



2011 HKEx Annual Media Luncheon

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Chief Executive
11 January 2011



2010 – A Banner Year for HKEx Despite Global Volatility



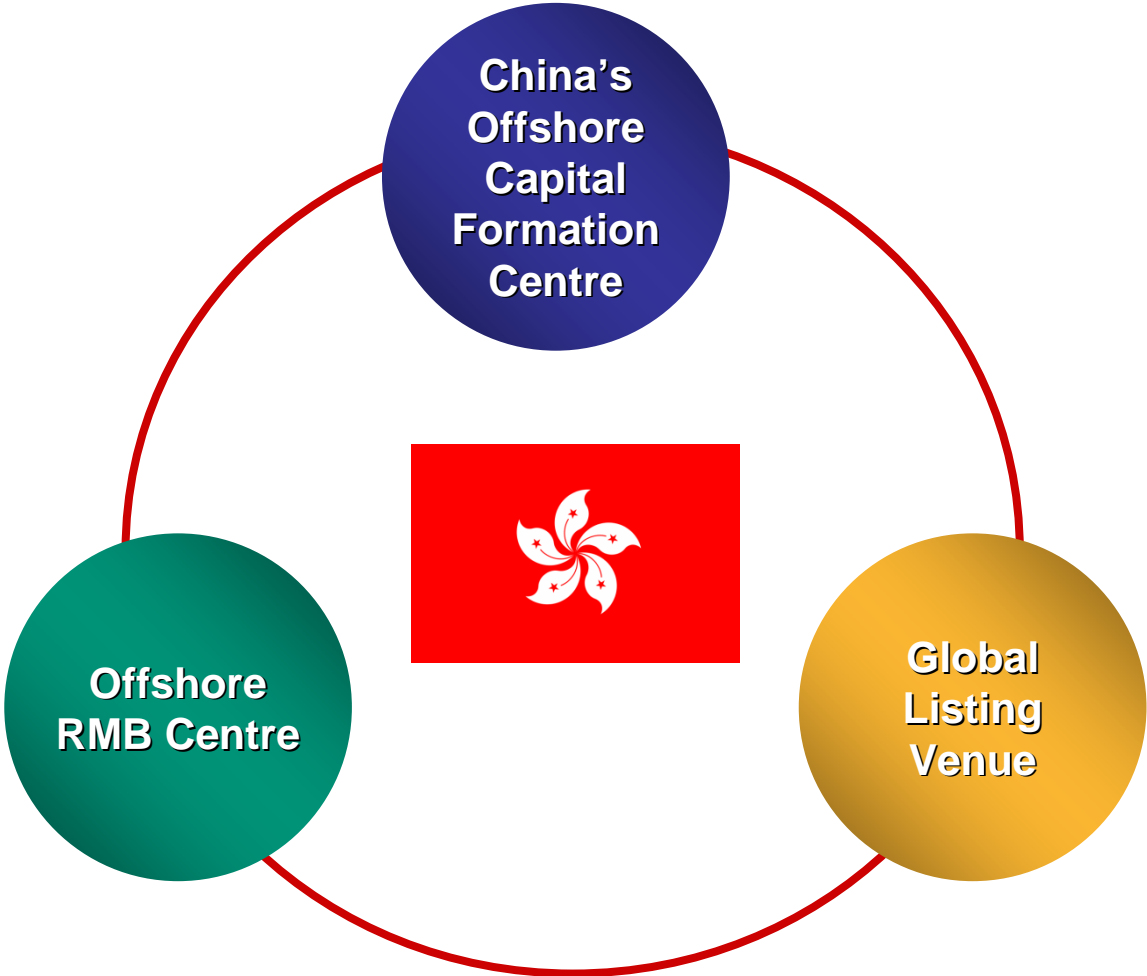
IPOs – Globally #1 for 2nd year in a row

Record high for both IPOs and Total Funds Raised

Securities Market – ADT up 11% Y-o-Y plus record volume in terms of shares

Derivatives Market – Turnover reached all time high

Our Vision for Hong Kong – An Entrenched and Evolving International Financial Centre



