

**CASH MARKET TRANSACTION SURVEY**  
**2000/01**



**Hong Kong Exchanges and Clearing Limited**  
**Research & Policy, Corporate Strategy**

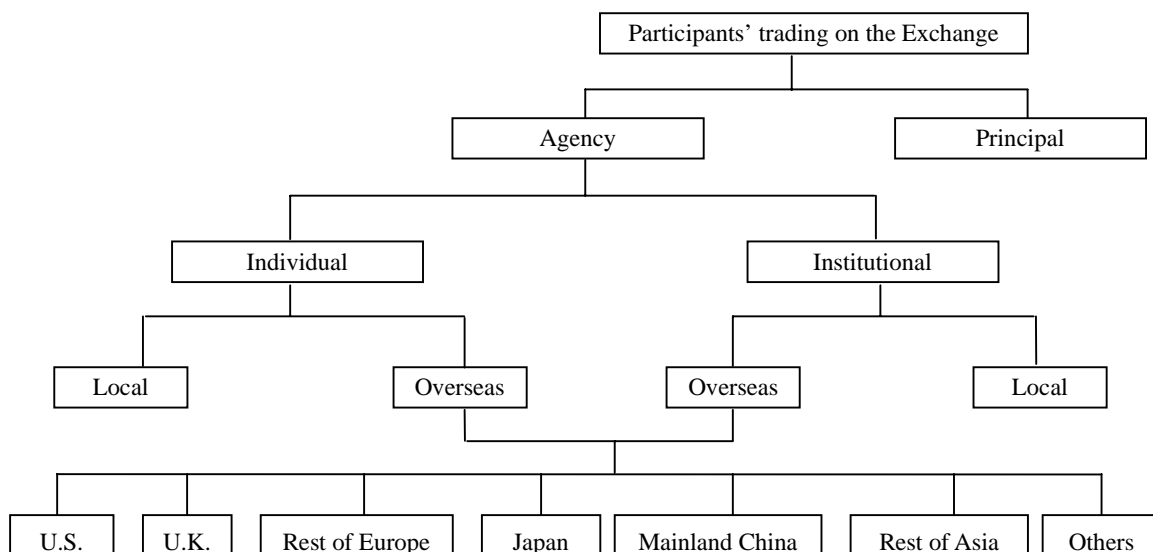
**1 February 2002**



## 1. INTRODUCTION

Hong Kong Exchanges and Clearing Ltd. (HKEx) has conducted the Cash Market Transaction Survey annually since 1991 to study the trading composition of the Exchange Participants in the market. The main objective is to understand the relative contribution to trading by different types of investors (see Figure 1 for classification). In November to December 2001, HKEx conducted the survey of Stock Exchange Participants covering their trading on both the Main Board and the Growth Enterprise Market (GEM). The market share of online trading<sup>(1)</sup> is covered since the previous 1999/2000 survey to track its latest development.

**Figure 1. Classification of participants' trading on the Exchange**



The Cash Market Transaction Survey 2000/01 covered the Stock Exchange Participants' (EPs) transactions from October 2000 to September 2001. Questionnaires were mailed to all participants in the target population.<sup>(2)</sup> Out of the 480 questionnaires sent out, 462 duly completed questionnaires were received, representing an overall response rate of 96%. The overall responded sample represented 98% in turnover value of the target population (see Appendix 1 for response rate).

The survey results indicate that local investors remained the major participants in the market, contributing 56% of total market trading value despite their drop in market share from 67% in 1999/2000. Overseas investors (mainly institutions) contributed 40% of the total, up from 30% in 1999/2000. As in prior years, the major origins of overseas participation were the UK (33% of overseas participation) and the US (29%). Online trading contributed 2% of total agency turnover or 6% of local individual trading.

<sup>(1)</sup> "Online trading" in this survey refers to trading originating from client orders channelled to the brokers via electronic media (e.g. Internet and mobile phone). This would include client orders routed to the HKEx trading system automatically on a straight-through basis and client orders received via electronic media but having to be manually re-input into the HKEx trading system.

