

THE STOCK EXCHANGE OF HONG KONG
CASH MARKET TRANSACTION SURVEY 2000

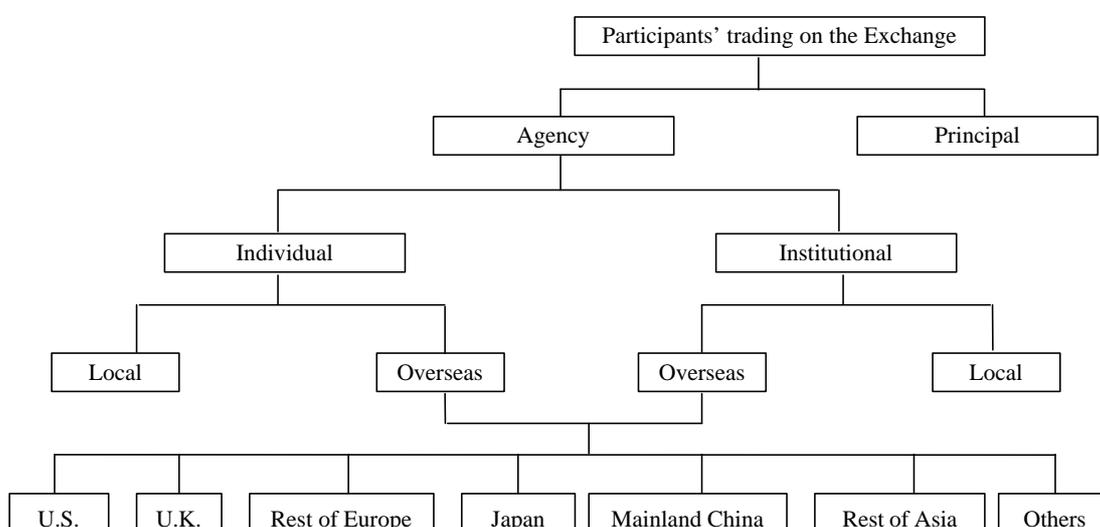
Planning & Research, HKEx

18 January 2001

1. INTRODUCTION

The Stock Exchange of Hong Kong (SEHK) has conducted the SEHK Transaction Survey (previously named Members Transaction Survey) annually since 1991 to ascertain the trading composition of its members in the market. The main objective is to understand the relative market participation of different types of investors (see Figure 1 for classification). In November to December 2000, Hong Kong Exchanges & Clearing Ltd. (HKEx) conducted the survey on behalf of the SEHK for the same purpose, covering both the Main Board and the Growth Enterprise Market (GEM). In view of the recent development of Internet securities trading in Hong Kong, the market share of such kind of trading is covered for the first time in this survey.

Figure 1. Classification of participants' trading on the Exchange



The 2000 Transaction Survey covered the Exchange Participants' transactions from October 1999 to September 2000. Questionnaires were mailed to all participants in the target population.⁽¹⁾ Out of the 481 questionnaires sent out, 475 duly completed questionnaires were received, representing an overall response rate of 99%. The overall responded sample represented 99.6% in turnover value of the target population.

⁽¹⁾ The target population consists of all Exchange trading participants after screening out those that did not carry out business for over 6 months during the study period to avoid result distortion by participants not carrying out normal business during the year.

The survey results indicate that the absolute value of all types of agency trade in 2000 increased substantially from the previous year but the relative market share of these types changed. Local individual and institutional investors remained the major users of the market, contributing 67% of total market trading value, up from 63% in 1999. Overseas investors (mainly institutions) contributed 30% of the total, down from 31% in 1999. The major origins of overseas participation were the UK (33% of overseas participation) and the US (23%). Internet trading⁽²⁾ only contributed 1% of total agency turnover.

⁽²⁾ "Internet trading" in this survey refers to trading originating from client orders channelled to the brokers via Internet. However, it should be noted that client orders directed to the brokers via electronic channels (e.g. Internet and mobile phone) could not be routed to the Exchange's trading system without manual re-entry during the period under study (i.e. the period was prior to the launch of AMS/3).

