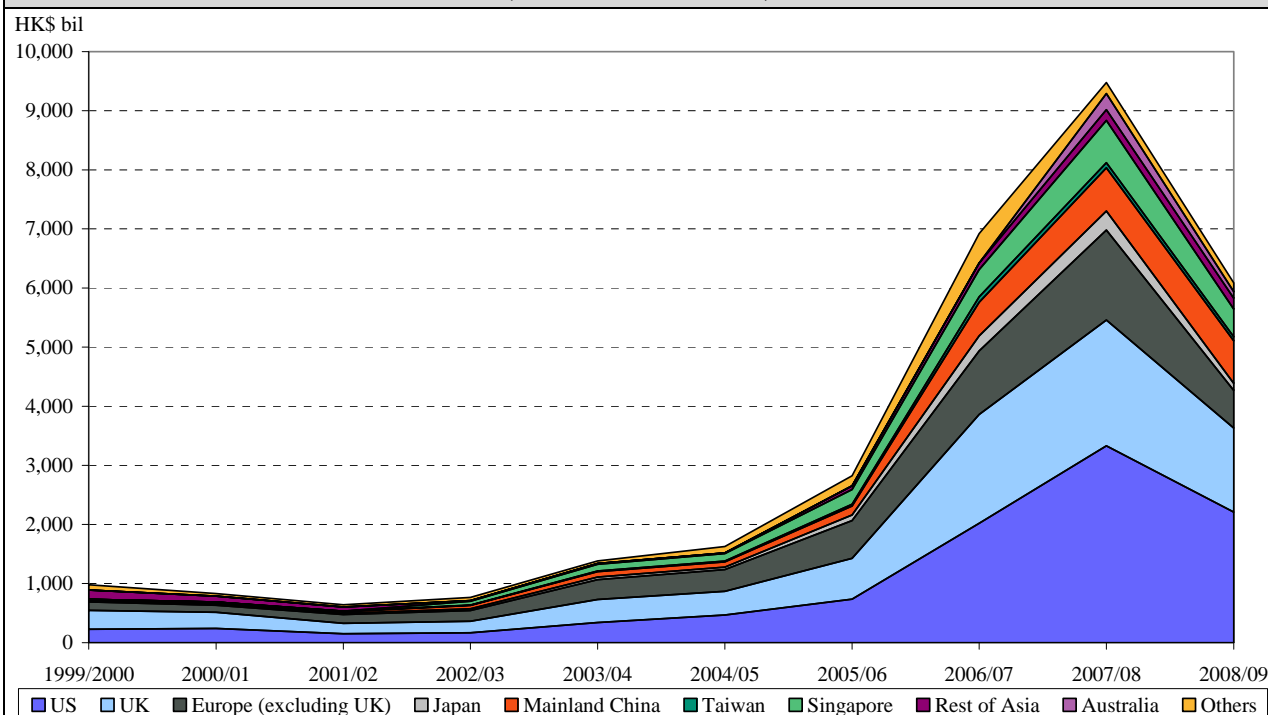


Overseas origin	Distribution of overseas investor trading by origin (%)									
	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
US	23.12	28.80	23.42	21.81	24.61	28.75	26.08	29.19	35.13	36.31
Europe	47.26	47.36	51.00	49.13	52.57	47.31	47.03	42.12	38.51	33.84
UK	32.82	33.11	27.53	25.45	28.13	24.82	24.40	26.61	22.46	23.35
Europe (excluding UK)	14.44	14.24	23.47	23.68	24.44	22.50	22.64	15.51	16.05	10.49
Asia	20.71	18.44	20.07	22.11	19.77	17.53	20.73	21.52	21.52	25.58
Japan	2.83	3.20	2.88	3.66	3.13	2.56	3.33	3.69	3.39	1.92
Mainland China	1.70	3.06	4.13	7.50	6.65	5.41	5.44	8.22	7.75	11.86
Taiwan			1.68	0.83	0.66	0.92	0.96	1.36	0.89	1.11
Singapore				8.57	8.40	7.80	8.95	6.63	7.55	7.69
Rest of Asia	16.18	12.18	11.38	1.54	0.93	0.83	2.06	1.63	1.94	3.00
Australia									2.85	1.81
Others	8.91	5.40	5.51	6.95	3.05	6.40	6.15	7.17	1.99	2.46
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Notes:

