

# **CASH MARKET TRANSACTION SURVEY 2002/03**



**Hong Kong Exchanges and Clearing Limited  
Research & Planning**

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## CONTENT

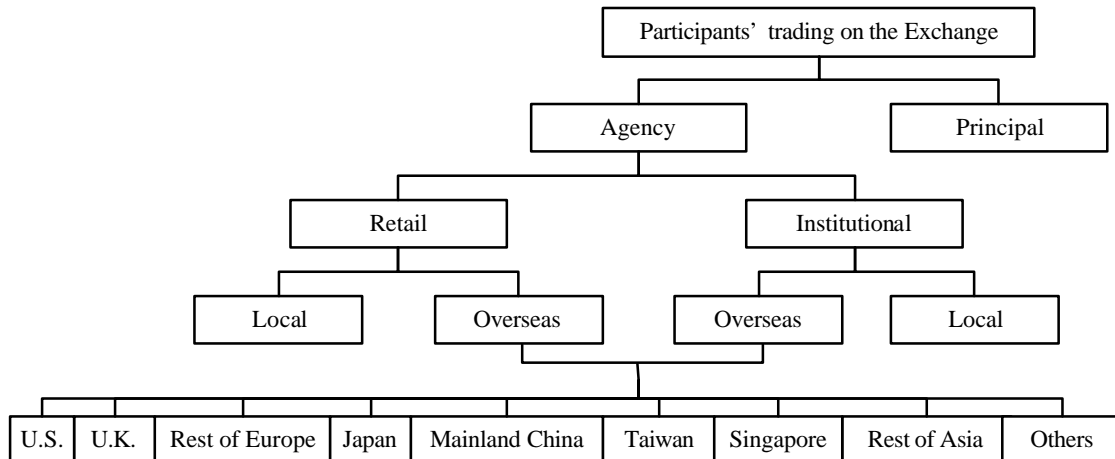
	<b>Page</b>
1. Introduction.....	2
2. Key findings .....	3
3. Distribution of market trading value by investor type.....	4
4. Breakdown of contribution by type of trade .....	5
5. Distribution of overseas investor trading by origin .....	6
6. Online trading.....	7
7. Distribution of market trading value by broker size group.....	9
8. Distribution of market trading value over time.....	13
GLOSSARY .....	17
APPENDIX	
1. Response rate .....	18
2. Representativeness of responded sample of small-sized Exchange Participants.....	18
3. Survey methodology .....	19



## 1. INTRODUCTION

The Cash Market Transaction Survey 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 cash market by different investor types (*see classification chart below*). The market share of online trading<sup>1</sup> has been covered since 1999/2000.

### Classification of Stock Exchange Participants' trading



The Cash Market Transaction Survey 2002/03 covered EPs' transactions on both the Main Board and the Growth Enterprise Market from October 2002 to September 2003. Fieldwork was conducted during November to December 2003. EPs in the target population<sup>2</sup> were ranked in descending order of their turnover values and were divided into three groups with equal shares by turnover value — 8 large-sized brokers (contributing the top one-third of the target population's turnover), 20 medium-sized brokers (contributing the second one-third) and 404 small-sized brokers (contributing the bottom one-third). The survey sample consisted of all large- and medium-sized brokers and a random sample covering 60% of small-sized brokers in the target population. Survey questionnaires were mailed to the survey sample. Out of the 290 questionnaires sent, 272 duly completed questionnaires were received, representing an overall response rate of 94% by number or 98% by turnover value of respondents.

Each respondent was asked to provide the percentage breakdown of its trading value during the study period by the classified trade types and the percentage of retail agency turnover as online trading. The percentages were weighted by the respondent's total turnover value (or retail agency turnover value for online trading) accordingly to obtain the respective values in the responded sample. Based on the respective size group's total turnover value in the responded sample relative to that in the target population, the implied percentage shares of different types of trade in the market were then calculated.

<sup>1</sup> Please refer to "Glossary" for definition.

<sup>2</sup> Please refer to Appendix 3 for survey methodology.