<sup>(2)</sup> The target population consists of all Stock Exchange trading participants after screening out those that did not carry out business for over 6 months during the study period to avoid distortion of the results by participants not carrying out normal business during the year. (See Appendix 3)



## 2. MAIN FINDINGS OF 2000/01 SURVEY

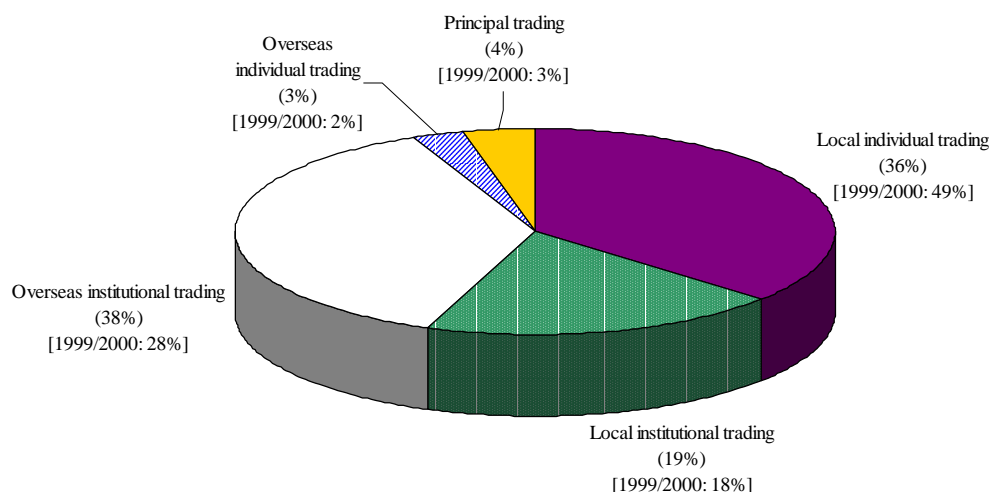
The findings were obtained by weighting each participant's response in percentage by that participant's turnover value.

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

Alongside the contraction of market turnover in 2000/01 from the exceptionally high level in 1999/2000, the *absolute* value of all types of trade dropped in the year. The different types of trade had different rates of decrease so that their *relative* market share increased or decreased accordingly.

- Local agency trading remained the dominant contributor (56%) to the total market turnover in 2000/01. Yet its contribution shrank from 67% in 1999/2000. The decline was largely caused by the decrease in local individual trading from 49% in 1999/2000 to 36% in 2000/01.
- Overseas agency trading's contribution to total turnover increased significantly from 30% in 1999/2000 to 40% this year. This is mainly due to the fact that local agency trading declined more than overseas agency trading in 2000/01 (-48% vs -16%).
- Contribution to total turnover by overseas institutions doubled that by local institutions (38% vs 19%).
- Principal trading remained low at 4% in 2000/01.

Figure 2. Distribution of trading by type of trade (Oct 2000 - Sep 2001)



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 (93%) while institutional agency trading came mainly from overseas (66%).
- Local agency trading was mainly contributed by individuals (65%) whereas overseas agency trading was predominantly from institutions (94%).