2. MAIN FINDINGS OF 2000 SURVEY

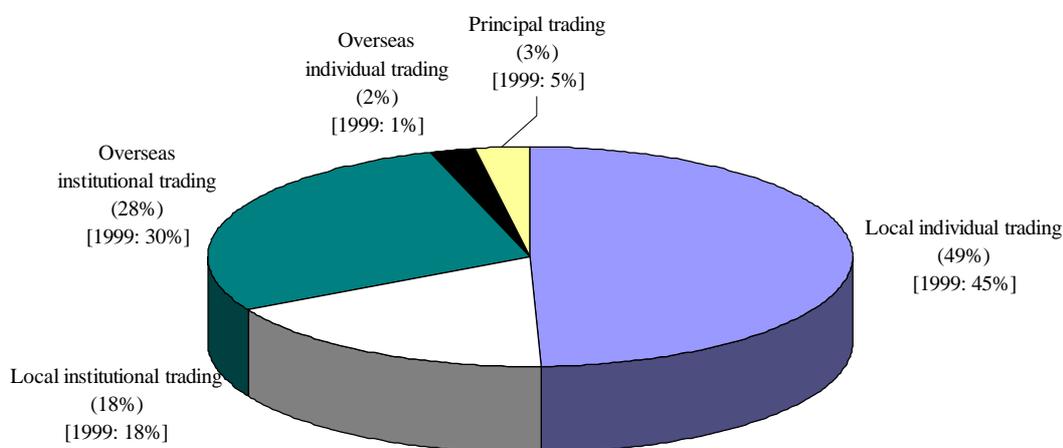
The findings were obtained by weighting each participant's response by that participant's turnover value.

2.1 Distribution of trading by type of trade (Figure 2)

The *absolute* value of all types of trade in 2000 increased from the previous year. The different types of trade had different rates of increase so that their *relative* market share increased or decreased accordingly.

- Local individuals remained the dominant contributors to market trading, their contribution rose from 45% in 1999 to 49% in 2000.
- Local agency trading (individual and institutional) contributed 67% of the total market turnover, up from 63% in 1999.
- Overseas agency trading in total turnover dropped slightly from 31% in 1999 to 30% in 2000, mainly contributed by institutions (28%).
- Principal trading declined from 5% in 1999 to 3% in 2000.

Figure 2. Distribution of trading by type of trade (Oct 1999 - Sep 2000)



Note: Numbers may not add up to 100% due to rounding.

2.2 Breakdown of contribution by type of trade (Table 1)

- Individual agency trading came mainly from local investors (96%) while institutional agency trading came mainly from overseas (62%).
- Local trading was mainly contributed by individuals (74%) whereas overseas trading was predominantly from institutions (93%).

Table 1. Breakdown of contribution by type of trade

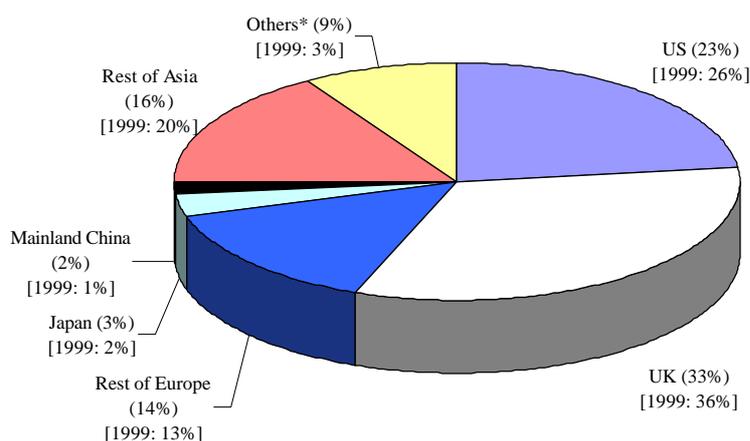
	All participants	
	%	
	1999	2000
All trading		
Agency	94.62	97.10
Principal	5.38	2.90
	<u>100.00</u>	<u>100.00</u>
Agency trading		
Individual	48.80	53.05
Institutional	51.20	46.95
	<u>100.00</u>	<u>100.00</u>
Agency trading		
Local	66.68	68.91
Overseas	33.32	31.09
	<u>100.00</u>	<u>100.00</u>
Individual trading		
Local	97.17	95.87
Overseas	2.83	4.13
	<u>100.00</u>	<u>100.00</u>
Institutional trading		
Local	37.61	38.46
Overseas	62.39	61.54
	<u>100.00</u>	<u>100.00</u>
Local agency trading		
Individual	71.12	73.80
Institutional	28.88	26.20
	<u>100.00</u>	<u>100.00</u>
Overseas agency trading		
Individual	4.14	7.05
Institutional	95.86	92.95
	<u>100.00</u>	<u>100.00</u>

2.3 Distribution of overseas agency trading by origin (Figure 3)

Overseas agency trading contributed about 30% of total market turnover value.