HKEx – Building Blocks For the Future

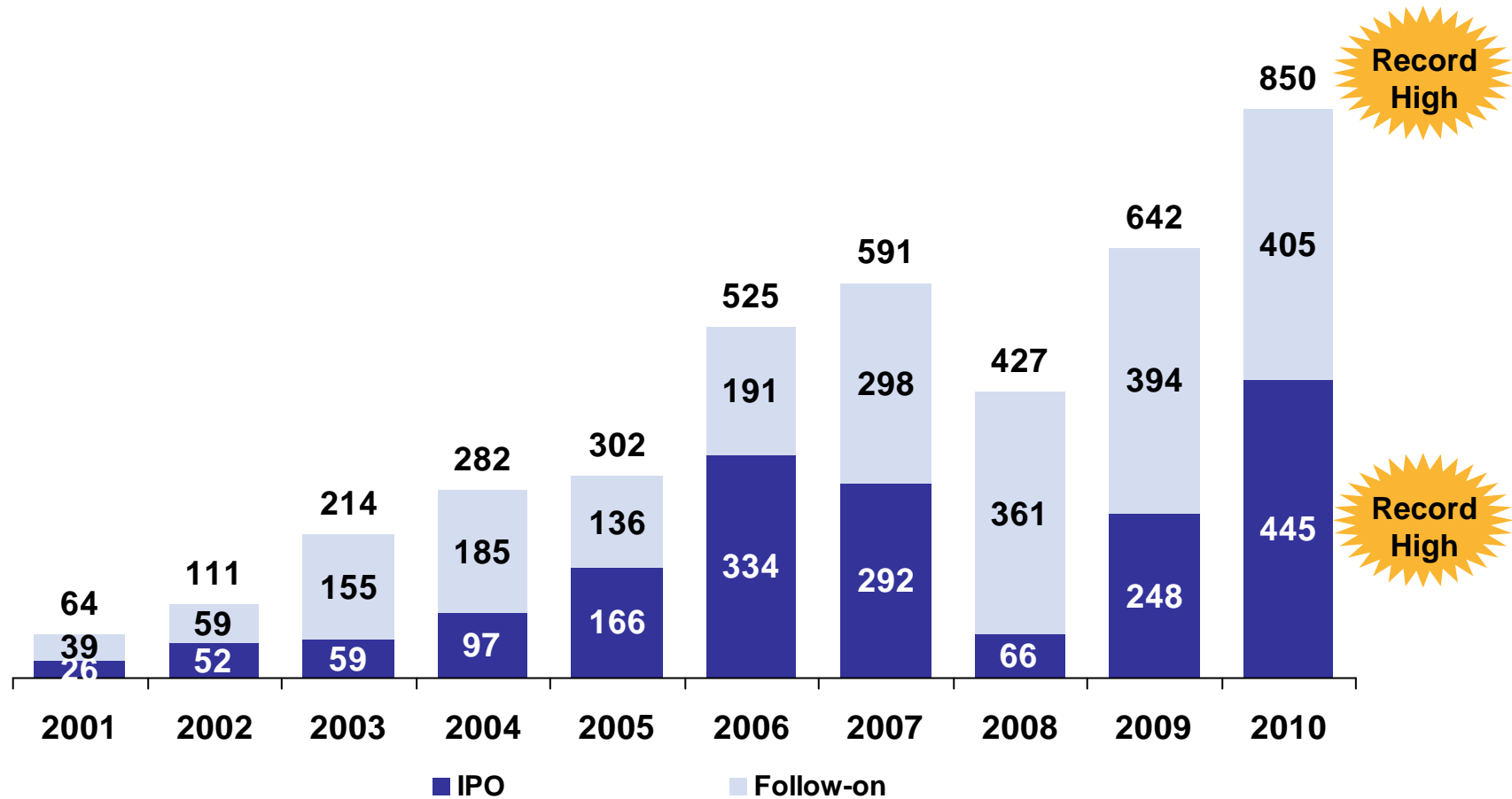


However, the transition is not without risks and challenges

Total Funds Raised and IPOs Reached Record High



(HK\$ billion)

