



**HKEx**  
香港交易所

# Integration between China's Offshore and Onshore Equity Markets

**Alton Lau**

Assistant Vice President, Derivatives Trading, Global Markets, HKEx /

Assistant Vice President, Product Development, CESC

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# Integration between China's Offshore and Onshore Equity Markets

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Growing Importance of ETF Market and the Launch of RQFII ETFs in Hong Kong

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CESC : Company Structure, Milestone and Initial Business Plan

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Cross-border Product Facilitation – CESC Indices

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Growing Importance of ETF Market and the Launch of RQFII ETFs in Hong Kong

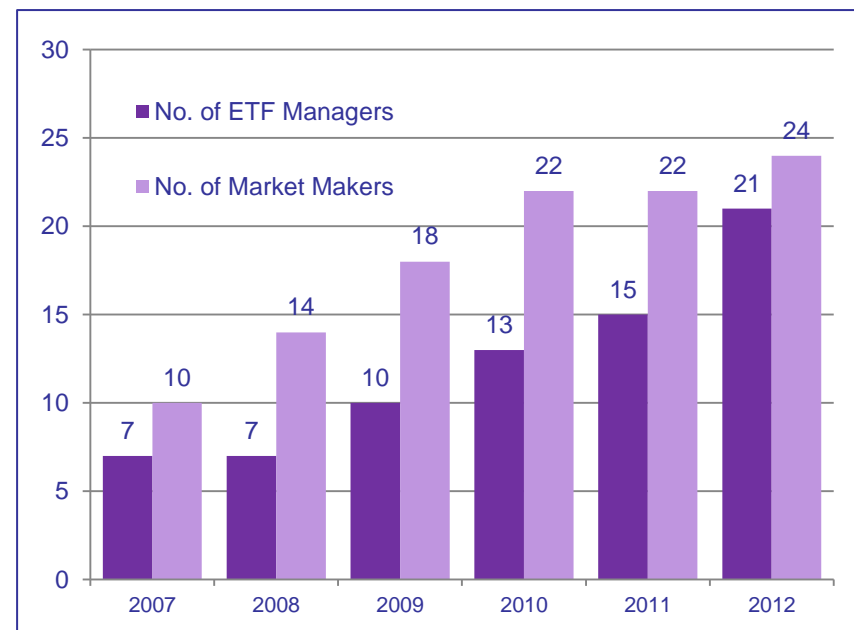
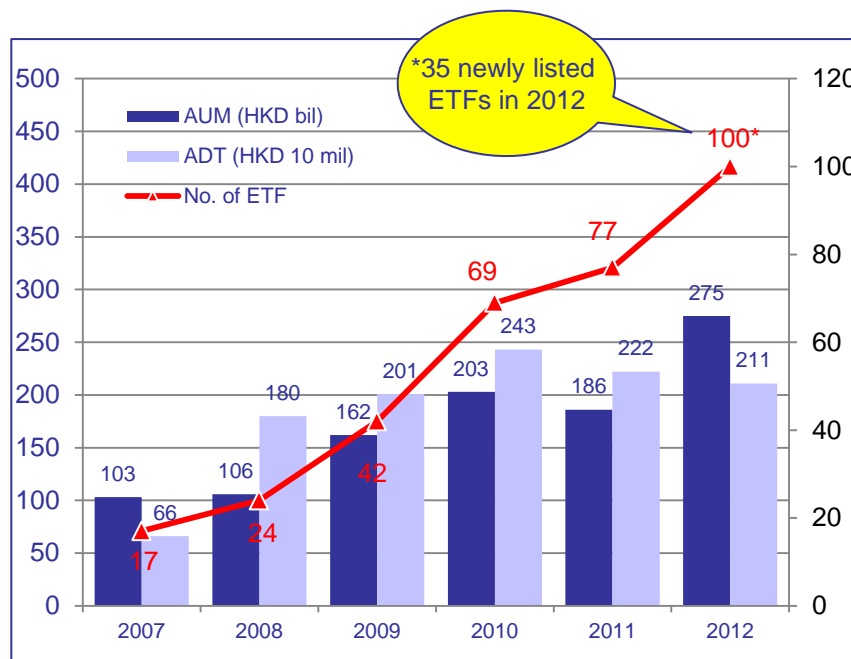
## Leading ETF markets in Asia

Market	AUM (US\$M)
1 Japan	47,941
<b>2 Hong Kong</b>	<b>33,306</b>
3 China	21,862
4 Korea	13,721
5 Australia	5,312
6 Taiwan	4,870
7 India	2,153
8 Singapore	1,787
9 Thailand	311
10 Malaysia	301

Exchange	Turnover (US\$M)
1 Korea Exchange	120,445
<b>2 Hong Kong Exchanges</b>	<b>67,327</b>
3 Shanghai SE	48,073
4 Shenzhen SE	27,847
5 Tokyo SE Group	24,272
6 Taiwan SE Corp.	9,145
7 Australian SE	5,791
8 Singapore Exchange	4,151
9 National Stock Exchange India	2,592
10 The Stock Exchange of Thailand	454