- (1) Taiwan was included in "Rest of Asia" in surveys prior to 2001/02. Singapore was included in "Rest of Asia" in surveys prior to 2002/03. Australia was included in "Others" in surveys prior to 2007/08.
- (2) Numbers may not add up to sub-totals or 100% due to rounding.

Figure 8. Implied value of overseas investor trading in cash market by origin (1999/2000 – 2008/09)

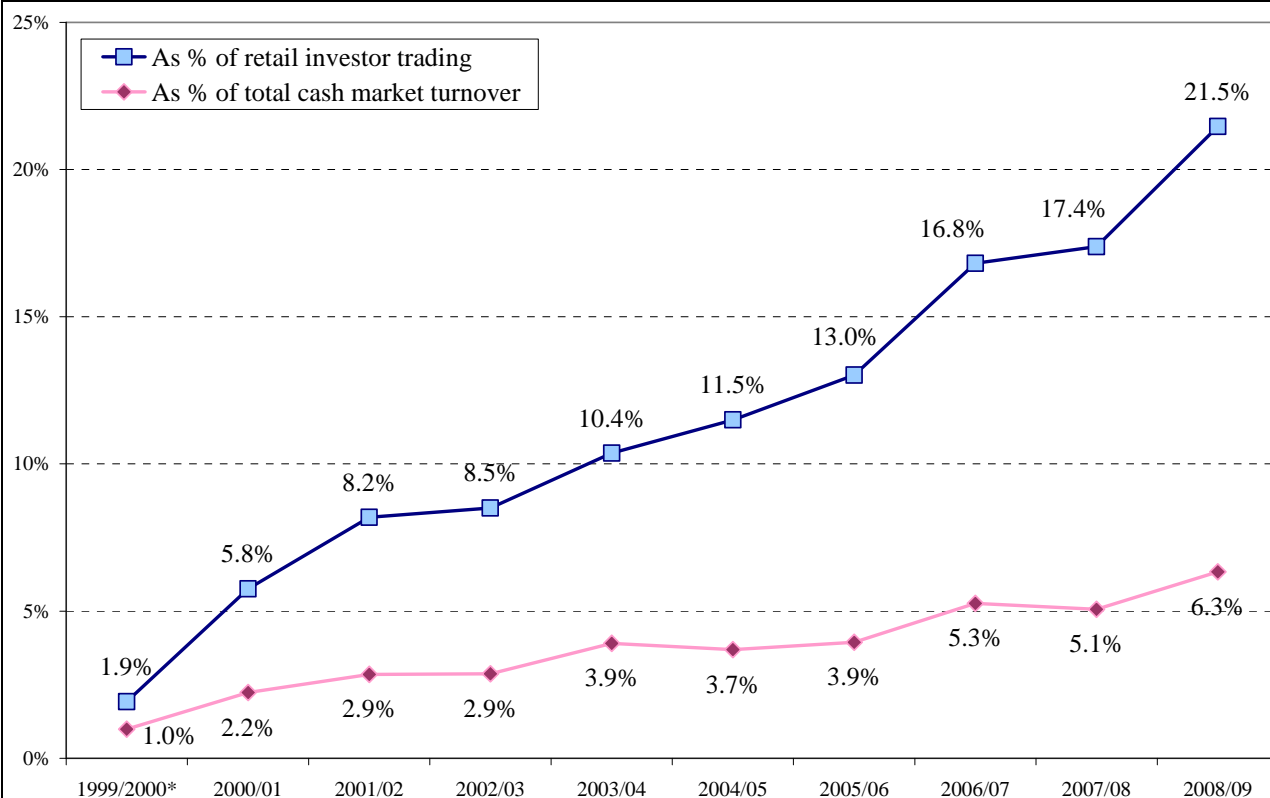


Overseas origin	Year-on-year % change										
	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	
US	69.46	5.77	-37.43	11.56	103.65	37.35	57.74	174.18	64.82	-33.62	
Europe	85.64	-14.91	-17.11	15.35	93.18	5.81	72.84	119.34	25.24	-43.58	
UK	75.02	-14.32	-36.00	10.67	99.55	3.73	70.94	167.18	15.59	-33.25	
Europe (excluding UK)	115.36	-16.25	26.82	20.83	86.34	8.21	74.94	67.79	41.80	-58.04	
Asia	74.01	-24.40	-16.23	31.93	61.44	4.25	105.56	154.28	36.96	-23.67	
Japan	159.05	-3.96	-30.59	52.19	54.08	-3.55	125.46	171.62	25.94	-63.67	
Mainland China	248.22	52.68	3.70	117.55	60.14	-4.42	74.77	270.15	29.16	-1.67	
Taiwan				-40.66	43.58	64.20	80.19	246.84	-9.74	-20.58	
Singapore					76.82	9.26	99.33	81.53	55.86	-34.52	
Rest of Asia	56.76	-36.09	-28.09	-83.77	9.39	4.63	330.99	93.48	63.27	-0.93	
Australia										-59.26	
Others	398.14	-48.49	-21.54	50.98	-20.69	146.76	67.10	185.15	-61.96	-20.48	