- The UK remained the largest source of overseas orders (33%) and the US came second (23%). Yet, their shares in total market turnover dropped from 1999.
- Asia contributed 21% of total overseas trading, not much changed from the 23% in 1999. Of this, Japan and China only contributed a very small proportion (3% and 2% respectively).
- Contribution from other regions to overseas agency trading increased significantly from 3% in 1999 to 9% in 2000. The change was mainly attributed to the growth in contribution from Australia.

Figure 3. Distribution of overseas agency trading by origin (Oct 1999 - Sep 2000)



* Includes Australia, British Virgin Islands, Canada, New Zealand, Cayman Islands, United Arab Emirates, Africa, Bahrain, Bermuda, Bahamas, Cooks Island, Liberia, Middle East and Panama.

Note: Numbers may not add up to 100% due to rounding.

2.4 Internet trading (Figure 4, Table 2)

Following the launch of AMS/3, fully-automated Internet trading will be available to investors, i.e. orders from investors entered via Internet and other electronic means can be channelled directly to the Exchange trading system. During the study period, which was prior to the launch of AMS/3, brokers who received client orders via the Internet had to input the orders manually into the Exchange's trading system. "Internet trading" referred to in this survey represents only the trading originating from client orders channelled to brokers via the Internet. Nonetheless, the finding in this survey will serve as the basis for comparison with results obtained in subsequent years when fully-automated Internet trading is available.

For analysis purposes, Exchange Participants (or the brokers) were divided into large-, medium- and small-sized groups in terms of their contribution to the total turnover of the target population. *Large-sized brokers* are those contributing the top one-third, *medium-sized brokers* are those contributing the second one-third and *small-sized brokers* are those contributing the bottom one-third. The contribution to total market turnover by Exchange Participants was very skewed (see Appendix 1), there being only 13 large-sized Participants, 53 medium-sized and 415 small-sized in the target population.

- Internet trading was insignificant, contributing only 1% of total agency turnover.
- 7% of the respondents, which contributed 15% of the total turnover of the respondent population, claimed that part of their agency turnover was channelled via the Internet. Among these brokers, Internet trading contributed only 7% of their agency business in aggregate.
- When broken down by size of broker, 15% of large-sized brokers, 25% of medium-sized brokers and 4% of small-sized brokers had part of their agency turnover channelled via the Internet.
- Among large-sized brokers offering Internet trading services, Internet trading contributed 10% of their agency turnover. The corresponding figures for medium-sized and small-sized brokers were 7% and 4% respectively.
- Among all the large-sized brokers, only 0.7% of their client trading was channelled via the Internet. The corresponding percentage for medium-sized brokers was 1.9% and that for small-sized brokers was 0.3%.

**Figure 4. Percentage share of Internet trading to total agency turnover
(Oct 1999 - Sep 2000)**

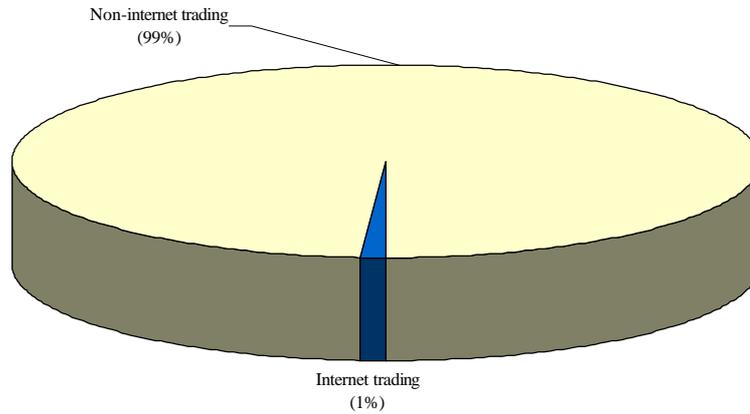


Table 2. Percentage share of Internet trading by size of participants

Participant by size	No. of respondents	% share of group turnover in respondent population	Respondents with Internet trading			Internet trading value	
			Number	% in no. of size group	% in turnover of size group	% share of agency turnover of brokers offering Internet trading	% share of group's total agency turnover
Large-sized	13	33.10%	2	15%	7% ⁽¹⁾	10% ⁽¹⁾	0.73% ⁽¹⁾
Medium-sized	53	33.80%	13	25%	27%	7%	1.94%
Small-sized	409	33.09%	16	4%	8%	4%	0.33%
All responding participants	475	100.00%	31	7%	15%	7%	1.01%