***HKEx is a leading ETF market in Asia in terms of AUM and trading***

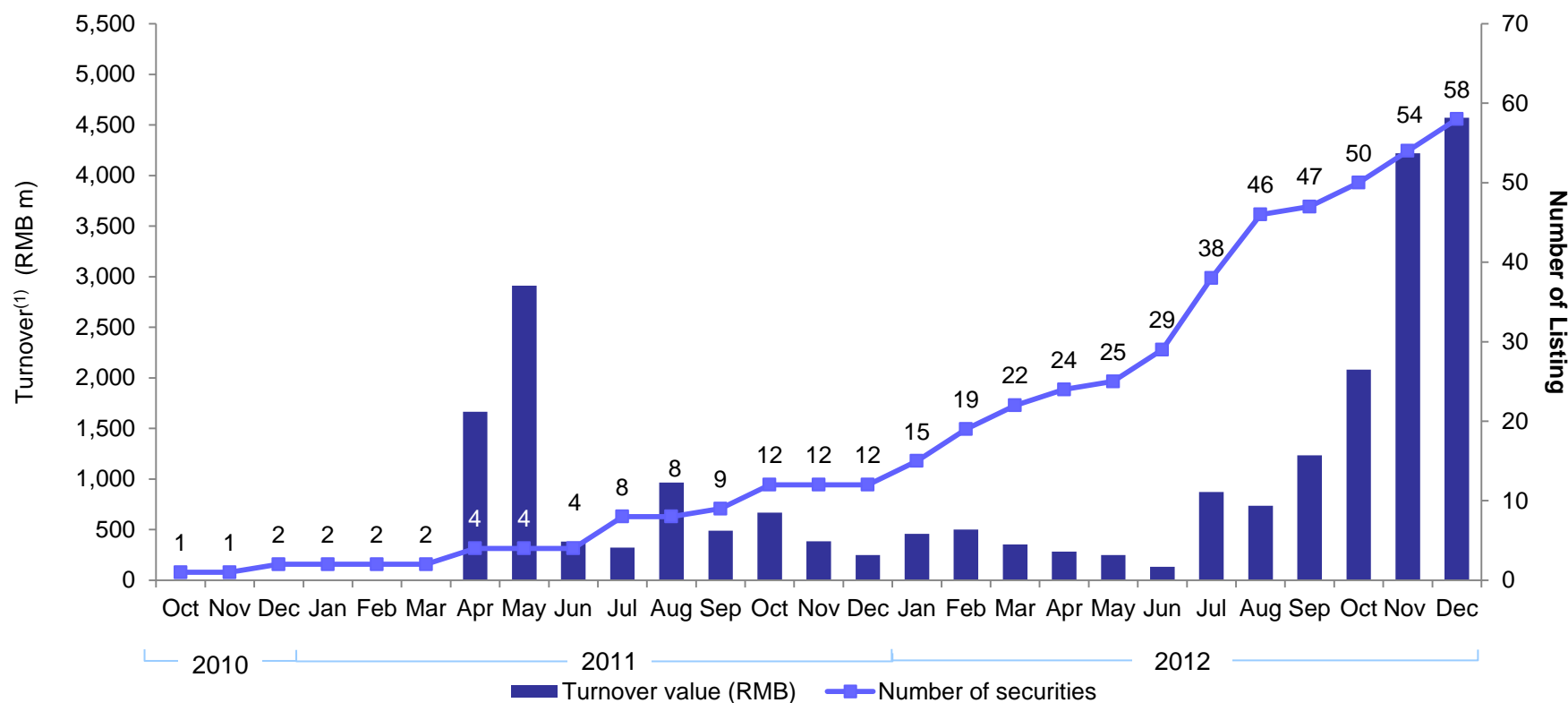
## Steady growth of HKEx ETFs amidst difficult market conditions



- 35 ETFs were newly listed in 2012 (including 4 RQFII A-share ETFs, 15 ETFs on regional markets, 7 ETFs on global and regional industry sectors, 4 on Hong Kong, 4 on precious metals and 1 on money market)
- \*12 synthetic ETFs were delisted in March 2012

## A Wide Product Range of RMB Products Listed on HKEx

	RMB Bonds	RMB REIT	RMB ETFs	RMB Currency Futures	RMB Equity	RMB Derivative Warrants
Date of 1 <sup>st</sup> Listing	October 2010	April 2011	February 2012	September 2012	October 2012	December 2012
Total No. of Listings	47	1	5	1	1	3



1. Turnover only reflects cash market transaction, excluding derivatives market transaction (as of 31 December 2012)

## Launch of RQFII A-share ETFs & related derivative warrants

RQFII ETFs				
Stock Codes	Name of ETF	Initial Listing Date (HKD counter launch date)	Total Expense Ratio (per annum)	Fund Size (Billion RMB)
3188 (HKD) 83188 (RMB)	ChinaAMC <b>CSI 300 Index</b> ETF	17-July-2012 (26-Oct-2012)	0.99%	14.1
3100 (HKD) 83100 (RMB)	E Fund <b>CSI 100 A-Share Index</b> ETF	27-August-2012 (9-Nov-2012)	0.99%	10.8
2822 (HKD) 82822 (RMB)	CSOP <b>FTSE China A50</b> ETF	28-August-2012 (8-Nov-2012)	1.15%	16.8
3118 (HKD) 83118 (RMB)	Harvest <b>MSCI China A</b> Index ETF	12-October-2012 (12-Oct-2012)	0.88%	2.4

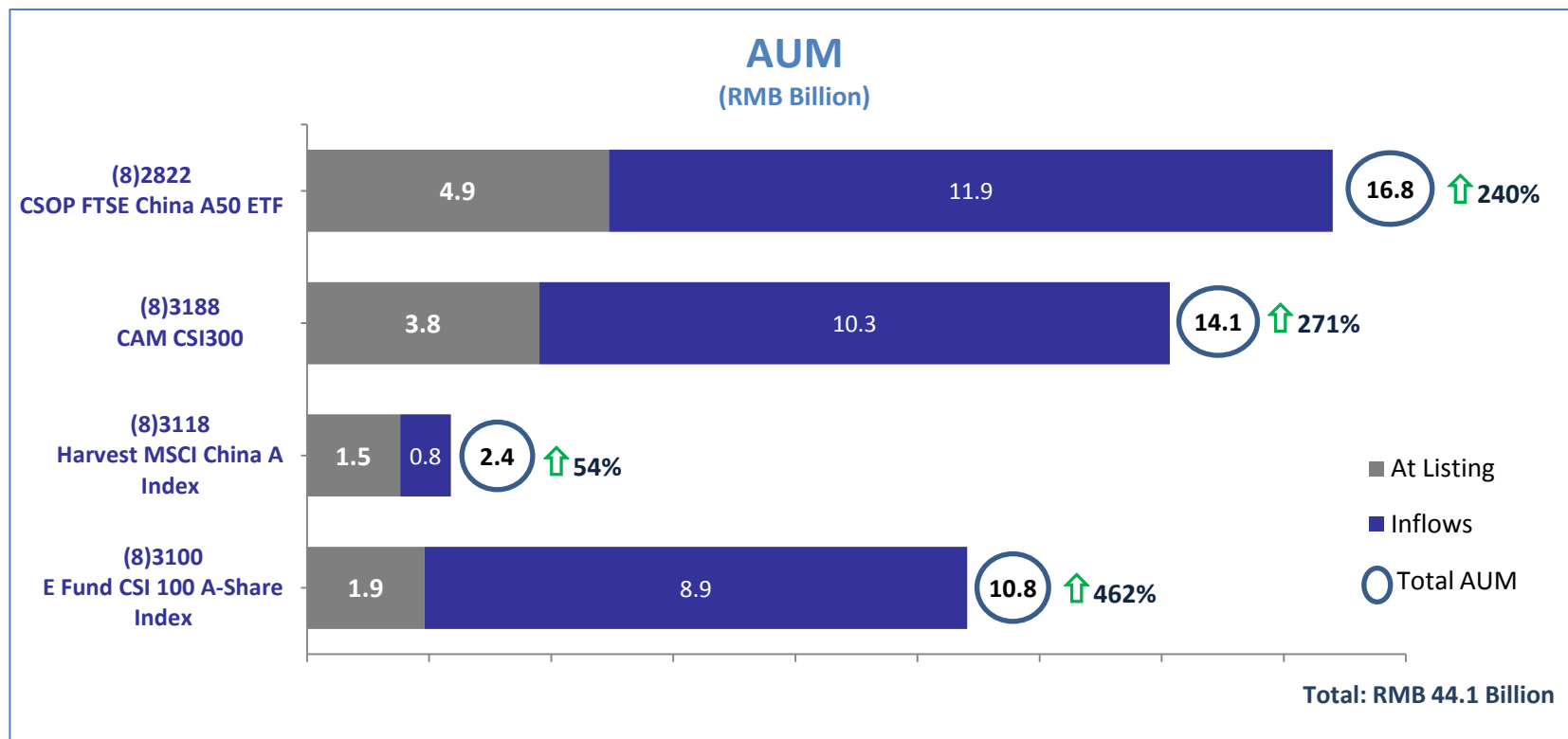
Data as of 8 Jan 2013

### Derivative Warrants

Underlying	Trading Currency	No. of DWs listed	Dec 2012 Turnover
2822	HKD	66	HKD 8,514,087,598
82822	RMB	1	RMB 2,668,718
3188	HKD	49	HKD 11,867,666,518
83188	RMB	2	RMB 3,922,270