Total	89.43	-15.09	-23.04	19.75	80.54	17.57	73.87	144.94	36.98	-35.79	

Notes: Taiwan was included in "Rest of Asia" in surveys prior to 2001/02. Singapore was included in "Rest of Asia" in surveys prior to 2002/03. Australia was included in "Others" in surveys prior to 2007/08, for which year-on-year percentage change in implied value of investor trading was not available.

3.3 Retail online trading

Figure 9. Percentage share of retail online trading value in cash market (1999/2000 – 2008/09)



* The term "Internet trading" instead of "online trading" was used in the 1999/2000 survey.

Table 2. Statistics on retail online trading in cash market (2004/05 – 2008/09)

	2004/05	2005/06	2006/07	2007/08	2008/09
Responded sample size	378	351	380	404	410
Online brokers⁽¹⁾	2004/05	2005/06	2006/07	2007/08	2008/09
Number of online brokers	97	105	126	155	173
- As % of all responding EPs	25.66%	29.91%	33.16%	38.37%	42.20%
Online trading	2004/05	2005/06	2006/07	2007/08	2008/09
Total implied trading value (HK\$m)	166,041	268,566	845,014	1,156,321	921,416
- As % of total market turnover	3.69%	3.94%	5.26%	5.06%	6.34%
- As % of all agency (investor) trading	4.00%	4.17%	5.49%	5.39%	6.92%
- As % of total retail investor trading	11.50%	13.01%	16.81%	17.38%	21.46%
- As % of total turnover of online brokers	12.65%	14.73%	16.27%	15.39%	16.48%