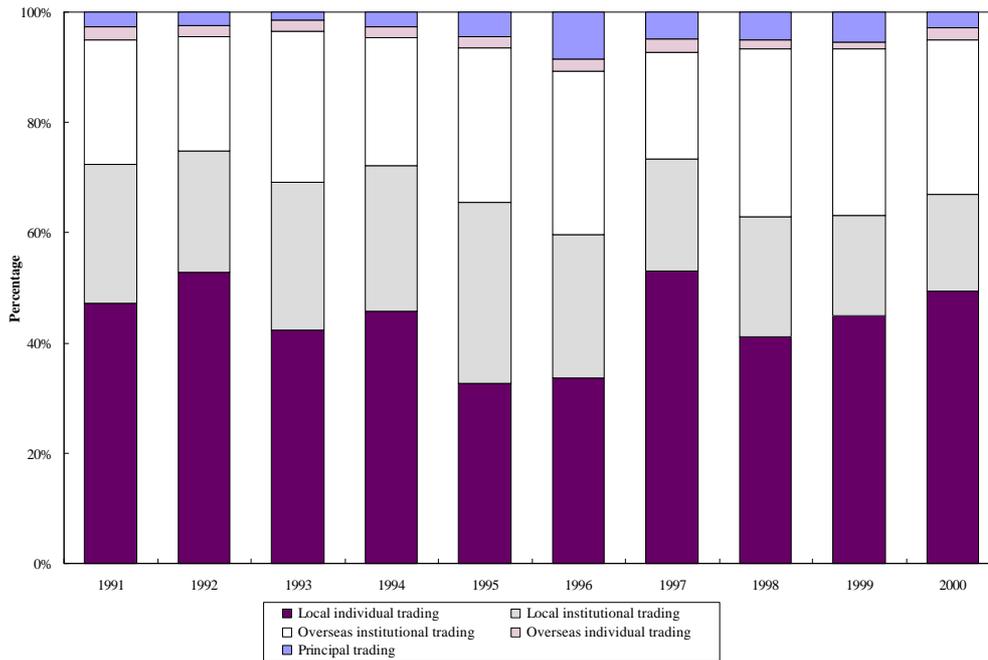
Note:

One respondent gave a positive answer on having Internet trading but could not provide the estimated proportion. The respondent was included in the number but excluded from the percentage share of turnover.

3. DISTRIBUTION OF MARKET TRADING OVER TIME (FIGURES 5 - 8)

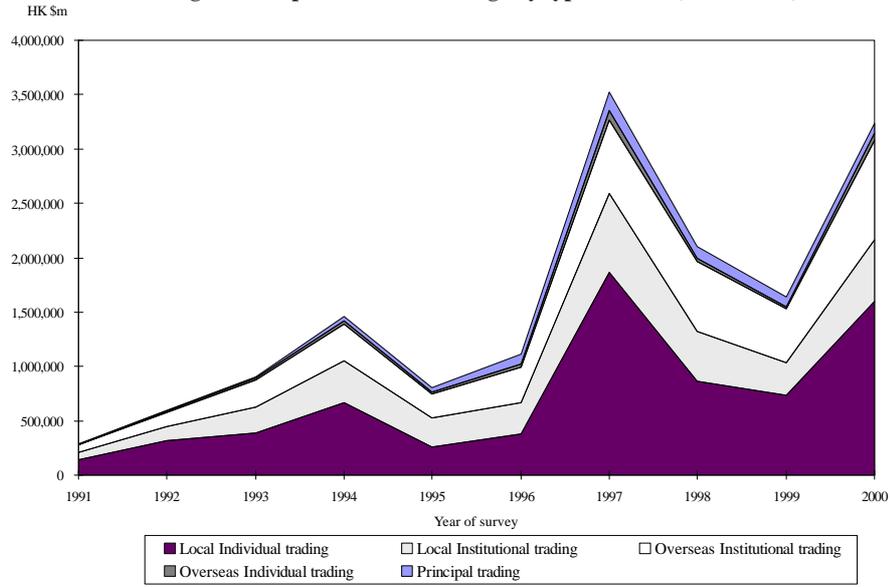
- Local agency trading contributed the majority of total market turnover (60-70%) throughout the past 10 years. Local individuals remained the dominant players, contributing 44% to the 10-year cumulative market turnover.
- Individual trading is more sensitive to changes in market sentiment than institutional trading. Local individual trading increased to a greater extent than institutional trading during periods when the market was bullish and decreased more during periods when the market was bearish. In 2000 when the market turnover almost doubled, local individual trading more than doubled so that its percentage contribution increased while that of the other types of investors decreased.
- The contribution from overseas institutions has been relatively stable since 1998 (about 30%). Overseas institutional investors contributed 27% to the 10-year cumulative market turnover.
- The UK and the US remained the major sources of overseas agency business, contributing in aggregate over 50% of overseas agency trading from 1995 to 2000.