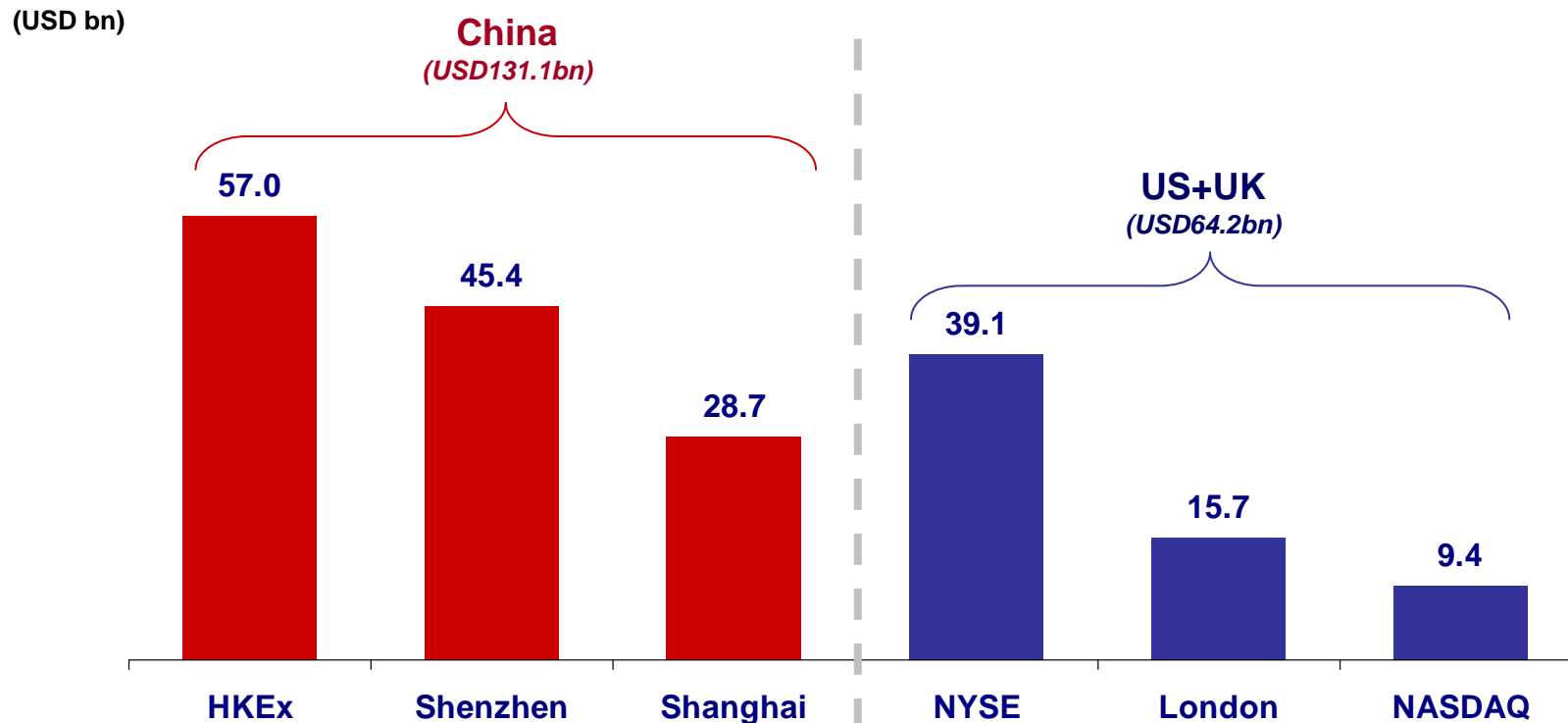


Source: HKEx

Hong Kong and Mainland Dominate Global IPOs



IPO Funds Raised (2010)



Source: Exchange Websites, Dealogic

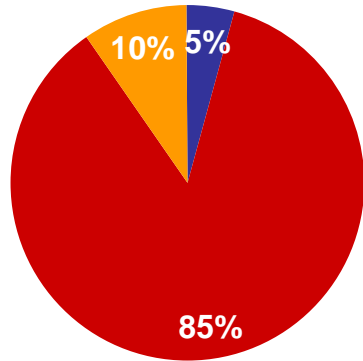
The aggregate IPO funds raised in Shenzhen, Shanghai and HK is more than twice the size of NYSE, NASDAQ and LSE combined in 2010

Hong Kong is Transforming to Become a Global Listing Venue



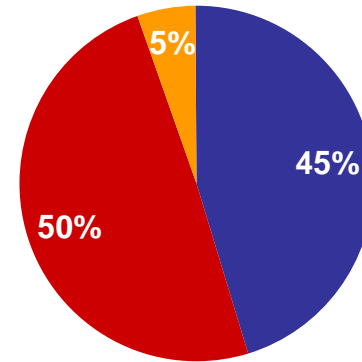
China's Offshore Listing Venue

2007 IPO Funds Raised: HK\$292bn



Global Listing Venue

2010 IPO Funds Raised: HK\$445bn



- Mainland Enterprises
- International Listing
- Hong Kong

2005-07 Landmark IPOs

 中国工商银行 ICBC US\$16.0bn	 中国银行 BANK OF CHINA US\$11.1bn	 中国建设银行 China Construction Bank US\$9.2bn
 太平洋保险 CPIC US\$3.6bn	 中国神华 CHINA SHENHUA US\$3.3bn	 China Railway Group US\$2.8bn

2009-10 Landmark IPOs

 AIA US\$20.4bn US	 中国农业银行 AGRICULTURAL BANK OF CHINA US\$12.0bn China	 中国民生银行 CHINA MINSHENG BANKING CORP. LTD. US\$4.0bn China
 Sands 金沙 US\$2.5bn US	 RUSAL US\$2.2bn Russia	 L'OCCITANE EN PROVENCE US\$783mil France

Note: The above issuers are all Mainland Enterprises

International Listings – Key Drivers



China / Asia Nexus

Alignment of Issuers' Growth Drivers and Shareholders

Becoming a Global Natural Resources Listing Centre

Spin-offs of Chinese / Asian Subsidiaries

Growing Regional Investor Base

Transparent and Efficient Listing Regime

Key Listing Division Initiatives



Streamlining Listing Requirements

Consultation Concluded

- Acceptance of Mainland accounting and auditing standards and Mainland audit firms
- Connected Transaction Rules
- Mixed Media Offer
- Circular and listing document requirements

Preparing for Consultation Conclusion

- Qualified property acquisitions and formation of JVs
- Minimum number of shareholders for the Market Capitalisation / Revenue Test

In Consultation

- Listing debt issues to Professional Investors only
- Code on Corporate Governance Practices and associated Listing Rules
- Ex-entitlement trading
- Property valuation requirements

Recognition of New Jurisdictions in 2010



Brazil



Italy



Isle of Man



Japan



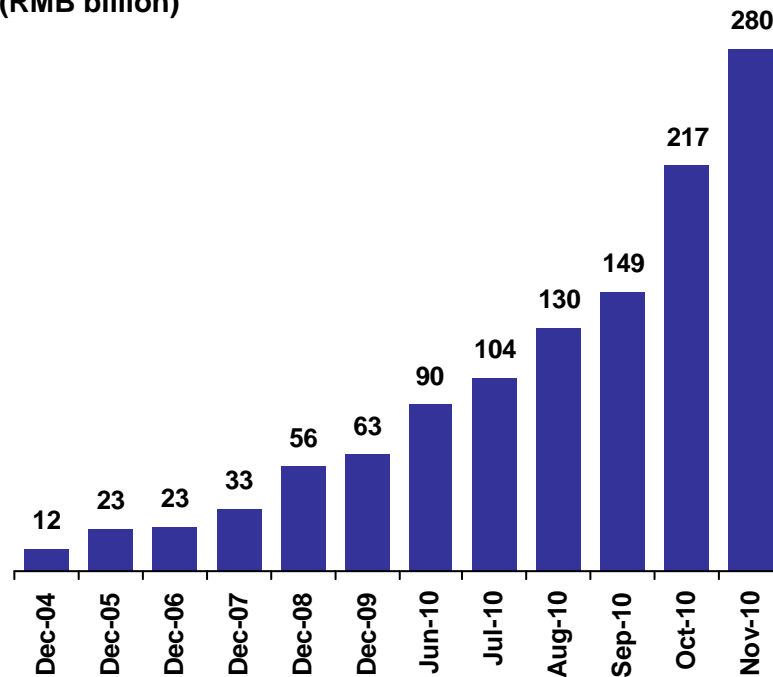
US - California

Offshore RMB Liquidity Gaining Momentum



RMB Deposits in Hong Kong

(RMB billion)