## 2. KEY FINDINGS

- Local investors remained the major participants, contributing 58% of total market turnover value, compared to 56% in 2001/02. The contribution from local retail investors declined for the third consecutive year to 30% of total market turnover in 2002/03, the lowest in the 13 years the survey has been conducted. Meanwhile, the contribution from local institutional investors increased to 28%, up for the third consecutive year.
- Overseas investors, pre-dominantly institutional investors, contributed 39% of the market total. Their contribution has remained at a similar high level since 2000/01; prior to that it was 32% or less.
- For the third year (since 2000/01), trading of overseas institutional investors (contributing 35% in 2002/03) surpassed that of local retail investors (30%); overseas institutions were the largest investor group by turnover value in the market.
- As in prior years, the largest overseas contributors were UK investors (25% of overseas investor trading). They were followed by European (excluding UK) investors (24%) and US investors (22%). The aggregate trading from the Asia region contributed 22% of overseas investor trading — Singapore and Mainland China were the largest Asia origins, contributing 9% and 8% respectively.
- Almost half of local investor trading (48%) was handled by small-sized brokers while overseas investor trading was mainly channelled through large- and medium-sized brokers (46% and 39% respectively). This pattern was similar to that in 2001/02.
- The majority of trading from the US (64%) was channelled through large-sized brokers and the majority of trading from the rest of Europe excluding UK (54%) through medium-sized brokers. Large-sized and medium-sized brokers respectively channelled 46% and 47% of trading from the UK. Trading from Mainland investors, a significant Asian origin, was channelled mostly through small-sized brokers (58%).
- The proportion of online trading, at 8.5% of retail investor trading value or 2.9% of total market turnover, was comparable to 2001/02 — 8.2% and 2.9% respectively.

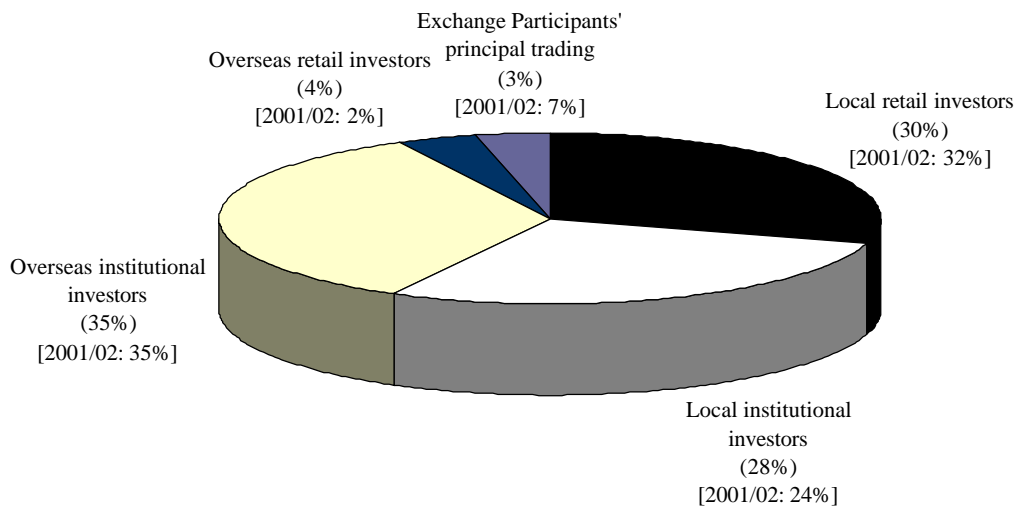


### 3. DISTRIBUTION OF MARKET TRADING VALUE BY INVESTOR TYPE (FIGURE 1)

Turnover in the 2002/03 study period (October 2002 to September 2003) increased by 14%. As implied from the survey findings, turnover values of different investor types increased by different degrees while EPs' principle trading value decreased during the period. Findings on the distribution of market trading by investor type are as below:

- Local investors remained the dominant contributors (58%) to the total market turnover in 2002/03, compared to 56% in 2001/02. The contribution from local retail investors declined for the third consecutive year to 30% of total market turnover, the lowest level in the 13 years since the survey has been conducted. Meanwhile, the contribution from local institutional investors increased to 28% from 24% in 2001/02, up for the third consecutive year.
- Overseas investors contributed 39% to the total market turnover in 2002/03, compared to 37% in 2001/02. The contribution came mainly from overseas institutional investors (35% of total market turnover in 2002/03, the same as in 2001/02).
- The contribution of EPs' principal trading halved to 3% in 2002/03 from 7% of total market turnover in 2001/02.