Figure 5. Distribution of trading by type of trade in percentage (1991-2000)



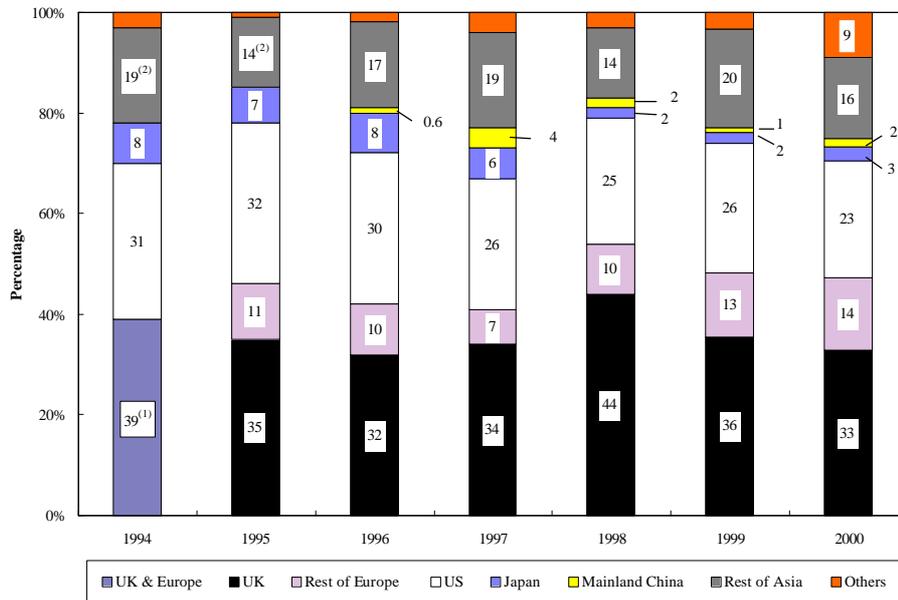
Type of trade	1991 %	1992 %	1993 %	1994 %	1995 %	1996 %	1997 %	1998 %	1999 %	2000 %	% of 1991-2000 market turnover
Principal trading	2.60	2.33	1.43	2.70	4.43	8.43	4.77	5.06	5.38	2.90	4.78
Overseas agency trading	25.04	22.84	29.43	25.15	30.02	31.84	21.85	32.11	31.53	30.19	28.71
Individual trading	2.36	2.05	1.96	1.85	2.08	2.35	2.49	1.54	1.30	2.13	2.03
Institutional trading	22.68	20.79	27.47	23.30	27.94	29.49	19.36	30.58	30.23	28.06	26.69
Local agency trading	72.36	74.83	69.14	72.15	65.54	59.73	73.38	62.83	63.09	66.91	66.51
Individual trading	47.24	52.80	42.40	45.75	32.73	33.76	52.94	41.16	44.87	49.38	44.16
Institutional trading	25.12	22.03	26.74	26.40	32.81	25.97	20.44	21.67	18.22	17.53	22.35

Figure 6. Implied value of trading* by type of trade (1991 - 2000)



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

Figure 7. Distribution of overseas agency trading by origin (1994-2000)