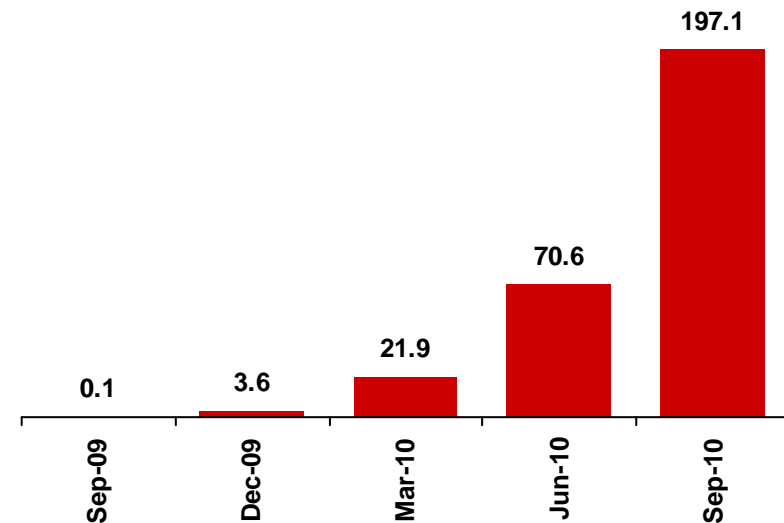


Source: HKMA

...yet less than 5% of total Hong Kong deposits

Cumulative RMB Trade Settlement

(RMB billion)



Source: PBOC Monetary Policy Execution Reports (2009Q3 - 2010Q3) (non-quarter-end figures are not available)

...and less than 1% of China's total trade

HKEx RMB Strategy

RMB
Capability

Lobby for Policy Change

Set Up RMB Infrastructure

Expand Mainland Market Data

Develop RMB Products

Facilitate Mainland Connectivity

Pursue OTC Clearing

RMB Opportunities for HKEx



	Banking	Listed	OTC Derivatives
Products:	<ul style="list-style-type: none"> ▪ Certificates of Deposit ▪ Bonds ▪ Insurance 	<ul style="list-style-type: none"> ▪ RMB Bonds ▪ RMB Equity and Equity-linked ▪ REITs ▪ NDF 	<ul style="list-style-type: none"> ▪ NDF ▪ IRS ▪ Equity Derivatives ▪ Commodities ▪ CDS
Timing:	Now	Beginning	Developing
Opportunity for HKEx:	✘	<p style="text-align: center;">✔</p> <ul style="list-style-type: none"> ▪ Listing ▪ Trading ▪ Clearing 	<p style="text-align: center;">✔</p> <ul style="list-style-type: none"> ▪ OTC Clearing

RMB Equity Products



Readiness

Issuer Interest

Significant

Regulatory Framework

Available to support listing and trading

Market Infrastructure

Largely ready

Intermediaries

Completing preparation

Challenges

Continued limited availability of RMB

HKEx

Developing a sustainable listing and trading model not completely dependent upon availability of RMB liquidity