**Figure 1. Distribution of market trading value by investor type (Oct 2002 - Sep 2003)**



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



#### 4. BREAKDOWN OF CONTRIBUTION BY TYPE OF TRADE (TABLE 1)

- About two-thirds of EPs' agency trading (65% of agency trading) came from institutional investors and the rest from retail investors. Among the institutional investor trading, the majority was from overseas (55%). This pattern was similar to that in 2001/02.
- Local investors contributed the majority (60%) of all agency trading, compared to 40% by overseas investors. Among the local investor trading, retail and institutional investors contributed almost equally (51% and 49% respectively). Notably, the contribution of local institutions to local investor trading increased significantly from 35% in 2000/01 and 42% in 2001/02 to 49% in 2002/03.
- Retail investor trading was dominated by local investors, who contributed 88% of this type of trade, but to a lower level compared to 93% in 2001/02 and 2000/01.
- Overseas investor trading was dominated by institutional investors, who contributed 89% of this type of trade, down from 94% in 2001/02 and 2000/01.

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

Type of trade	All EPs (%)		
	2000/01	2001/02	2002/03
<b>All trading</b>			
Agency	96.00	93.35	<b>96.51</b>
Principal	4.00	6.65	<b>3.49</b>
	<u>100.00</u>	<u>100.00</u>	<u><b>100.00</b></u>
<b>Agency trading</b>			
Retail	40.47	37.33	<b>35.01</b>
Institutional	59.53	62.67	<b>64.99</b>
	<u>100.00</u>	<u>100.00</u>	<u><b>100.00</b></u>
<b>Agency trading</b>			
Local	58.09	60.28	<b>59.76</b>
Overseas	41.91	39.72	<b>40.24</b>
	<u>100.00</u>	<u>100.00</u>	<u><b>100.00</b></u>
<b>Retail investor trading</b>			
Local	93.35	93.14	<b>87.85</b>
Overseas	6.65	6.86	<b>12.15</b>
	<u>100.00</u>	<u>100.00</u>	<u><b>100.00</b></u>
<b>Institutional investor trading</b>			
Local	34.12	40.70	<b>44.62</b>
Overseas	65.88	59.30	<b>55.38</b>
	<u>100.00</u>	<u>100.00</u>	<u><b>100.00</b></u>
<b>Local investor trading</b>			
Retail	65.04	57.69	<b>51.48</b>
Institutional	34.96	42.31	<b>48.52</b>
	<u>100.00</u>	<u>100.00</u>	<u><b>100.00</b></u>
<b>Overseas investor trading</b>			
Retail	6.42	6.44	<b>10.57</b>
Institutional	93.58	93.56	<b>89.43</b>
	<u>100.00</u>	<u>100.00</u>	<u><b>100.00</b></u>