**Table 1. Breakdown of contribution by type of trade**

Type of trade	All participants		
	%		
	1998/99	1999/2000	2000/01
<b>All trading</b>			
Agency	94.62	97.10	<b>96.00</b>
Principal	5.38	2.90	<b>4.00</b>
	<u>100.00</u>	<u>100.00</u>	<u><b>100.00</b></u>
<b>Agency trading</b>			
Individual	48.80	53.05	<b>40.47</b>
Institutional	51.20	46.95	<b>59.53</b>
	<u>100.00</u>	<u>100.00</u>	<u><b>100.00</b></u>
<b>Agency trading</b>			
Local	66.68	68.91	<b>58.09</b>
Overseas	33.32	31.09	<b>41.91</b>
	<u>100.00</u>	<u>100.00</u>	<u><b>100.00</b></u>
<b>Individual trading</b>			
Local	97.17	95.87	<b>93.35</b>
Overseas	2.83	4.13	<b>6.65</b>
	<u>100.00</u>	<u>100.00</u>	<u><b>100.00</b></u>
<b>Institutional trading</b>			
Local	37.61	38.46	<b>34.12</b>
Overseas	62.39	61.54	<b>65.88</b>
	<u>100.00</u>	<u>100.00</u>	<u><b>100.00</b></u>
<b>Local agency trading</b>			
Individual	71.12	73.80	<b>65.04</b>
Institutional	28.88	26.20	<b>34.96</b>
	<u>100.00</u>	<u>100.00</u>	<u><b>100.00</b></u>
<b>Overseas agency trading</b>			
Individual	4.14	7.05	<b>6.42</b>
Institutional	95.86	92.95	<b>93.58</b>
	<u>100.00</u>	<u>100.00</u>	<u><b>100.00</b></u>

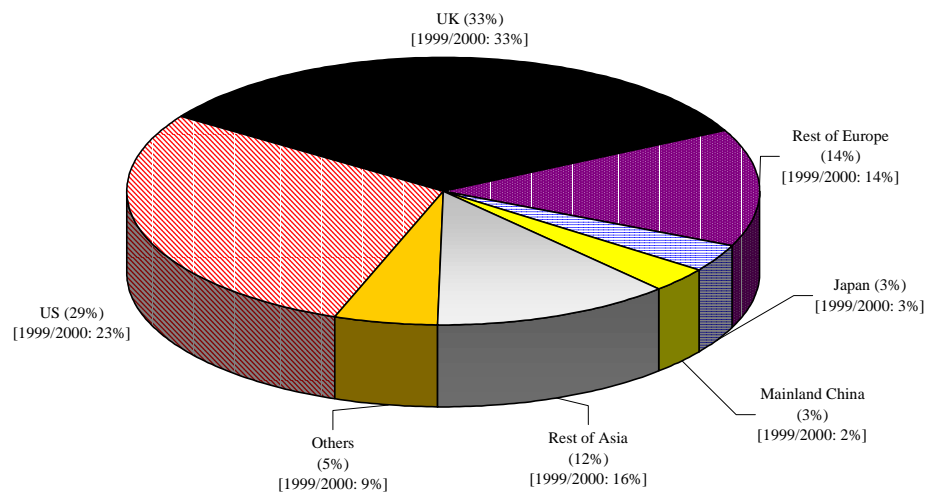


### 2.3 Distribution of overseas agency trading by origin (Figure 3)

Overseas agency trading contributed about 40% of total market turnover value in 2000/01, up from 30% in 1999/2000.

- The UK remained the largest source of overseas orders (33% of the overseas total) and the US came second (29%).
- The contribution of Asia to total overseas trading declined for the second year to 18% in 2000/01 from 23% in 1998/1999. Among the Asia source territories, Japan and China's contribution remained small at 3% each of the overseas total.
- Contribution from other regions to overseas agency trading dropped significantly from 9% in 1999/2000 to 5% in 2000/01.

**Figure 3. Distribution of overseas agency trading by origin (Oct 2000 - Sep 2001)**



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

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



## 2.4 Online trading (Figure 4, Table 2)

“Online trading” in this survey refers to trading originating from client orders channelled to the brokers via electronic media (e.g. the Internet and mobile phone). After the launch of AMS/3 in October 2000, fully-automated online trading has become available to investors, i.e. orders from investors entered via Internet and other electronic means can be channelled directly to the Exchange trading system for auto-matching.

For analysis purposes, Exchange Participants (EPs 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 EPs was very skewed (see Appendix 2). There were 9 large-sized, 30 medium-sized and 441 small-sized EPs in the target population. The responded sample included all of them except 18 small-sized brokers.