Improve Platform Infrastructure and Market Structure

Platform
& Market
Structure

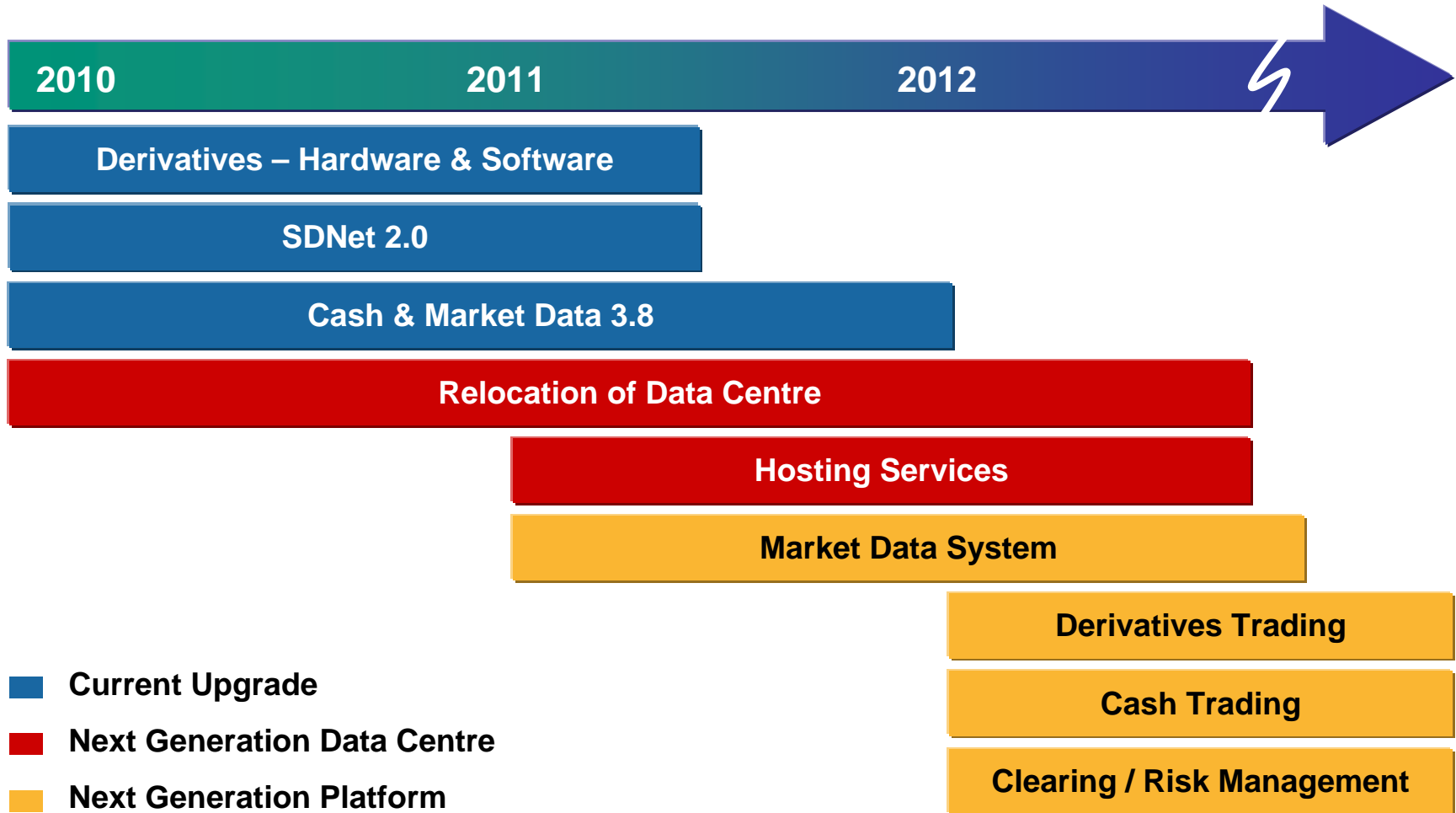
1. Invest in IT Infrastructure

2. Strengthen and Extend Clearing Franchise

3. Improve Market Structure

1. Invest in IT Infrastructure

A complex undertaking and generational shift

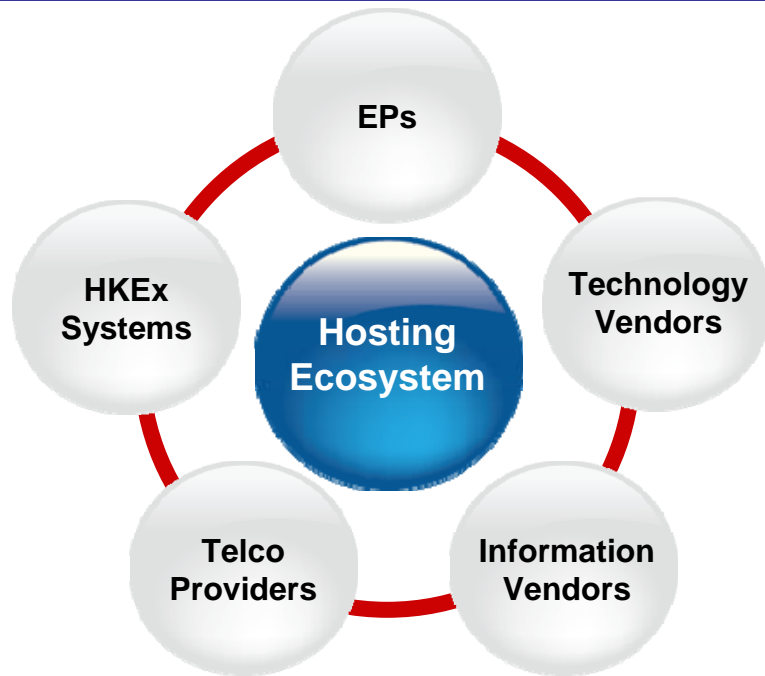


- Current Upgrade
- Next Generation Data Centre
- Next Generation Platform

1. Hosting Services – Building an Ecosystem



Ecosystem Members



Ecosystem Offering

- Tier 4 data centre provisioning by HKEx
- Low latency Co-location with HKEx markets
- Low-latency HKEx market data provided by HKEx and hosted IVs
- International market data feeds
- Infrastructure and software provisioning by hosted technology vendors
- Telco-neutral connectivity to global markets

Key Drivers

- ***Strong market demand for value-added hosting services***
- ***In line with the latest global exchange industry trends***
- ***Dedicated Greater China connectivity***

2. Strengthen and Extend Clearing Franchise



Risk Management Measures Review

OTC Clearing

Unify Three Clearing Houses

2. Risk Management Measures of Clearing Houses

WHY

- Clearing Houses need to be better funded, especially HKSCC
- Comply with international standards
- Solution needs to be scalable over time

HOW

- Adopt appropriate Stress Testing standard
- Reform existing regimes on margins and collaterals
- Adopt appropriate model for Guarantee Fund
- Ensure fairness and practicality