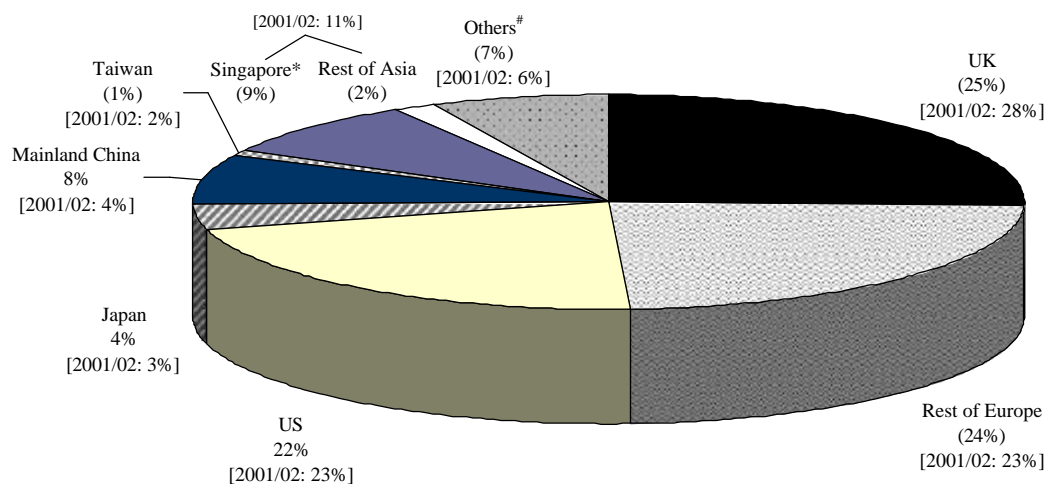


### 5. DISTRIBUTION OF OVERSEAS INVESTOR TRADING BY ORIGIN (FIGURE 2)

Overseas investors contributed 39% of total market turnover in 2002/03, compared to 37% in 2001/02.

- The UK remained the largest source of overseas investor trading (25%, down from 28% in 2001/02), followed by the rest of Europe (24%, compared to 23% in 2001/02) and the US (22%, compared to 23% in 2001/02). These origins made up 71% of all overseas investor trading.
- The aggregate contribution of Asian origins to overseas investor trading was 22% in 2002/03, slightly up from 20% in 2001/02. Singapore and Mainland China were the largest Asian origins, contributing 9% and 8% respectively. In particular, trading from Mainland China doubled from 4% in 2001/02.

**Figure 2. Distribution of overseas investor trading by origin (Oct 2002 - Sep 2003)**



\* Singapore was added in the 2002/03 survey as a designated origin for the first time, being included in the rest of Asia in previous surveys.

<sup>#</sup> Includes Australia, British Virgin Islands, Canada, New Zealand, Cayman Islands and Africa.

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



## 6. ONLINE TRADING (FIGURE 3, TABLE 2)

“Online trading” in this survey refers to retail trading originating from orders entered directly by clients and channelled to the brokers via electronic media such as the Internet. Respondents, who claimed that part of their retail agency trading was online trading, are defined as online brokers.

- After a period of growth from 1999 to 2002, the proportion of online trading levelled off in 2002/03 8.5% of retail investor trading or 2.9% of total market turnover (compared to 8.2% and 2.9% respectively in 2001/02).
- Among the responded sample, none of the large-sized brokers, 6 (or 30%) of medium-sized brokers and 42 (or 17%) of small-sized brokers responded as online brokers<sup>3</sup>. Seven (or 17% of) small-sized online brokers in the sample reported that they normally require manual order re-input for online trading orders, compared to 3 (8%) in the 2001/02<sup>4</sup> sample.
- Among online brokers: Online trading contributed 23% and 13% of retail agency business of medium-sized and small-sized online brokers respectively, similar to the 21% and 13% in 2001/02. Overall, online trading contributed 16% of all agency business (including institutional investor trading which was excluded from the definition of online trading for the survey) for medium-sized online brokers and 10% for small-sized online brokers (compared to 17% and 11% in 2001/02).
- Among all brokers: Online trading contributed 19% and 5% of retail agency business of all medium-sized and small-sized brokers respectively (including non-online brokers), compared to 15% and 5% in 2001/02. Overall, online trading contributed 5% of all agency business for medium-sized brokers and 4% for small-sized brokers, similar to that in 2001/02.