Data as of 31 Dec 2012

# RQFII ETF AUM Growth



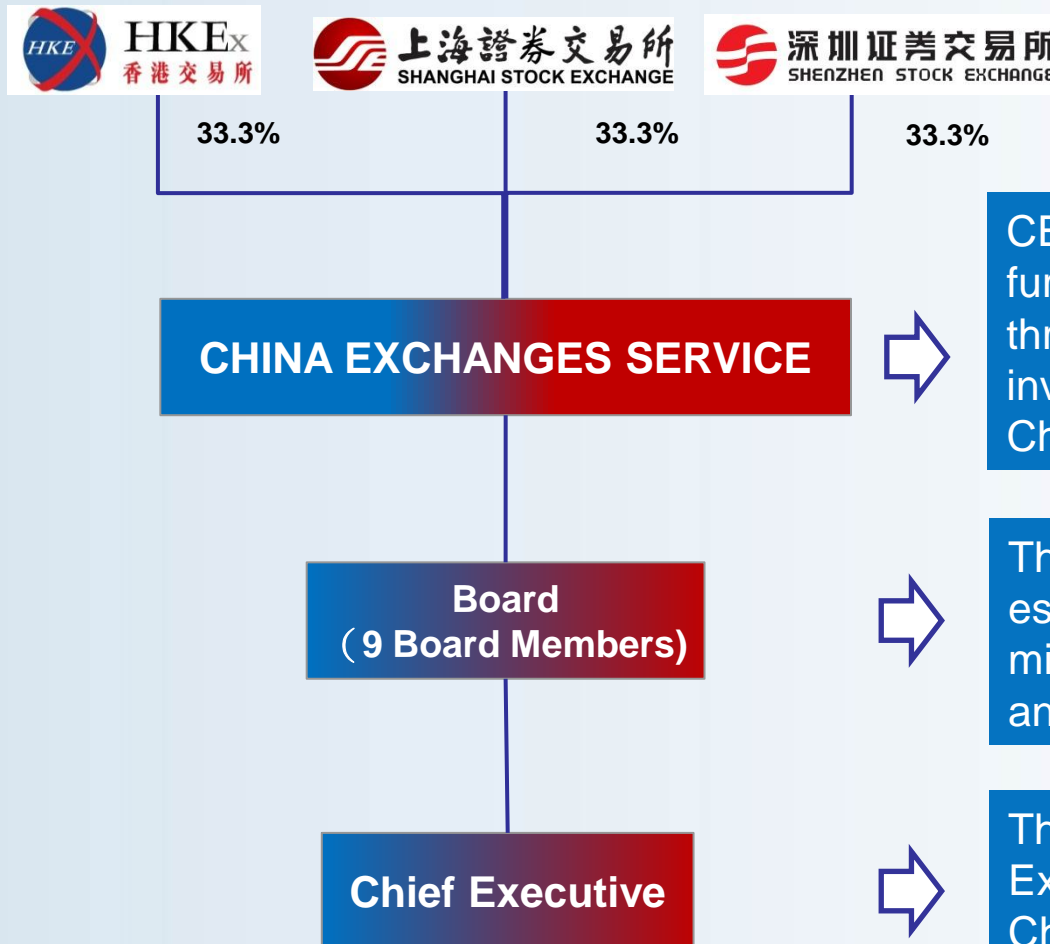
**A total of RMB 44.1 billion has been invested across the 4 RQFII ETFs with all seeing net capital inflows**



2

## **CESC : Company Structure, Milestone and Initial Business Plan**

# CESC : Company Structure and Mission



CESC aims to contribute to the further internationalization of China's three Exchanges and provide global investors with exposure to the China's Financial Market

The Board is responsible for the establishment of the company's mission, strategy, objectives, policies and business plan.

The company is led by its Chief Executive, assisted by two Deputy Chief Executives, all of whom are also directors of the Board

# CESC : Milestone and Initial Business Plan



\* 28 June 2012: HKEx, SHSE and SZSE signed an agreement to establish a joint venture in Hong Kong



\* 30 October 2012: CESC Directors are joined by VIP guests at the CESC inauguration ceremony in Hong Kong.



\* 27 November 2012: CESC and CSI sign the index service agreement and hold press conference.

Develop new products based on CESC indices (ETF, index futures, options and etc)