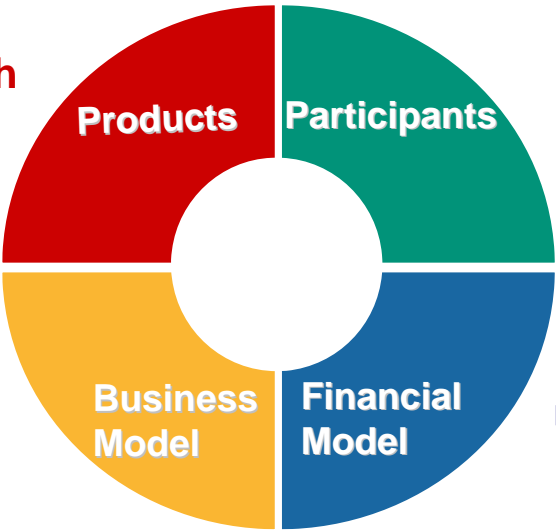
WHEN

- Internal review completed
- Regulatory guidance sought
- Liquidity facility obtained
- Consultation in mid-2011

2. OTC Clearing – Overview

- **Current HK market size: Small**
- **Start up: IRS and NDF**
- **Future expansion: FX and equity derivatives**
- **RMB: the potential growth driver**

- **Potential participants: International banks, Mainland banks in HK and local banks**



- **Set up by HKEx**
- **Flexible shareholding structure**
- **May invite partners**

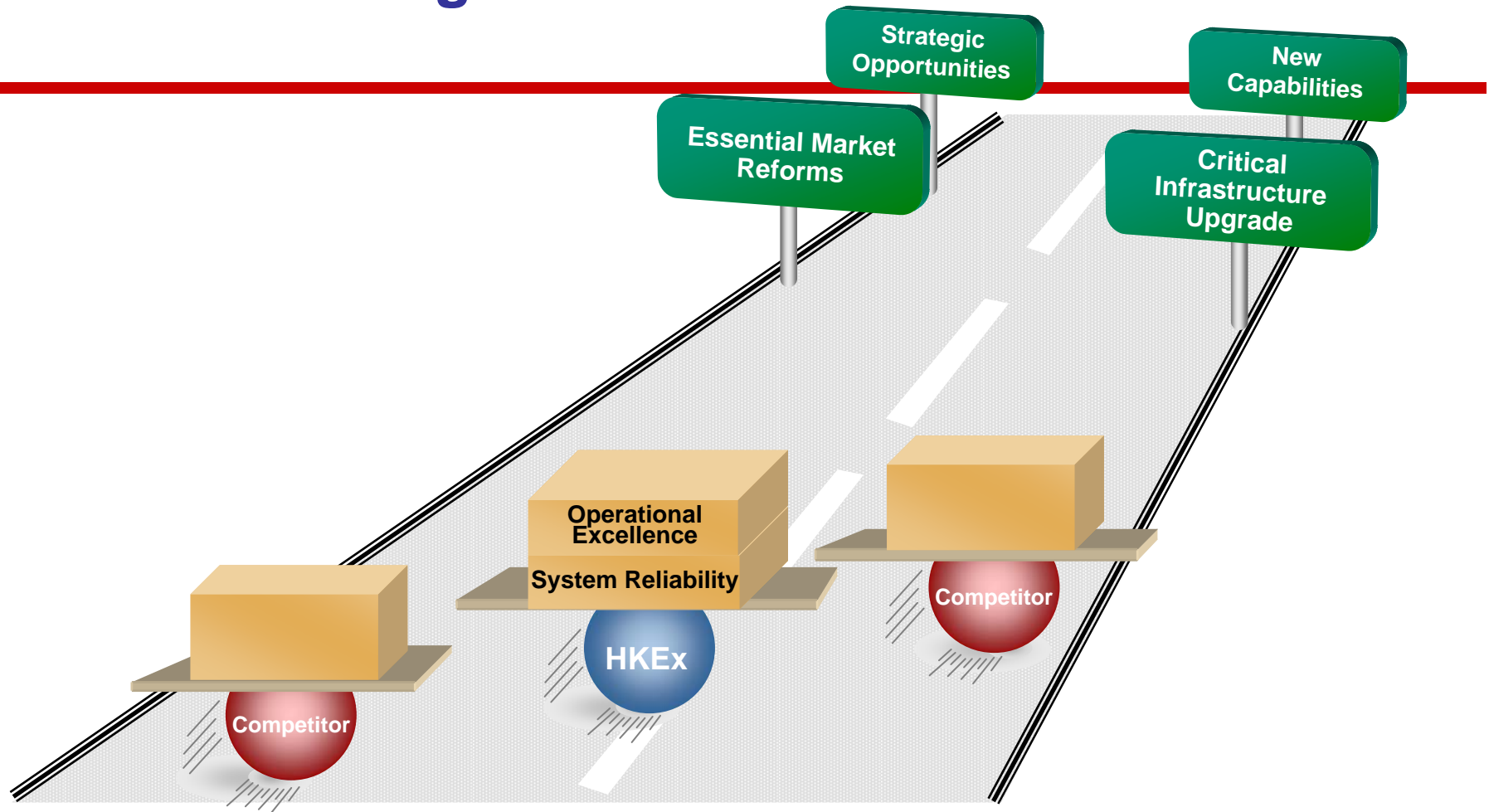
- **Initial Guarantee Fund seeded by HKEx and contribution by participants**

Joint Announcement with HKMA in Dec 2010; Target to launch in 2012

3. Improve Market Structure



Are We Moving Too Fast or Not Fast Enough?