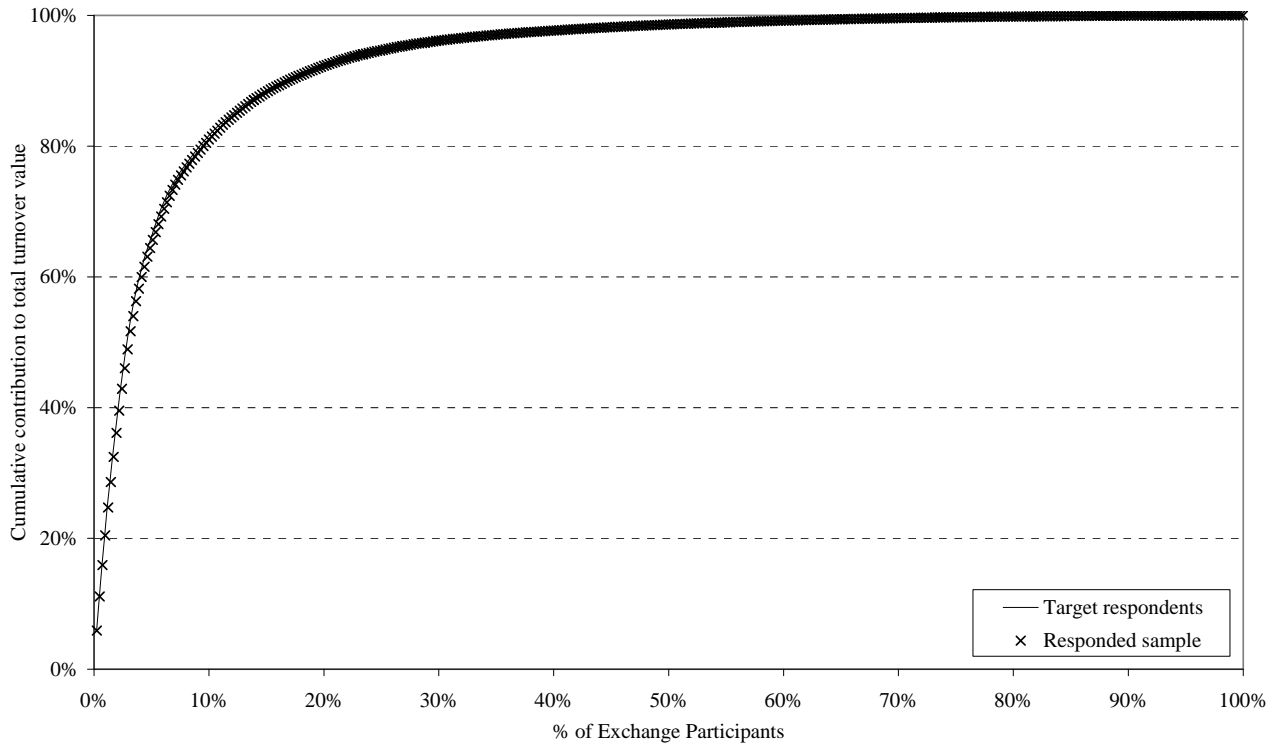
Notes:

(1) "Online brokers" refers to EPs offering online trading service to retail clients since the 2004/05 survey but refers to EPs recording retail online trading in the previous surveys.

GLOSSARY

Agency trading	Trading on behalf of the participant firm's clients, including client trading channelled from the firm's parent or sister companies.
Implied value of trading	<p>The implied value of trading for a particular type of trade is calculated by multiplying the percentage contribution to market turnover by that type of trade as obtained from the survey by the actual overall market turnover during the study period.</p> <p>The implied value of trading from a particular overseas origin is calculated by first calculating the implied overseas agency trading value during the study period, and then multiplying it by the percentage contribution to overseas agency trading by that origin as obtained from the survey.</p>
Individual/retail investors	Investors who trade on their personal account.
Institutional investors	Investors who are not individual/retail investors.
Local investors	Individual/retail investors residing in Hong Kong or institutional investors operating in Hong Kong, with Hong Kong as the source of funds.
Online brokers	Stock Exchange Participants who offer online trading service to individual/retail investors.
Overseas investors	Individual/retail investors residing outside Hong Kong or institutional investors operating outside Hong Kong, with the source of funds overseas.
Principal trading	Trading on the participant firm's own account.
Retail online trading	Trading originating from orders entered directly by individual/retail investors and channelled to the brokers via electronic media (e.g. the Internet).