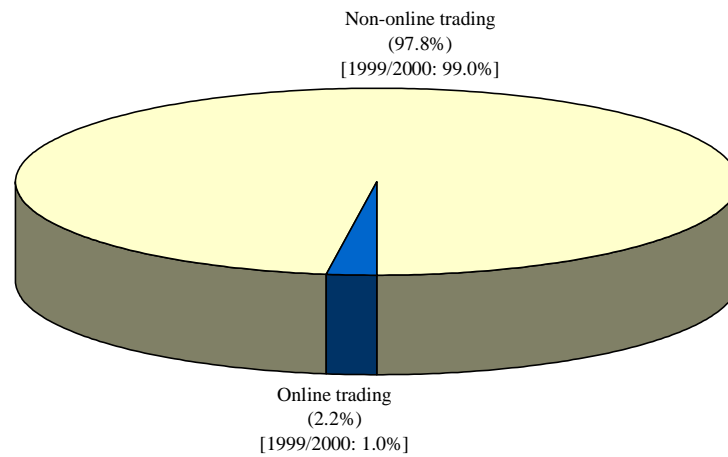
- Online trading, which is mainly a retail service, increased from 2% of local individual trading in 1999/2000 to 6% in 2000/01<sup>(3)</sup>. To agency turnover as a whole, its contribution increased from 1% in 1999/2000 to 2% in 2000/01.
- 13% of the respondents claimed that part of their client turnover was channelled online, compared with only 7% in 1999/2000. These respondents contributed 20% of the total turnover of the respondent population.
- When broken down by size of broker, 11% (or 1 in number) of large-sized brokers, 38% (or 11 in number) of medium-sized brokers and 11% (or 46 in number) of small-sized brokers had part of their client turnover channelled via online media. The number of small-sized brokers offering online trading service increased significantly from 16 in the previous year.
- Among the large-sized brokers, 0.1% of their client trading was channelled via online media. The corresponding percentages for medium-sized brokers and small-sized brokers were 4% and 3%. One reason for the higher percentage for smaller-sized brokers is that online trading is mainly a retail phenomenon. Large-sized brokers tend to have more contribution from institutional clients than from retail investors.
- All large-sized and medium-sized brokers replied that there was no need to manually re-input client orders received online. On the other hand, 33% of small-sized brokers offering online trading needed to manually re-input the orders received online.

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<sup>(3)</sup> “Internet trading” instead of “online trading” was asked in the 1999/2000 survey. However, it is understood that electronic means of order placing other than Internet was not popular during 1999/2000 survey period before the launch of AMS/3 in October 2000. Even currently, online trading is predominantly conducted via the Internet.



**Figure 4. Percentage share of online trading to total agency turnover (Oct 2000 - Sep 2001)**



**Table 2. Percentage share of online trading by size of participants (Oct 2000 - Sep 2001)**

Participant by size	No. of respondents	% share of group turnover in respondent population	Brokers having online trading					Online trading value	
			Number	% in no. of size group	% in turnover of size group	% requiring manual order re-input among brokers having online trading		% share of agency turnover of brokers having online trading	% share of group's client turnover
						Yes	No*		
Large-sized	9	33%	1	11%	3%	0%	100%	1%	0.1%
Medium-sized	30	35%	12	40%	11%	0%	100%	13%	4.0%
Small-sized	423	32%	47	11%	7%	33%	67%	12%	2.6%
<b>All responding participants</b>	<b>462</b>	<b>100%</b>	<b>60</b>	<b>13%</b>	<b>21%</b>	<b>25%</b>	<b>75%</b>	<b>11%</b>	<b>2.2%</b>

\* For brokers with orders routed to HKEx trading system on a straight-through basis, manual re-input of orders may still be required under special circumstances at above market price, exceptionally large order size, odd lots or stock price lower than \$0.01.