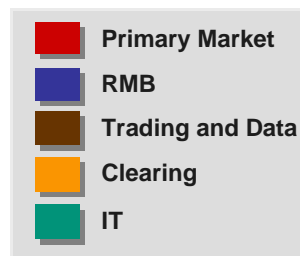
- *Only time will tell*
- *No option is risk-free or cost-free*

Q & A

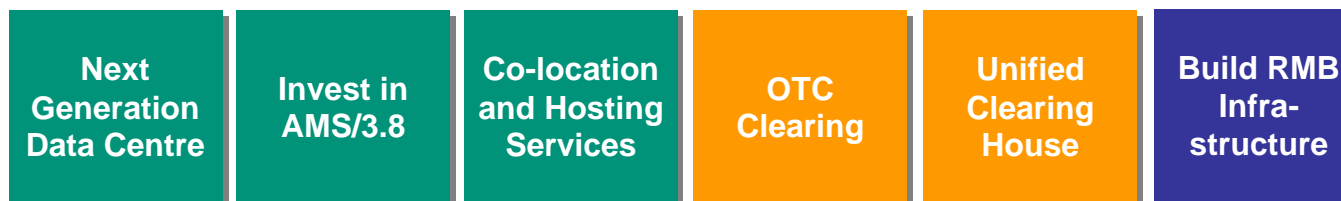
Where We Started: 2010-2012 Strategic Plan



Core



Extension



Expansion



Strategic Plan 2010-2012 – Major Milestones Achieved



Primary Market

- **Published Listing Decision on acceptance of PRC Qualified Valuers to prepare property valuation report**
- **Accepted Mainland accounting and auditing standards and Mainland audit firms for Mainland incorporated companies listed in Hong Kong**
- **Published Listing Decisions on Reverse Takeovers**
- **Issued interim guidance on pre-IPO investments**
- **Published joint consultation conclusions on Mixed Media Offer**
- **Preparing for the release of the consultation conclusions on:**
 - **Proposed changes to requirements for Qualified Property Acquisitions and Formation of Joint Ventures**
 - **Proposed changes to the minimum number of shareholders for the Market Capitalization/Revenue Test**
- **Published consultation paper / joint consultation paper on:**
 - **Proposed changes to the Code on Corporate Governance Practices and certain Listing Rules relating to corporate governance**
 - **Proposed changes to the requirements for Listing Debt Issuers to Professional Investors Only**
 - **Proposed changes to property valuation requirements**

Strategic Plan 2010-2012 – Major Milestones Achieved (Cont'd)



RMB

- Introduced Options on A50 ETF and CSI 300 ETF
- Listed RMB denominated bonds (Asian Development Bank and Galaxy Entertainment)
- Conducted a series of market activities to engage market players to prepare for the trading and clearing of RMB products

Clearing

- Published consultation conclusion on T+2 Finality
- Published consultation conclusion on Scripless Securities Market
- Announced the development of OTC Clearing service for launch in 2012
- Reviewing clearing house capital adequacy and liquidity access

Strategic Plan 2010-2012 – Major Milestones Achieved (Cont'd)



Trading and Data

- Launched HSI Dividend Point Index Futures and HSCEI Dividend Point Index Futures
- Decided to extend Trading Hours starting from March 2011
- Studying After Hours Futures and Options Trading
- Studying the business case of setting up a Mainland Market Data Hub
- Working on the introduction of single license for securities and derivatives market data

IT

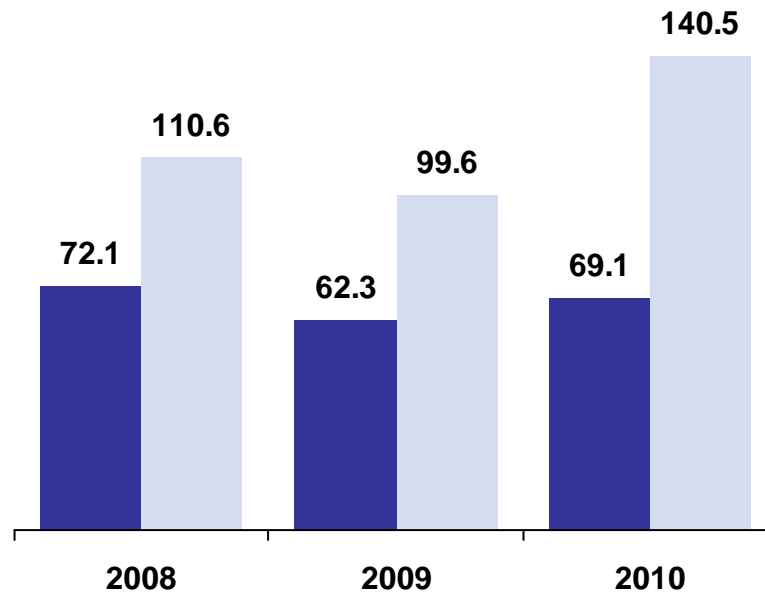
- Published information paper for AMS/3.8
- Working on MDS capacity upgrade
- Developing Next Generation Data Centre
- Decided to offer Hosting Services at the Next Generation Data Centre
- Defining scope and roadmap for Next Generation IT Systems