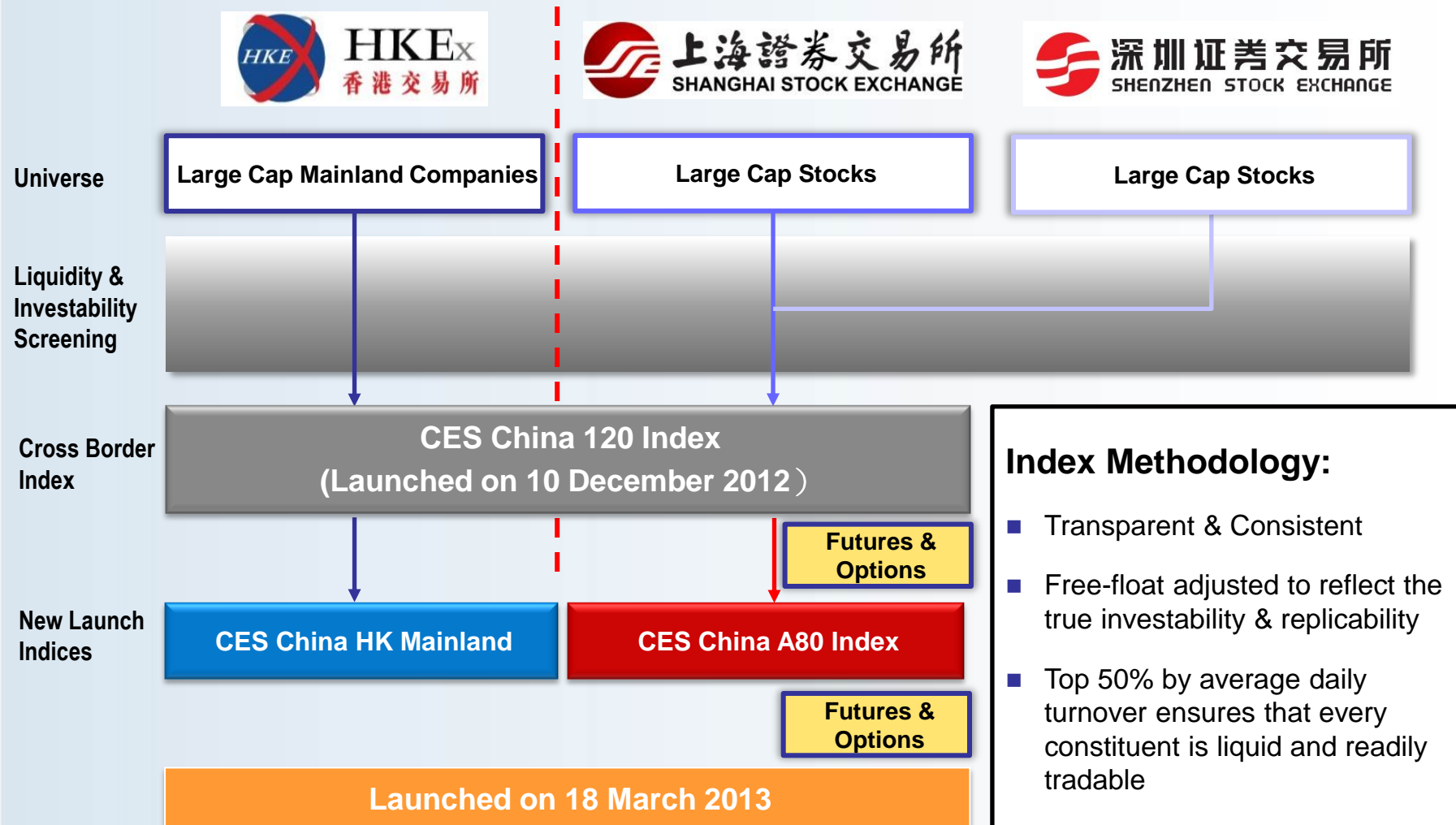
Develop cross-border indices based on products traded on the three markets

Develop industry classifications for listed companies, create information standards and products

3

## Cross-border Product Facilitation – CESC Indices

# CESC : Cross Border Index Series Construction



**Index Methodology:**

- Transparent & Consistent
- Free-float adjusted to reflect the true investability & replicability
- Top 50% by average daily turnover ensures that every constituent is liquid and readily tradable

# Unbiased Rule-based Index Methodology

## Formula

$$\text{Current index} = \frac{\text{Current adjusted market cap of constituents}}{\text{Divisor}} \times 2000$$

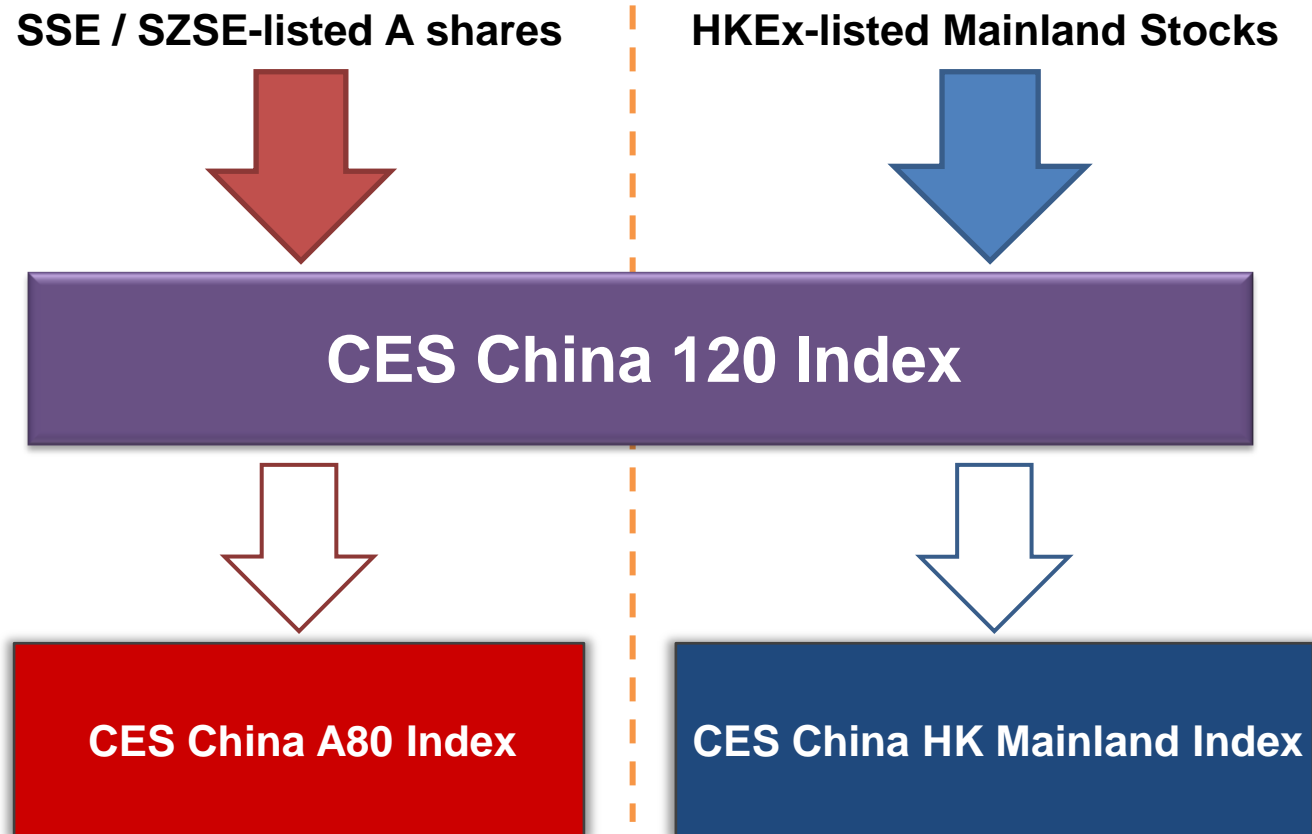
$$\text{Adjusted market value} = \sum(\text{Price} \times \text{Adjusted Number of shares} \times \text{Foreign Exchange Rate})$$

## Overview

	CES 120	CES A80	CES HKMI
Launch Date	10/12/2012	18/3/2013	
Base Date	31/12/2004		
Base Value	2,000		
Currency*	CNY	CNY	HKD
Number of Constituents (at launch)	120	80	40
Dissemination	Real time at 15-second intervals		
Calculation Methodology	Free float-adjusted market capitalisation weighted		
Review Frequency	Half-yearly		