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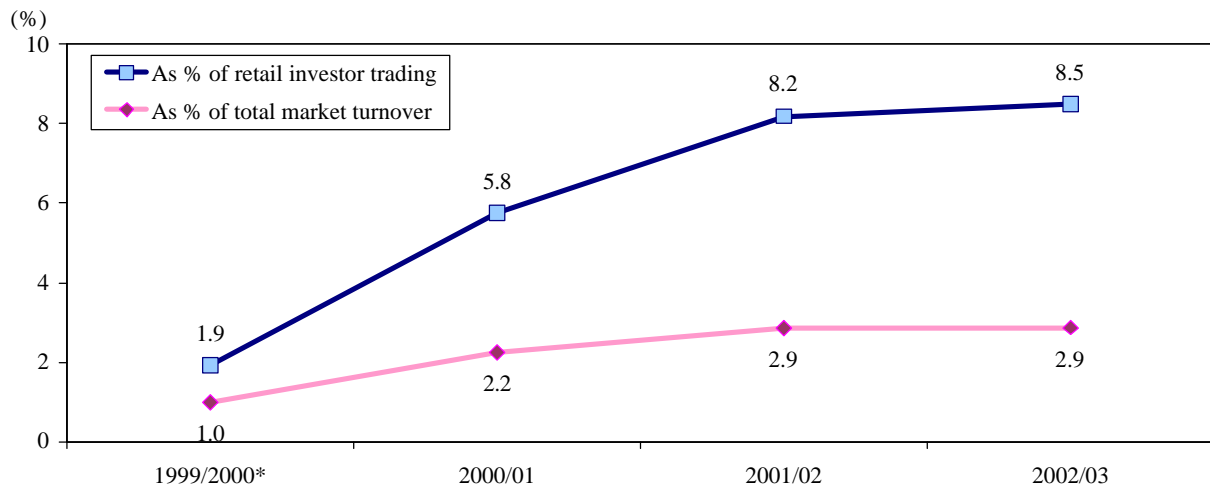
<sup>3</sup> One medium-sized online broker contributed 48% of online trading turnover in the responded sample.

<sup>4</sup> It must be noted that the online brokers in the responded sample in 2002/03 were not the same group as in 2001/02 survey, mainly as a result of the random sampling method used for small-sized brokers.





**Figure 3. Percentage share of online trading**



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

**Table 2. Statistics on online trading by broker size group**

	2002/03				2001/02			
	Large-sized	Medium-sized	Small-sized	Overall	Large-sized	Medium-sized	Small-sized	Overall
Responded sample size	8	20	244	272	8	22	259	289
<i>Online trading in responded sample</i>								
Number of online brokers	0	6	42	-	0	8	40	-
Online brokers as % of size group	-	30%	17%	-	-	36%	15%	-
Online broker turnover as % of size group turnover	-	30%	40%	-	-	31%	32%	-
No. of online brokers normally requiring manual order re-input*	-	0	7	-	-	0	3	-
% of all online brokers	-	0%	17%	-	-	0%	8%	-
<i>Online trading in target population</i>								
<i>Among online brokers:</i>								
As % of retail agency trading	-	23.25%	13.36%	17.43%	-	21.46%	12.68%	16.75%
As % of all agency trading	-	15.91%	9.61%	12.28%	-	16.72%	11.18%	13.92%
As % of total turnover	-	15.90%	9.50%	12.19%	-	16.64%	11.05%	13.80%
<i>Among all brokers:</i>								
As % of retail agency trading	-	18.72%	5.38%	8.50%	-	15.33%	5.10%	8.19%
As % of all agency trading	-	4.76%	3.87%	2.98%	-	5.12%	3.58%	3.06%
As % of total turnover	-	4.75%	3.80%	2.87%	-	5.11%	3.52%	2.85%

\* 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 like orders at above market price, exceptionally large order sizes, odd lots or stock price below HK\$0.01.