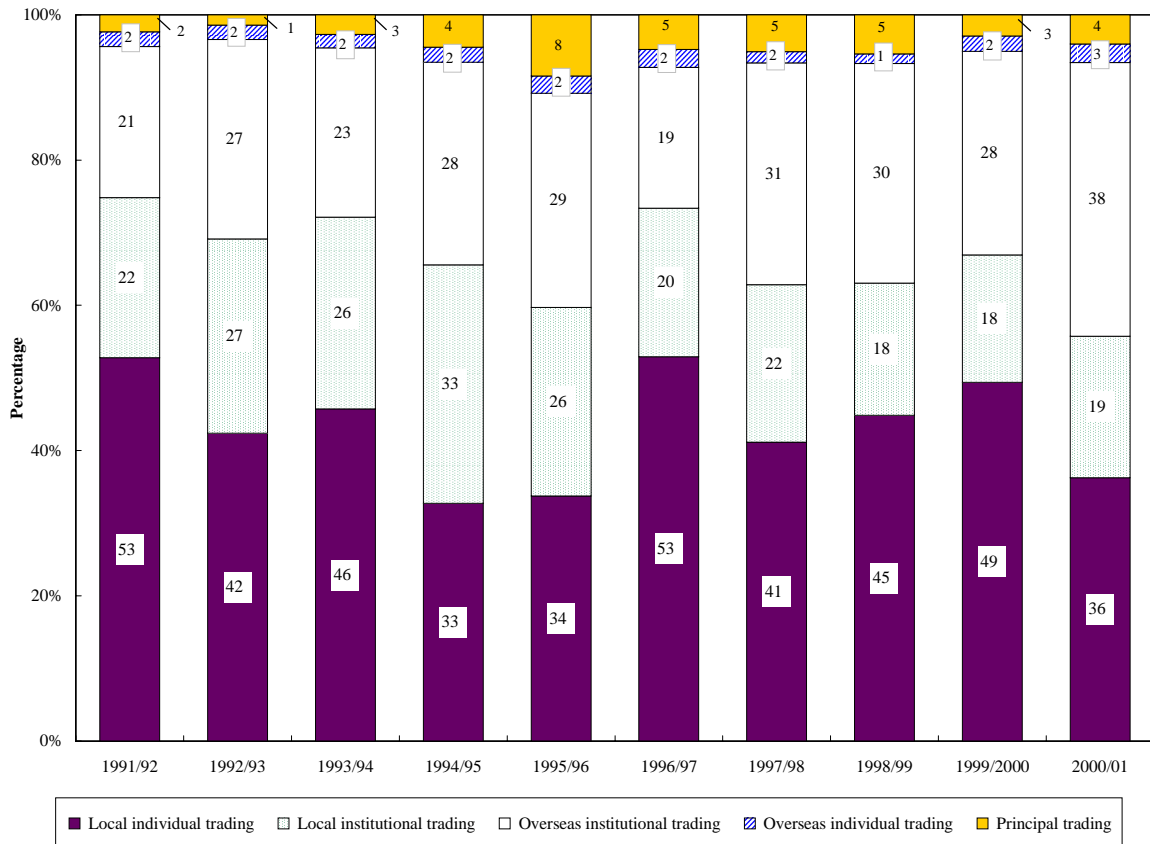
### 3. DISTRIBUTION OF MARKET TRADING OVER TIME (FIGURES 5 - 8)

- Although the percentage contribution of local agency trading decreased significantly in 2000/01, local investors remained the major contributors to total market turnover from year to year throughout the past decade. Local individuals were the dominant players, contributing 45% to the cumulative market turnover for the decade.
- Individual trading is more sensitive to changes in market sentiment than institutional trading. Local individual trading fluctuated strongly in response to changes in market sentiment (see Figure 6). In 2000/01 when the market turnover slumped by 37%, local individual trading dropped substantially by 54%, resulting in a significant decrease in its percentage contribution. The percentage contribution from local individual trading (36%) declined to less than that from overseas institutional trading (38%) for the first time in 2000/01.
- The contribution from overseas institutions used to fluctuate in a range of 20-30% between 1991 and 2000. But its percentage contribution jumped to 38% in 2000/01. In the past decade, overseas institutional investors contributed 29% of the 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 throughout the periods 1993/4 to 2000/01. The contribution from Japan remained very low (2-3%) in the past four years compared to around 6-8% before 1997.