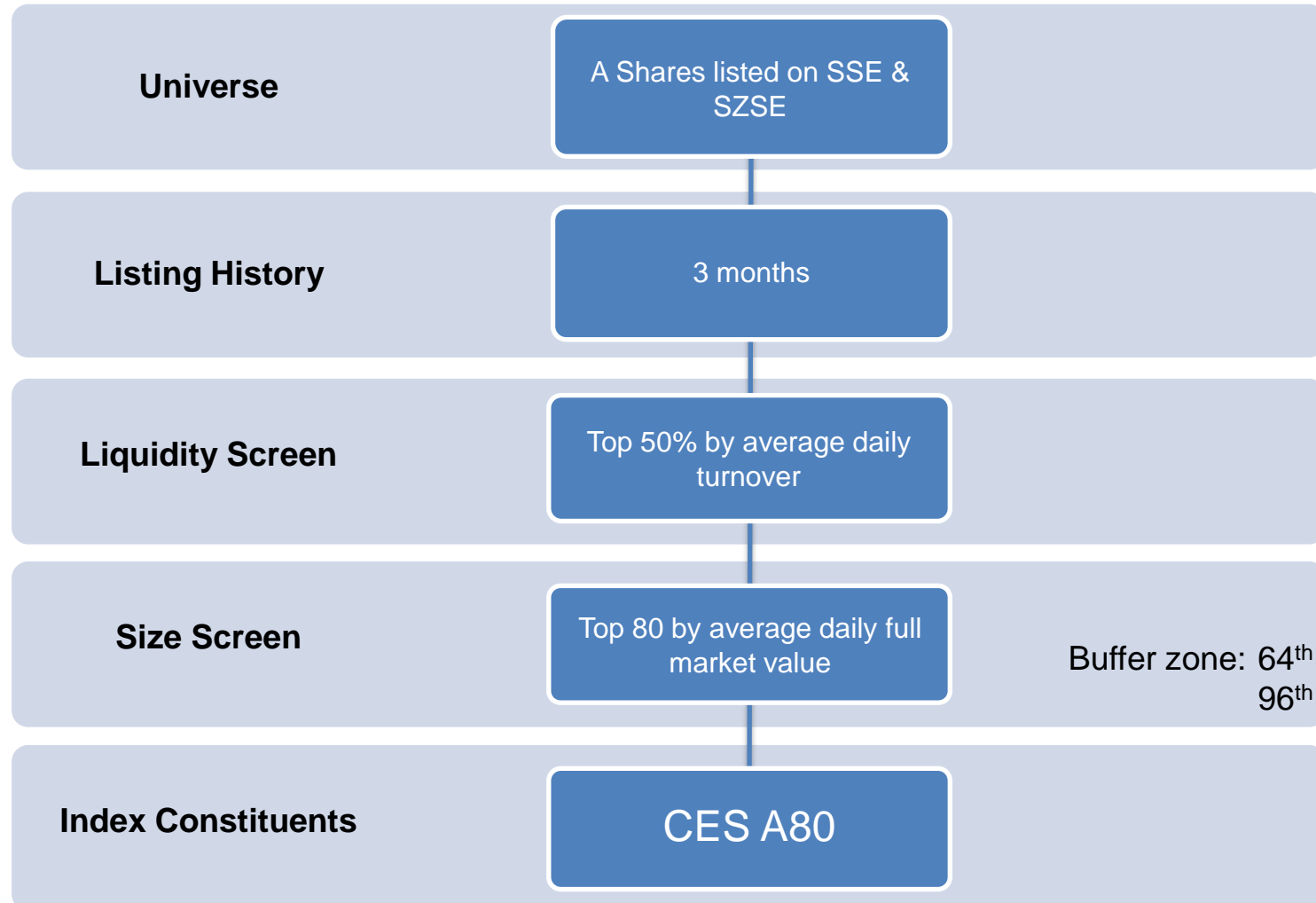
\*After the close of respective Hong Kong and Mainland China markets, the closing index value and the total return index value (which includes the reinvestment income of cash dividends in its calculation) of the two indices will be calculated and disseminated in both HKD and RMB based on the exchange rates published by Thomson Reuters (mid-price of quote).

# Index Construction



- The CES120, the first cross-border index of CESC, covers HKEx-listed Mainland companies as well as companies listed on the Mainland exchanges. It will provide a new benchmark for products tracking the performance of and seeking exposure to Mainland assets traded on the two markets.

# CES A80 – Fair Indicator of China A-shares Market Performance





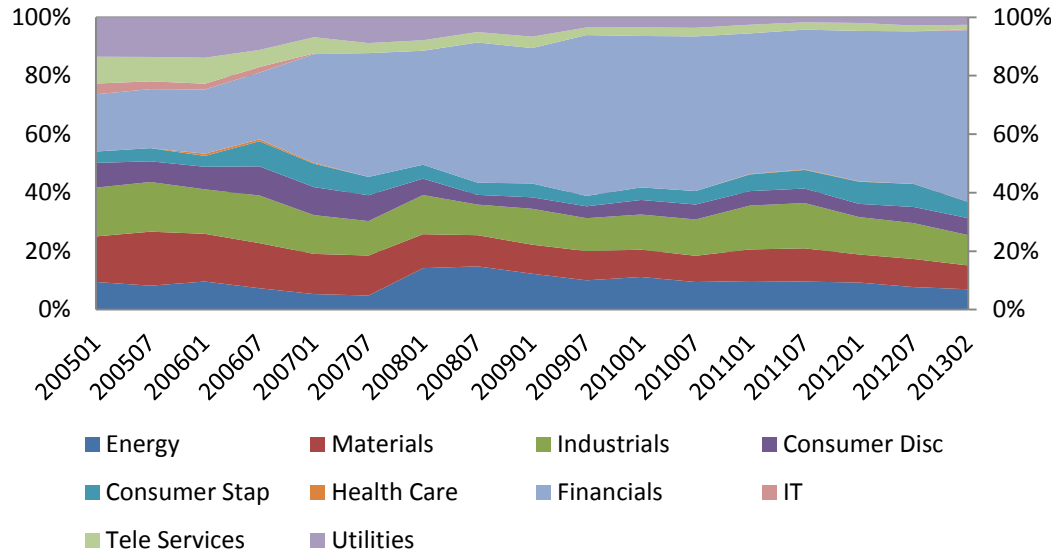
# CES A80 Index Features

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- Represents the pure A-shares portion of the CES 120 Index and is comprised of the 80 most liquid and largest China A-shares trading on the Shanghai and Shenzhen stock exchanges.
- Sets a new standard for benchmarks tracking the performance of major blue chips in the China A-share market.
- Designed for Exchange Traded Funds, or ETFs, derivatives and other index-linked products and to help provide QFIIs, RQFIIs and other investors with more choices to gain exposure in the China A-share market.
- Denominated in CNY and calculated in real-time during trading hours of SSE and SZSE.
- Reviewed in June and December; designed to minimise index constituent turnover and ensure index remains representative.