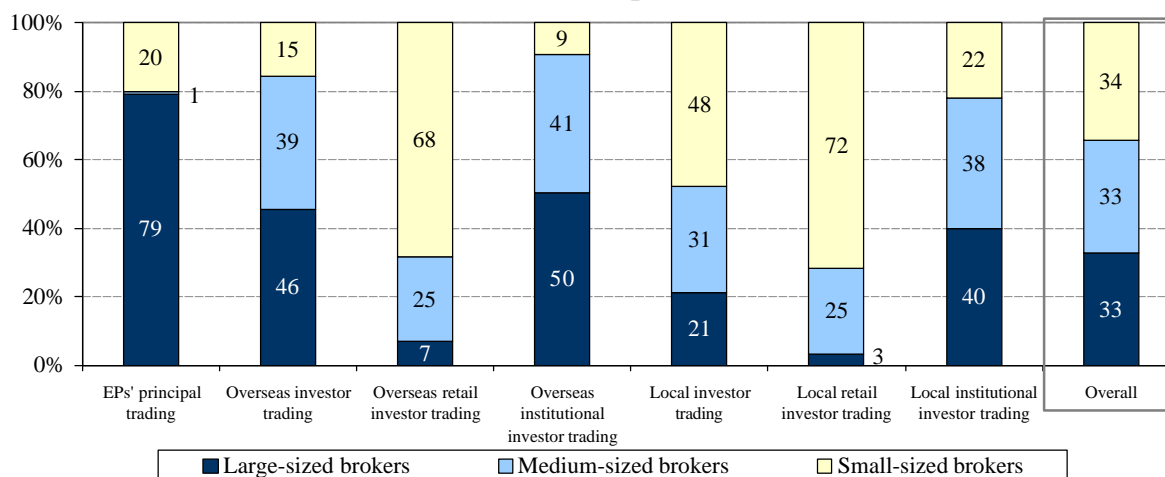
## 7. DISTRIBUTION OF MARKET TRADING VALUE BY BROKER SIZE GROUP (FIGURES 4 - 6)

The three broker size groups had different composition of trading value by investor type and overseas investor trading by origin. The findings by broker size group are as below.

### Market share of each size group in each type of trade

- Almost half of local investor trading (48%) was handled by small-sized brokers. The majority of local retail investor trading (72%) was channelled through small-sized brokers while local institutional investor trading was mainly channelled through large-sized brokers (40%) and medium-sized brokers (38%). Compared to 2001/02, medium-sized brokers channelled more local institutional investor trading (38% in 2002/03 vs 30% in 2001/02) and small-sized brokers channelled even more trading from local retail investors (72% in 2002/03 vs 67% in 2001/02).
- Overseas investor trading, dominated by institutional investors, was mainly channelled through large- and medium-sized brokers (46% and 39% respectively). Large-sized brokers channelled 50% of overseas institutional investor trading, more than the 45% in 2001/02.
- 79% of EPs' principal trading came from large-sized brokers, down from 91% in 2001/02.

**Figure 4. Distribution of trading value by size group for each type of trade (Oct 2002 – Sep 2003)**



Type of trade	Distribution of trading by size group (%)							
	Large-sized brokers		Medium-sized brokers		Small-sized brokers		Overall	
	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03
Principal trading	90.66	79.33	0.88	0.73	8.45	19.94	100.00	100.00
Overseas agency trading	42.62	45.70	43.39	38.87	13.98	15.44	100.00	100.00
Retail	15.13	6.98	45.63	24.55	39.24	68.47	100.00	100.00
Institutional	44.52	50.27	43.24	40.56	12.24	9.17	100.00	100.00
Local agency trading	21.39	21.06	30.23	31.25	48.38	47.69	100.00	100.00
Retail	2.19	3.24	30.68	24.94	67.13	71.82	100.00	100.00
Institutional	47.56	39.97	29.62	37.94	22.82	22.10	100.00	100.00
<b>Overall</b>	<b>33.87</b>	<b>32.66</b>	<b>33.16</b>	<b>33.14</b>	<b>32.97</b>	<b>34.20</b>	<b>100.00</b>	<b>100.00</b>