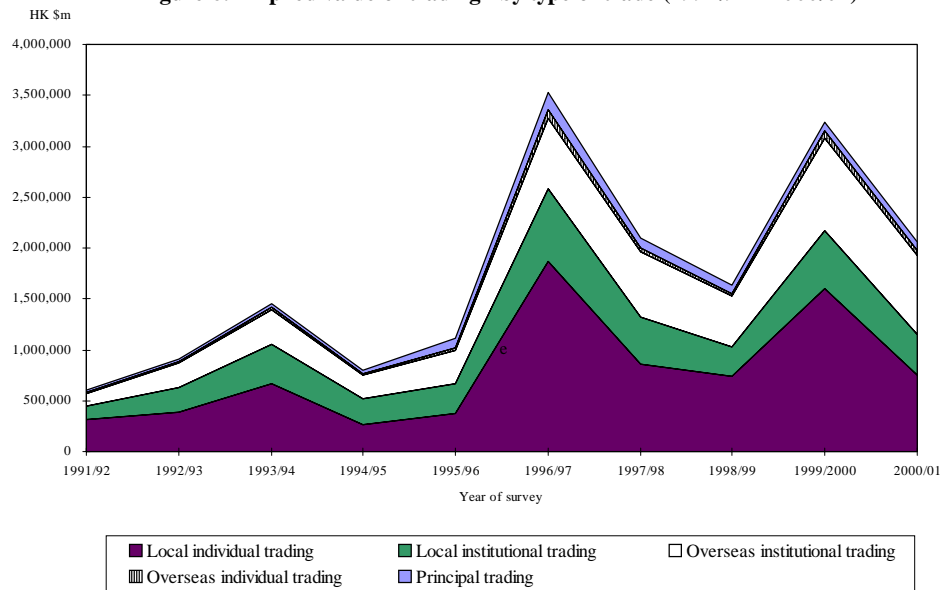
Figure 5. Distribution of trading by type of trade in percentage (1991/92-2000/01)



Type of trade	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	% of 1991/2001 cumulative market turnover
Principal trading	2.33	1.43	2.70	4.43	8.43	4.77	5.06	5.38	2.90	4.00	4.20
Overseas agency trading	22.84	29.43	25.15	30.02	31.84	21.85	32.11	31.53	30.19	40.23	29.41
Individual	2.05	1.96	1.85	2.08	2.35	2.49	1.54	1.30	2.13	2.58	2.08
Institutional	20.79	27.47	23.30	27.94	29.49	19.36	30.58	30.23	28.06	37.65	27.33
Local agency trading	74.83	69.14	72.15	65.54	59.73	73.38	62.83	63.09	66.91	55.77	66.39
Individual	52.80	42.40	45.75	32.73	33.76	52.94	41.16	44.87	49.38	36.27	44.87
Institutional	22.03	26.74	26.40	32.81	25.97	20.44	21.67	18.22	17.53	19.50	21.52