# CES A80 – A Mirror of Real Sector Distribution

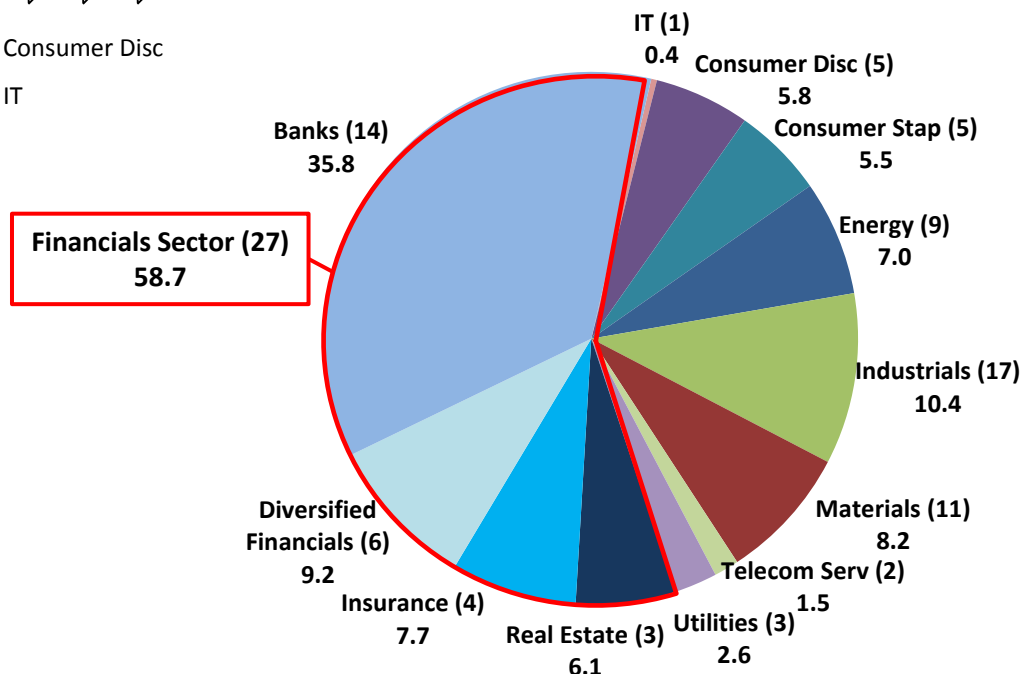
## Sector Distribution (Historical Development)



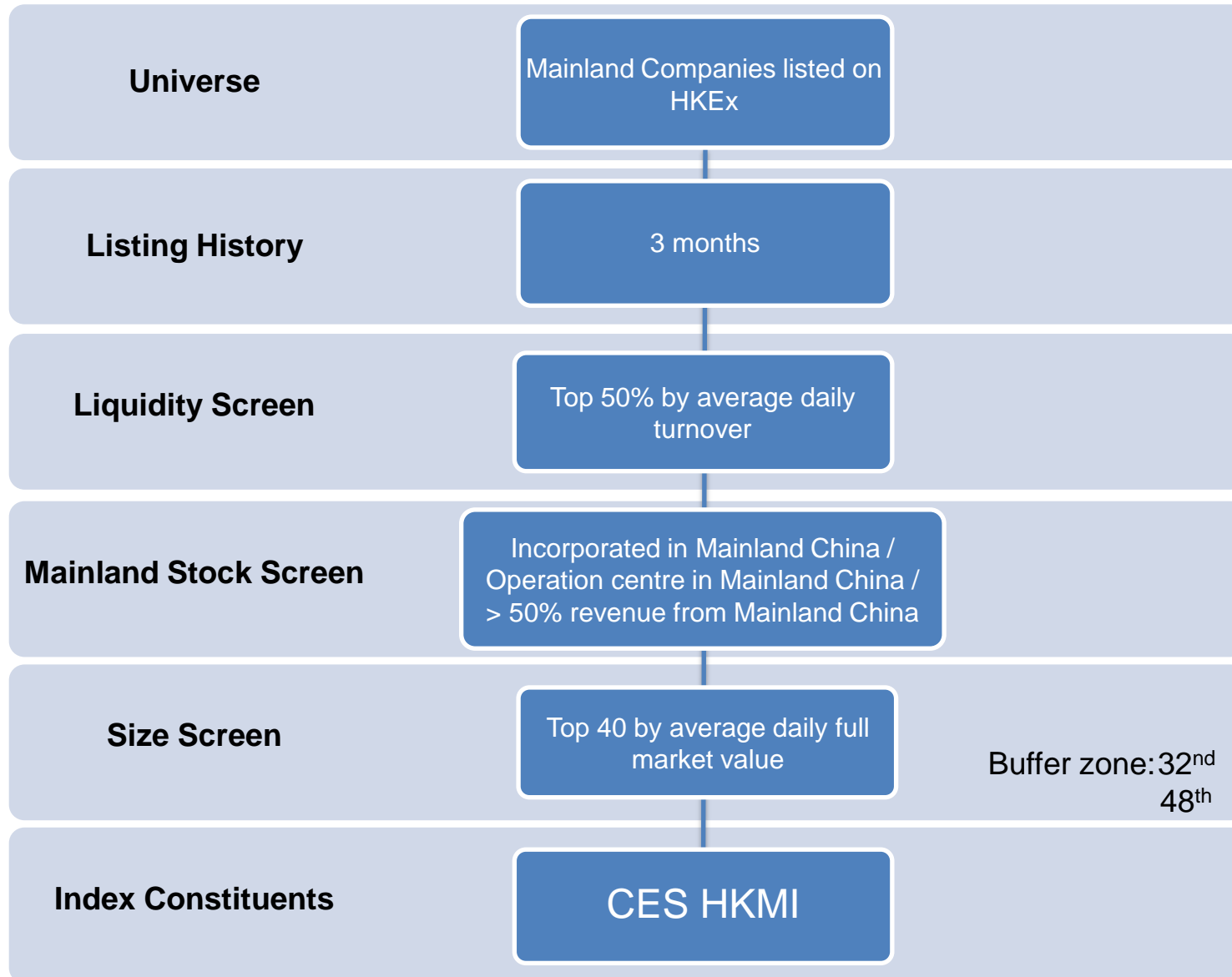
**Financials Sector** breakdown into:  
Banks, Insurance, Real Estate &  
Diversified Financials