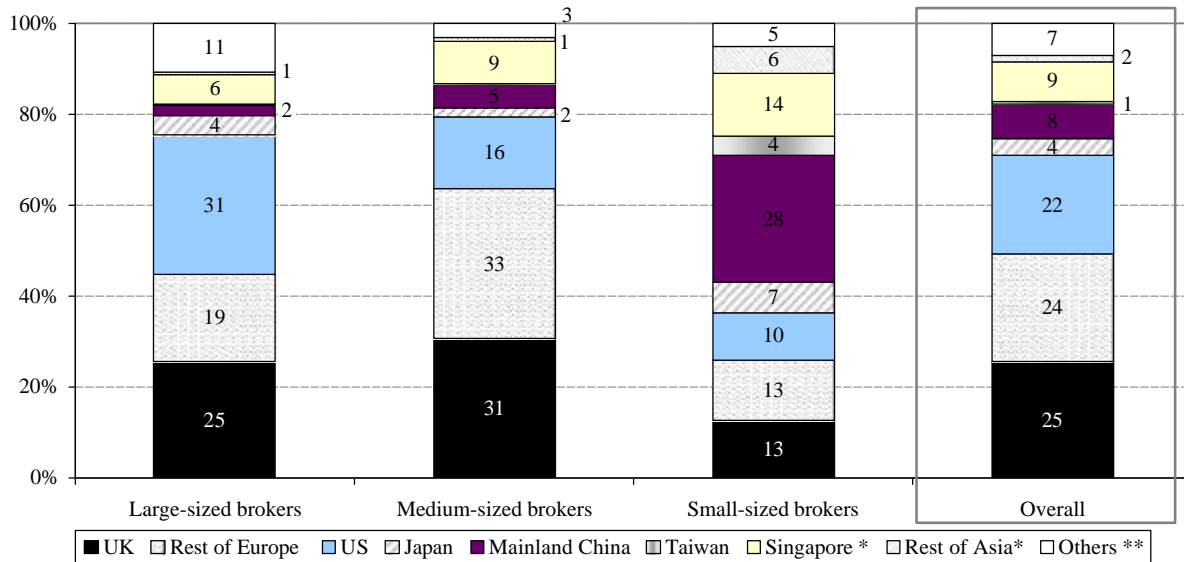
Note: Numbers may not add up to 100% due to rounding.



**Composition of overseas investor trading by origin for each size group**

- Large-sized brokers have a large business share of their overseas investor trading originating from Europe and the US (45% and 31% respectively). Medium-sized brokers have a larger business share from Europe (64%) but a smaller share from the US (16%) than the large-sized brokers. Small-sized brokers have a smaller business share from Europe (26%) and the US (10%), but a larger business share from the Asia region (59%) than the other size groups.
- Compared to 2001/02, the business share from Asian investors increased significantly for small-sized brokers (59% of overseas investor trading in 2002/03 vs 31% in 2001/02), especially from Mainland China investors (28% in 2002/03 vs 9% in 2001/02).

**Figure 5. Distribution of overseas investor trading by origin for each size group (Oct 2002 – Sep 2003)**



	Distribution of overseas investor trading by origin for each size group (%)							
	Large-sized brokers		Medium-sized brokers		Small-sized brokers		Overall	
	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03
Europe	46.33	44.65	58.91	63.62	40.69	25.92	51.00	49.13
UK	31.09	25.47	25.53	30.55	22.90	12.52	27.53	25.45
Rest of Europe	15.24	19.17	33.38	33.07	17.79	13.40	23.47	23.68
US	33.63	30.70	14.88	15.88	18.76	10.45	23.42	21.81
Asia	17.14	13.88	19.37	17.29	31.17	58.62	20.07	22.11
Japan	1.96	4.20	3.22	1.86	4.64	6.60	2.88	3.66
Mainland China	2.04	2.50	4.54	5.23	9.20	28.04	4.13	7.50
Taiwan	0.11	0.26	2.68	0.19	3.39	4.14	1.68	0.83
Singapore *	-	6.31	-	9.11	-	13.92	-	8.57
Rest of Asia*	13.04	0.61	8.93	0.89	13.95	5.93	11.38	1.54
Others **	2.89	10.77	6.83	3.22	9.38	5.00	5.51	6.95
<b>Overall</b>	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

\* Singapore was added in the 2002/03 survey as a designated origin for the first time, being included in the rest of Asia in 2001/02.

\*\* Includes Australia, British Virgin Islands, Canada, New Zealand, Cayman Islands and Africa.