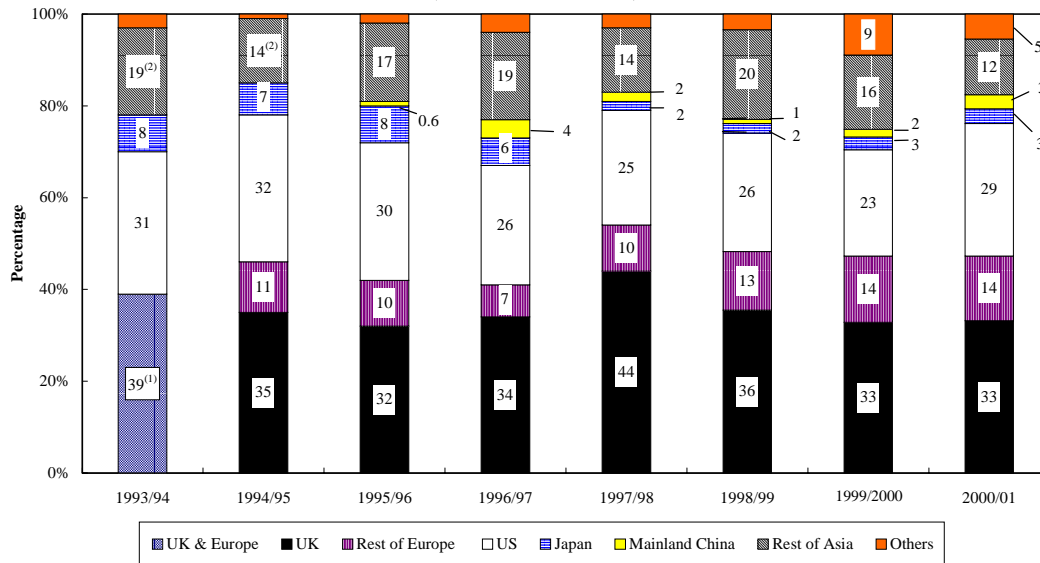
Figure 6. Implied value of trading\* by type of trade (1991/92 - 2000/01)



\* 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 (1993/94 - 2000/01)**

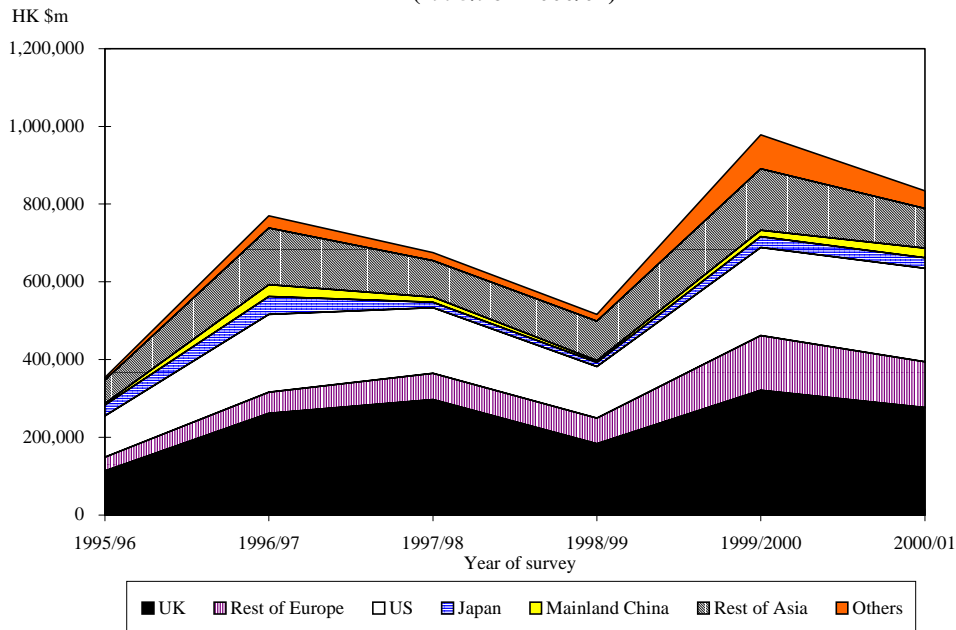


Notes:

(1) UK was combined with Europe in the 1993/94 Survey.

(2) Mainland China was included in the rest of Asia in the 1993/94 and 1994/95 Surveys.

**Figure 8. Implied value of overseas agency trading\* by origin (1995/96 - 2000/01)**



\* 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 on 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:*

Stock Exchange Participants who contributed the top one-third of the total turnover value of the target population for the period October 2000 to September 2001.

*Medium-sized brokers:*

Stock Exchange Participants who contributed the second one-third of the total turnover value of the target population for the period October 2000 to September 2001.