**Index composed to be proxy for real economy:**  
Banking and Industrials sectors have largest weightings

## Sector Distribution



# CES HKMI – Fair Indicator of Hong Kong-listed Mainland Companies' Performance



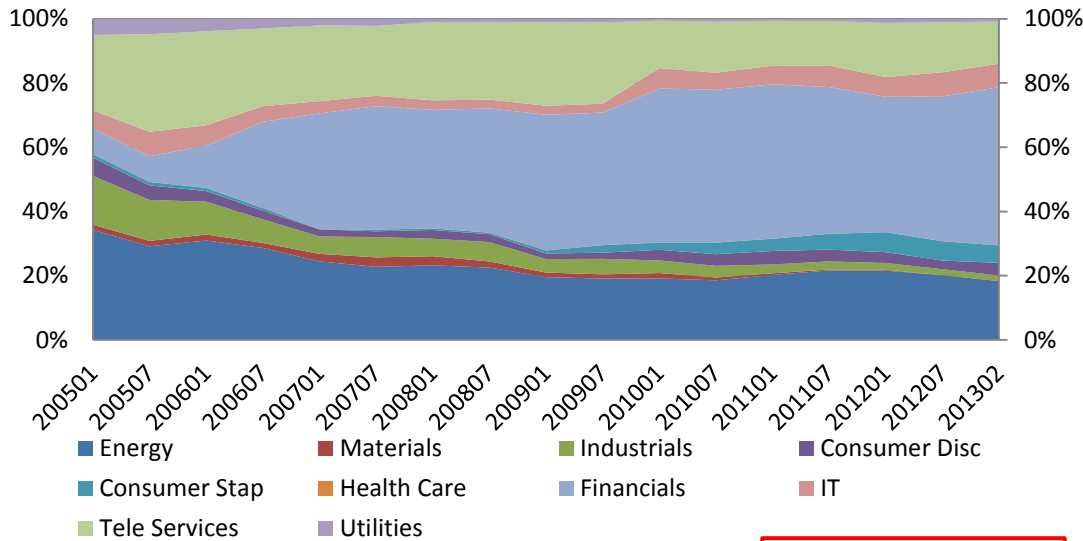
# CES HKMI Index Features

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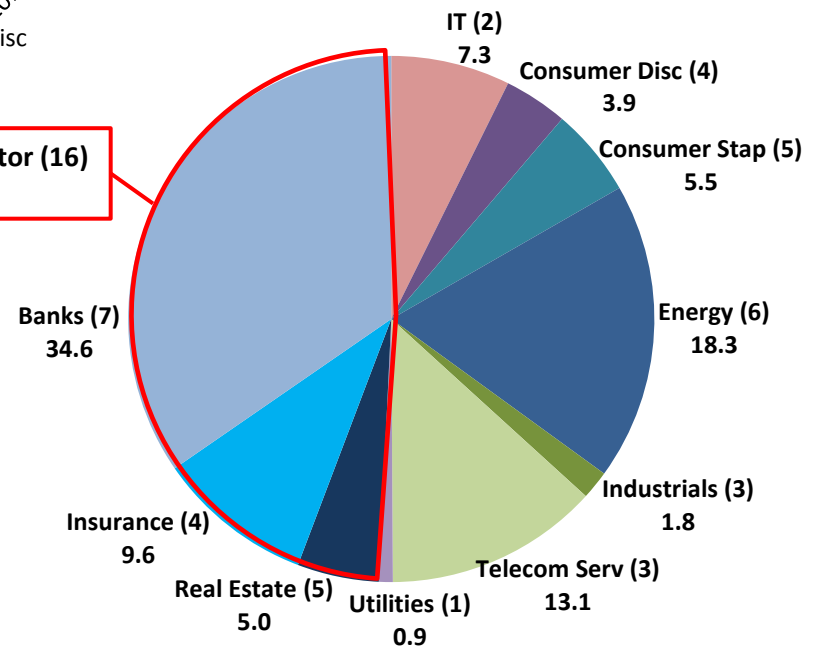
- Represents the Hong Kong-listed Mainland portion of the CES 120 Index and is comprised of the 40 most liquid and largest Mainland companies listed on HKEx.
- Designed for international investors who want to gain exposure to Mainland stocks listed in Hong Kong and Mainlanders who invest in Hong Kong-listed shares through the QDII scheme.
- Includes H shares, Red Chips and shares of other Hong Kong-listed Mainland companies.
- Constituent has to satisfy the requirement that its registration, or operation center is located in Mainland China or more than 50% of its revenue is from Mainland China.
- Denominated in HKD and calculated in real-time during the trading hours of HKEX.
- Reviewed in June and December.

# CES HKMI – A Mirror of Real Sector Distribution

## Sector Distribution (Historical Development)



## Sector Distribution

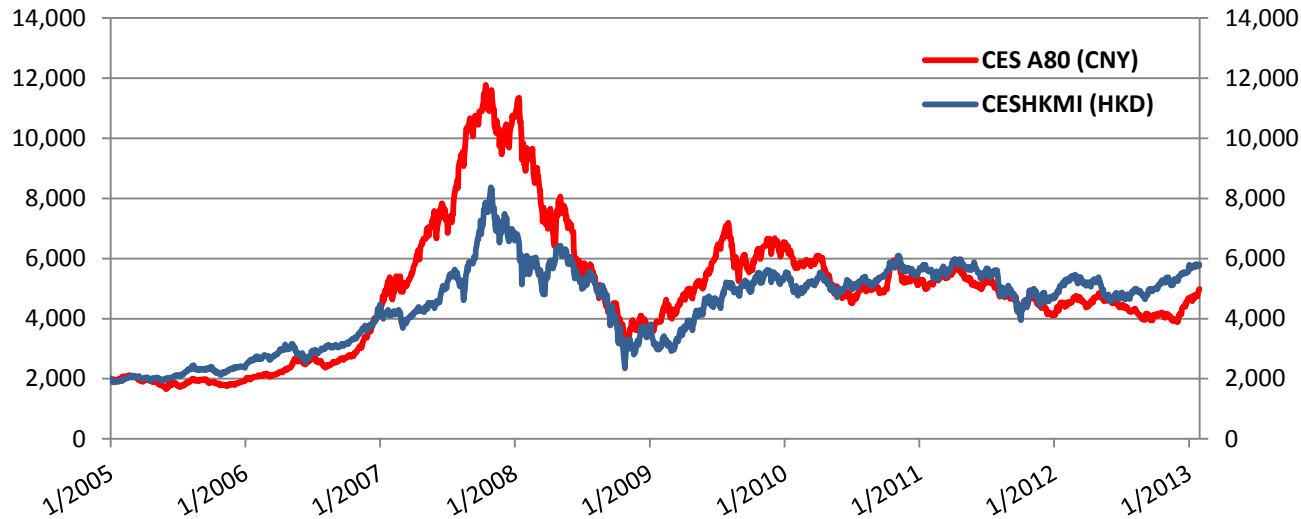


**Financials Sector** breakdown into:  
Banks, Insurance & Real Estate

**Financials, Energy & Telecom Services** sectors have largest weightings

# CES A80 versus CES HKMI Performance

Historical Performance (31.12.2004 – 31.1.2013)