Securities Market Trading



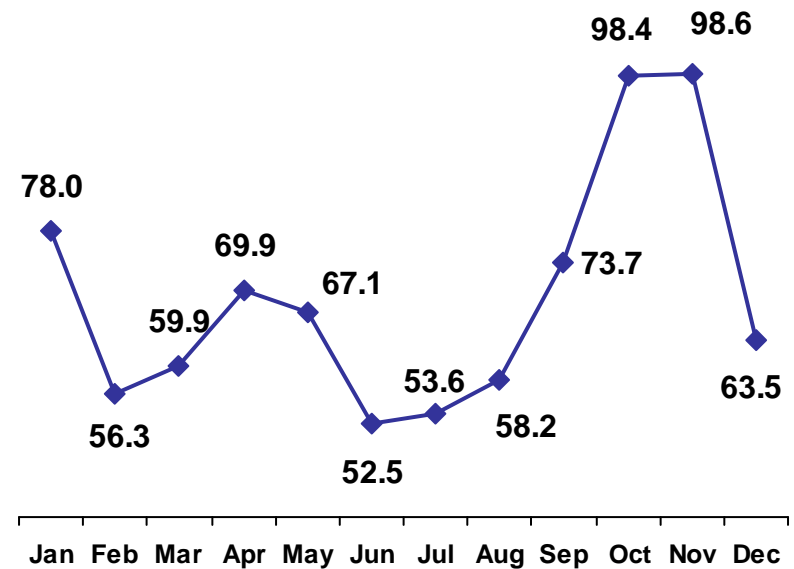
2008-2010 Average Daily Turnover

■ ADT in HK\$ billion ■ ADT in billion shares



2010 Monthly Average Daily Turnover

(In HK\$ billion)



Record ADT volume in terms of shares in 2010

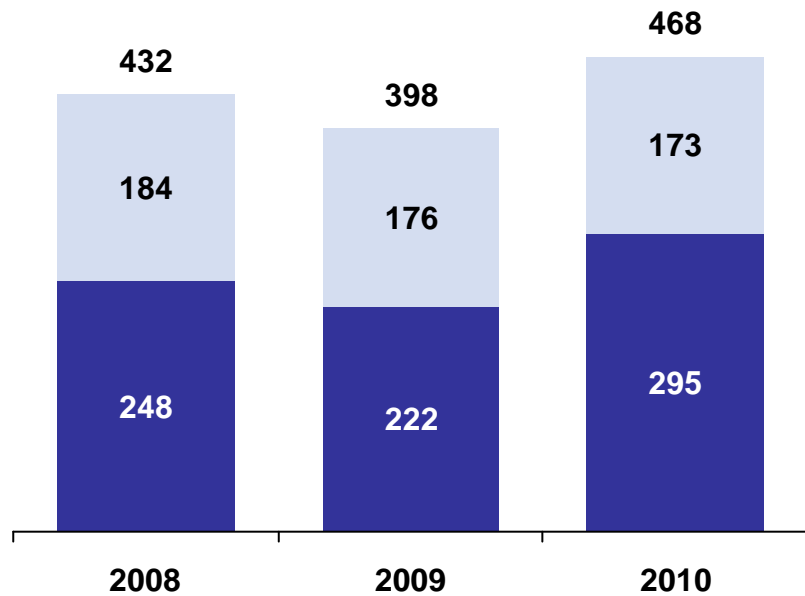
Source: HKEx statistics

Derivatives Market Trading



2008-2010 Average Daily Volume

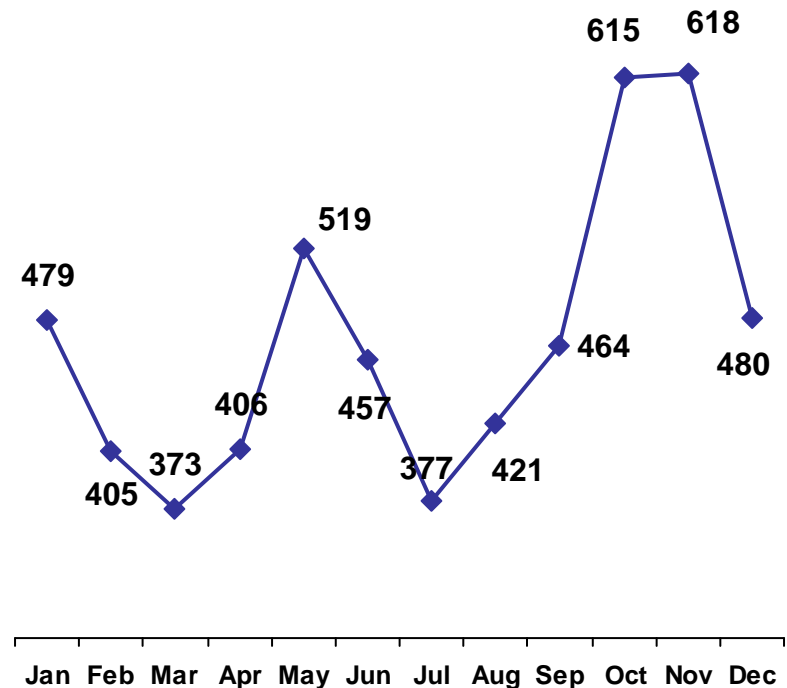
(In '000 contracts)



■ Options contracts traded ■ Futures contracts traded

2010 Monthly Average Daily Volume

(In '000 contracts)



Derivatives market turnover reached all-time high in 2010

Source: HKEx statistics