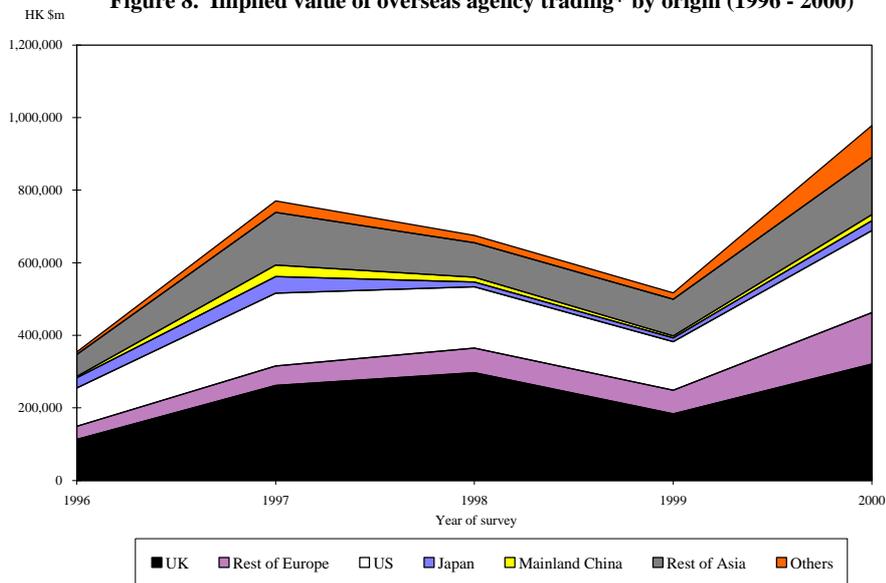


Notes:

(1) UK was combined with Europe in the 1994 Survey.

(2) Mainland China was included in the rest of Asia in the 1994 and 1995 Surveys.

Figure 8. Implied value of overseas agency trading* by origin (1996 - 2000)



* The implied value of trading from a particular origin is determined by first calculating the implied overseas agency trading value during the study period for that year of survey, and then multiplying it by the percentage contribution to overseas agency trading by that origin as obtained from the survey.

GLOSSARY OF TERMS

Principal trading :

Trading in the participant firm' s own account.

Agency trading :

Trading on behalf of the participant firm' s clients.

(Local / Overseas) individual trading :

Trading on behalf of individual clients in Hong Kong or overseas.

(Local / Overseas) institutional trading :

Trading on behalf of institutional clients in Hong Kong or overseas.

Individual clients :

Clients who trade on their personal accounts.

Institutional clients :

Clients who are not individual clients.

Large-sized brokers :

Participants of the Exchange who contributed the top one-third of the total turnover value of the target population for the period October 1999 to September 2000.

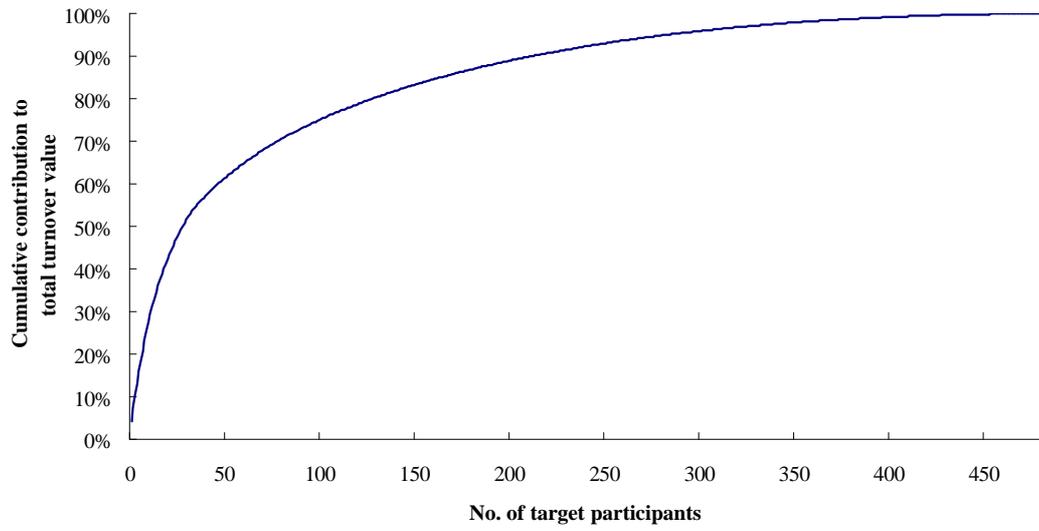
Medium-sized brokers :

Participants of the Exchange who contributed the second one-third of the total turnover value of the target population for the period October 1999 to September 2000.