APPENDIX 1. REPRESENTATIVENESS OF THE RESPONDED SAMPLE VIS-À-VIS THE TARGET POPULATION OF EXCHANGE PARTICIPANTS



APPENDIX 2. SURVEY METHODOLOGY

(1) Target population

The target population included all trading Stock Exchange Participants (EPs) of the cash market who became trading participants prior to the end of March 2009 (i.e. who had been in business for over 6 full months during the study period) and remained so before the fieldwork of the survey began. It excluded EPs whose trading was suspended from July 2009 to September 2009 or ceased on or before September 2009 or who traded for less than 6 months during the study period. This is to avoid distortion of the results by participants who were not in the normal course of business.

All EPs are corporations.

(2) Methodology

The study period is from October 2008 to September 2009.

EPs in the target population were ranked in descending order by turnover value. To achieve a fairer ranking, the actual turnover of new EPs whose trading period was less than 12 months during the study period was annualised for the ranking. The actual turnover of the EPs was used in analysing the results. Ranking of EPs by turnover was for the purpose of monitoring the responses and follow-up in the fieldwork as well as generating response rates by turnover size groups as weighting factors in the subsequent analysis.

The survey sample consisted of all EPs in the target population. Survey questionnaires were mailed to each EP firm in the sample, with close telephone follow-up to ensure a high response rate, especially for the EPs which were top-ranked in the target population by turnover value. In the survey questionnaire, EPs were requested to provide an estimated percentage breakdown of their trading value during the study period in accordance with the prescribed classification. EPs were asked to provide their consolidated trading composition including trading channeled through their affiliate or sister companies as far as possible, if applicable. Those who were known to have such situation but who refused to provide details were treated as cases with missing value for which a mean substitution method³ was adopted.

Each responding EP's answers in percentage terms were weighted by the respondent's total turnover value in the overall market accordingly to obtain respective values in the responded sample. The implied percentage shares of different types of trade in the market were then calculated, adjusted by the response rate in value terms relative to the target population.

The implied value of trading for a particular type of trade is determined by multiplying the percentage contribution to total turnover by that type of trade as obtained from the survey by the actual total turnover in the overall market during the study period for that year of survey.

³ The average values obtained from other EPs in the same size group were applied to the missing cases. For this purpose, EPs in the target population were divided into three size groups with equal aggregate contributions to total turnover value of the target population — large-sized brokers (contributing the top one-third of turnover in the target population), medium-sized brokers (contributing the second one-third of turnover) and small-sized brokers (contributing the bottom one-third of turnover).

(3) Limitations

In providing the breakdown of total turnover value by the type of trade, many EPs could only provide their best estimates instead of hard data.

EPs might not know the true origins of all their client orders. For instance, an EP might classify transactions for a local institution as such when in fact the orders originated from overseas and were placed through that local institution, or vice versa.

In practice, it is not unusual for EPs to convey client orders to other EPs for execution. When providing the breakdown of their investor composition, most of the EPs would treat those EPs who conveyed orders to them as their ultimate clients, i.e. as local institutions, regardless of the client origin.

Some bank-related EPs might not be able to provide the trading composition of client orders originating from their associated banks and would treat the banks as their local institutional clients. This would also affect the result of retail online trading since part of the retail investor trading channelled through banks would be online.

The non-responded EPs (who have very small market shares individually) may have different trading composition from the responded EPs. Since the survey has a high response rate by turnover value, the impact of the non-responded EPs to the overall findings should be negligible. Nevertheless, there might be some impact on the types of investor trading which had relatively low contribution to market turnover.

The random sampling method used in the previous surveys in 2001/02 and 2002/03⁴ would also have consequences similar to those stated in the above paragraph. Therefore, for the types of investor trading with very small contributions, the relative changes in their contributions over the years should be interpreted with caution.

* * *

⁴ In 2001/02 and 2002/03 surveys, the survey sample consisted of all brokers contributing the top two-thirds of turnover value in the target population as well as a random sample covering 60% of brokers contributing the bottom one-third of turnover value. In the prior years and since the 2003/04 survey, a census approach was adopted, i.e. all brokers in the target population were included in the survey sample.