CES A80 Historical Correlation Against CES HKMI

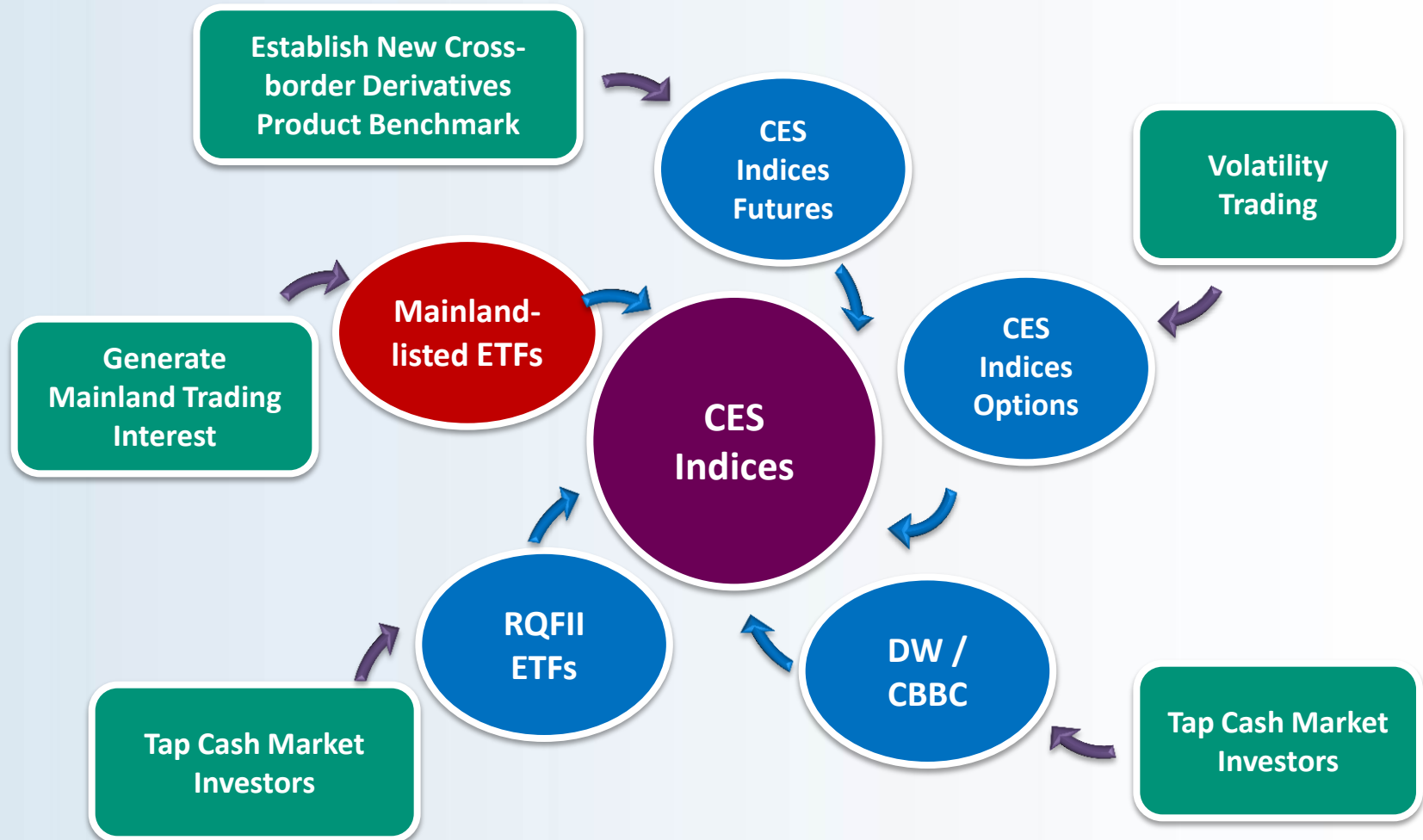
	Correlation
Since Base Date	0.493
5 Year	0.545
3 Year	0.545
1 Year	0.552

Index Performance - Monthly Average Return and Standard Deviation

		1 Year	3 Year	5 Year	Since Base Date
Monthly Average Return (%)	CES A80	1.2	-0.2	-0.5	1.4
	CES HKMI	1.0	0.6	0.4	1.4
Standard Deviation (%)	CES A80	7.5	6.7	9.6	9.9
	CES HKMI	5.3	5.9	8.2	8.2

- The indices reflect distinct features of China stocks in the onshore and offshore markets.

# CESC: Product Ecosystem



# The 1<sup>st</sup> Cross Border Index of CESC : CES 120 Index



【中華交易服務】  
匯聚中國三大交易所力量(香港交易所、上海交易所及深圳交易所)，開啟通往全球第二大經濟體系的投資機遇。

【中華120 跨越里程】  
推出滬深港跨境股票指數 — 中華120，涵蓋80家滬、深交易所上市的A股及40家在香港上市的內地企業股票，成份股均為流動性最高及市值最大的企業，為跟蹤三地市場和投資內地資產的產品提供新基準。

中華交易服務構建中國與全球金融市場的橋樑，  
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匯聚力量 連接全球



- CESC launched its first cross-border index on 10 December 2012, The CES 120. It is comprised of the 80 most liquid and largest stocks in terms of market value trading on the Shanghai and Shenzhen stock exchanges as well as the 40 most liquid and largest Mainland companies in terms of market value listed on HKEx.



# The Two Sub-indices of CESC : CES A80 Index & CES HKMI Index



兩隻指數 跨越兩地  
投資機遇 放眼中華

中華交易服務匯聚中國三大交易所力量（香港交易所、上海交易所及深圳交易所），開啟通往全球第二大經濟體系的投資機遇。隆重推出兩隻全新指數，衍生自去年底面世的中華120指數，成分股均為流動性最高及市值最大的企業，為跟蹤內地與香港兩地股票市場的投資者以及尋求投資內地資產的產品提供新基準。

**【中華A80指數】**  
涵蓋80隻在上海及深圳交易所上市的A股

**【中華香港內地指數】**  
涵蓋40隻在香港交易所上市的內地企業股

中華交易服務匯聚三位一體的力量，  
構建中國與全球金融市場的橋樑。

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中華交易服務  
CHINA  
EXCHANGES  
SERVICES

- CESC launched two new indices under the CESC Cross Border Index Series on 18 March 2013, the CES China A80 Index (CES A80) and the CES China HK Mainland Index (CES HKMI). CES A80 comprised of the 80 most liquid and largest stocks trading on the Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE). CES HKMI is comprised of the 40 most liquid and largest Mainland companies listed on Hong Kong Exchanges and Clearing Limited (HKEx).



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**THANK YOU**