Small-sized brokers :

Participants of the Exchange who contributed the bottom one-third of the total turnover value of the target population for the period October 1999 to September 2000.

Appendix 1. Cumulative percentage contribution by participants to total turnover value of target population (Oct 1999 - Sep 2000)



Appendix 2. Survey methodology

1. Target population

- (1) Included all trading Participants of the Exchange who became trading Participants prior to the end of March 2000 (i.e. who had been in business for over 6 full months during the study period) and remained so at the end of October 2000.
- (2) Excluded Participants whose trading was suspended from July 2000 to September 2000 or ceased on or before September 2000 or whose trading was less than 6 months during the study period. This is to avoid distortion of the results by Participants who were in an abnormal course of business.
- (3) Exchange participant firms are used as responding units. Two or more individual Participants operating through a partnership firm are regarded as one responding unit.

2. Methodology

- (1) All trading Participants in the target population were included in the survey sample.
- (2) Study period is from October 1999 to September 2000.
- (3) On a mailed questionnaire, trading participants provided an estimated percentage breakdown of their trading value during the study period in accordance with the prescribed classification. Consolidated trading composition from participant firms which have affiliate or sister companies to deal with their investor clientele was obtained as far as possible. For those who were known to be so but did not provide us with details, estimated percentage figures derived from the rest of the responses in the same size group* were imputed to them.
- (4) Since GEM's contribution to the combined total market turnover on the SEHK was not significant (2% during Oct 1999 - Aug 2000), respondents were asked to provide an overall breakdown of their combined trading value for the Main Board and GEM.
- (5) Each participant firm's answers in percentage terms was weighted by its actual turnover value to obtain the relative contribution of each type of trading to total market turnover.

* Target participants were divided into large-, medium-, and small-sized groups in terms of their contribution to the total turnover of the target population. Large-sized brokers are those contributing the top one-third, medium-sized brokers are those contributing the second one-third and small-sized brokers are those contributing the bottom one-third. Participants of different sizes tend to have different business composition.



Appendix. 3

The Stock Exchange of Hong Kong

A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited

Transaction Survey 2000

QUESTIONNAIRE

This survey focuses on the trading of SEHK-listed securities on the Main Board and GEM that your company handled through the Stock Exchange for the period from 1 October 1999 to 30 September 2000.

Clients who trade on their personal account should be classified as individuals; all other clients should be classified as institutions. If hard data is not available, best estimates are also acceptable.

Please send back the completed questionnaire to Planning & Research of the HKEx by mail (address attached to the questionnaire) or by fax (2521-7072) on or before 3 November 2000. Inquiries may be directed to Ms Essie Tsoi at 2840-3084.

Please fill in the blanks (type or write neatly) where applicable.

1. Considering all of your trading during the study period, for what percentage (in dollar terms) did you act

(a) on your clients' behalf, as agent	_____	%
(b) on your own behalf, as principal	_____	%
Total	100	%

2. Considering **agency trading** only, what percentage (in dollar terms) was handled on behalf of

(a) Individuals	_____	%
(b) Institutions	_____	%
Total	100	%

3. Considering **agency trading** on behalf of **individuals** only, what percentage (in dollar terms) was handled for

(a) Local clients	_____	%
(b) Overseas clients	_____	%
Total	100	%

4. Considering **agency trading** on behalf of **institutions** only, what percentage (in dollar terms) was handled for

(a) Local clients	_____	%
(b) Overseas clients	_____	%
Total	100	%

5. Considering **agency trading** on behalf of **all overseas clients**, what percentage (in dollar terms) was handled for clients from the following origins:

(a) United States	_____	%
(b) UK	_____	%
(c) Europe (excluding UK)	_____	%
(d) Japan	_____	%
(e) Mainland China	_____	%
(f) Asia (excluding Japan & Mainland China)	_____	%
(g) Others, please specify : _____	_____	%
Total	100	%

6. What percentage (in dollar terms) of your **clients' transactions** was channeled to you via the **Internet**? _____ %

Questionnaire completed by : _____ Contact telephone number : _____