*Small-sized brokers:*

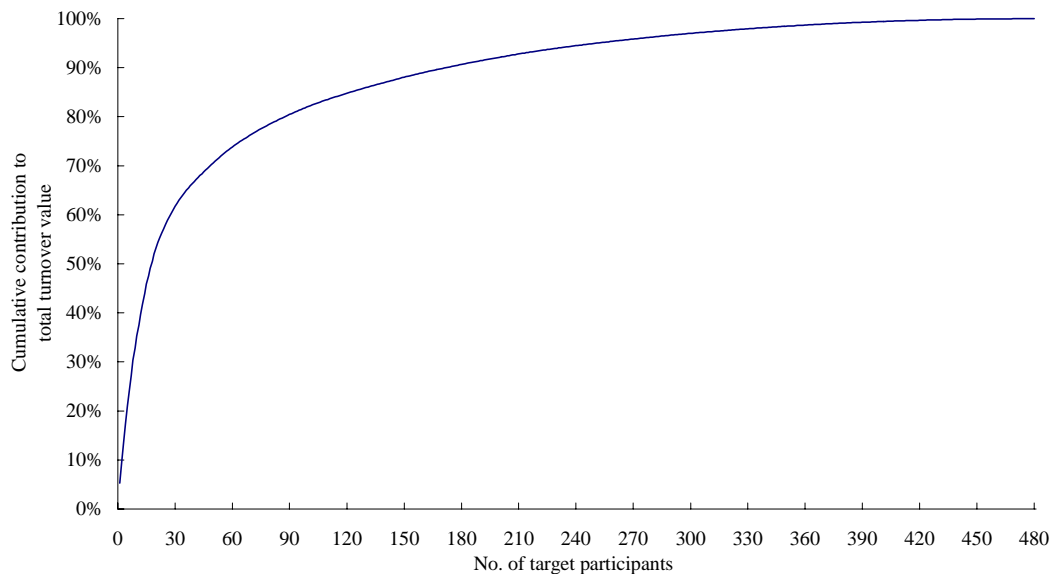
Stock Exchange Participants who contributed the bottom one-third of the total turnover value of the target population for the period October 2000 to September 2001.



### Appendix 1. Response rate

Participant Group	Target population	Responded participants	Response Rate	% share of group turnover in target population
Large-sized brokers	9	9	100.00%	100.00%
Medium-sized brokers	30	30	100.00%	100.00%
Small-sized brokers	441	423	95.92%	94.44%
<b>All Participants</b>	<b>480</b>	<b>462</b>	<b>96.25%</b>	<b>98.15%</b>

### Appendix 2. Cumulative percentage contribution by participants to total turnover value of target population (Oct 2000 - Sep 2001)





## Appendix 3. Survey methodology

### 1. Target population

- (1) Included all trading Participants of the Stock Exchange who became trading Participants prior to the end of March 2001 (i.e. who had been in business for over 6 full months during the study period) and remained so at the end of October 2001.
- (2) Excluded Participants (EPs) whose trading was suspended from July 2001 to September 2001 or ceased on or before September 2001 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 2000 to September 2001.
- (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. Where the participant's response did not give the breakdown of trading at the affiliate level, estimated percentage figures derived from the rest of the responses in the same size group\* were imputed to them. The same treatment was applied to responses where no breakdown by overseas origin was given.
- (4) Since GEM's contribution to the combined total market turnover on HKEx was not significant (2% during Oct 2000 - Sep 2001), 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 were weighted by its actual turnover value to obtain the relative contribution of each type of trading to total market turnover.

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\* 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.



### 3. Limitations

- (1) 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. Reliability of results is subject to the closeness of their estimates to the actual figures.
- (2) 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 were originated from overseas and placed through that local institution, or vice versa. As a result, the findings may deviate from the true picture.
- (3) 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. EPs who conveyed orders to other EPs might also include these transactions not being conducted by them in their answers to the survey. These types of cases would also be sources of distortion in the findings.
- (4) Since “online trading” has only been available to investors for a relatively short period of time, EPs might have different interpretation of questions relating to “online trading”. For example, orders received manually by calls through mobile phone, or orders received electronically from institutions through proprietary systems, were regarded as online trading by some EPs. Dubious answers due to mis-interpretation were clarified as far as possible by follow-up calls.