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

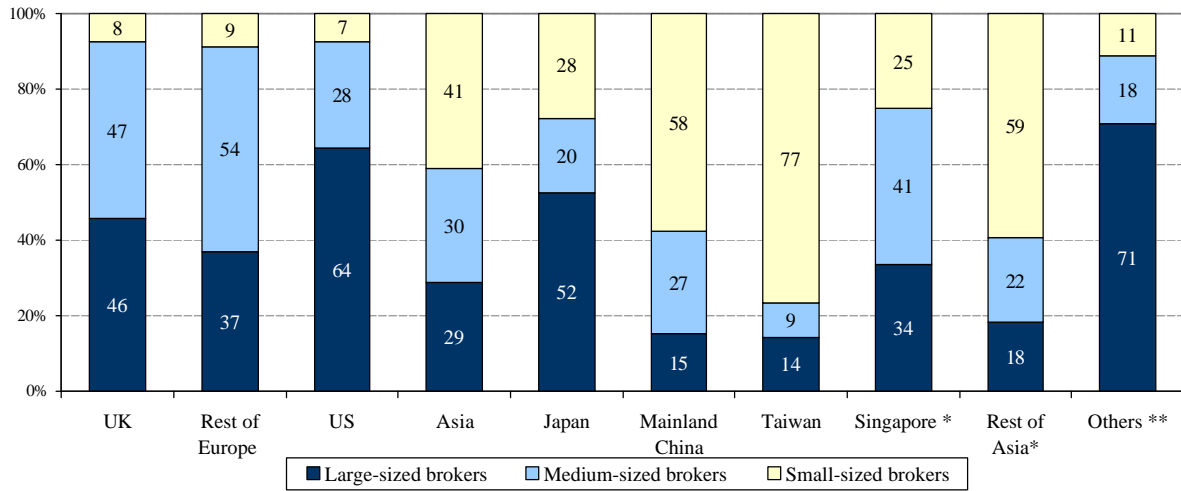


### **Market share of each size group in overseas investor trading by origin**

- Overseas investor trading was mainly handled by large- and medium-sized brokers (46% and 39% respectively).
- For the major origins of overseas investor trading, trading from the UK was channelled mainly through medium-sized brokers (47%) and large-sized brokers (46%); the majority of trading from the rest of Europe (54%) was channelled through medium-sized brokers; and the majority of trading from the US (64%) was channelled through large-sized brokers.
- The market share of small-sized brokers in trading originating from the Asia region as a whole increased significantly from 2001/02 (41% vs 22%) and was bigger than those of large- and medium-sized brokers (29% and 30% respectively). The increase was mainly supported by the business from Mainland China.
- Among Asian origins, small-sized brokers were dominant in handling trading from Mainland China and Taiwan channelling 58% and 77% of all trading from the respective origins; trading from Singapore was mainly channelled through medium-sized brokers (41%); and trading from Japan mainly through large-sized brokers (52%). Trading from other Asian origins was channelled mainly through small-sized brokers (59%).



**Figure 6. Market share of each size group in overseas investor trading by origin (Oct 2002 – Sep 2003)**



	Market share of each size group in overseas investor trading by origin (%)							
	Large-sized brokers		Medium-sized brokers		Small-sized brokers		Overall	
	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03
Europe	38.72	41.53	50.12	50.33	11.15	8.14	100.00	100.00
UK	48.13	45.75	40.24	46.66	11.63	7.60	100.00	100.00
Rest of Europe	27.68	37.00	61.72	54.27	10.60	8.73	100.00	100.00
US	61.21	64.32	27.58	28.29	11.20	7.40	100.00	100.00
Asia	36.41	28.69	41.88	30.39	21.71	40.92	100.00	100.00
Japan	29.00	52.42	48.50	19.78	22.50	27.80	100.00	100.00
Mainland China	21.09	15.21	47.76	27.08	31.15	57.70	100.00	100.00
Taiwan	2.68	14.40	69.16	8.94	28.17	76.66	100.00	100.00
Singapore *	-	33.62	-	41.31	-	25.07	100.00	100.00
Rest of Asia*	48.82	18.18	34.04	22.50	17.14	59.33	100.00	100.00
Others **	22.39	70.87	53.81	18.01	23.81	11.12	100.00	100.00
<b>Overall</b>	42.62	45.70	43.39	38.87	13.98	15.44	100.00	100.00

\* Singapore was added in the 2002/03 survey as a designated origin for the first time, being included in the rest of Asia in 2001/02.

\*\* Includes Australia, British Virgin Islands, Canada, New Zealand, Cayman Islands and Africa.

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

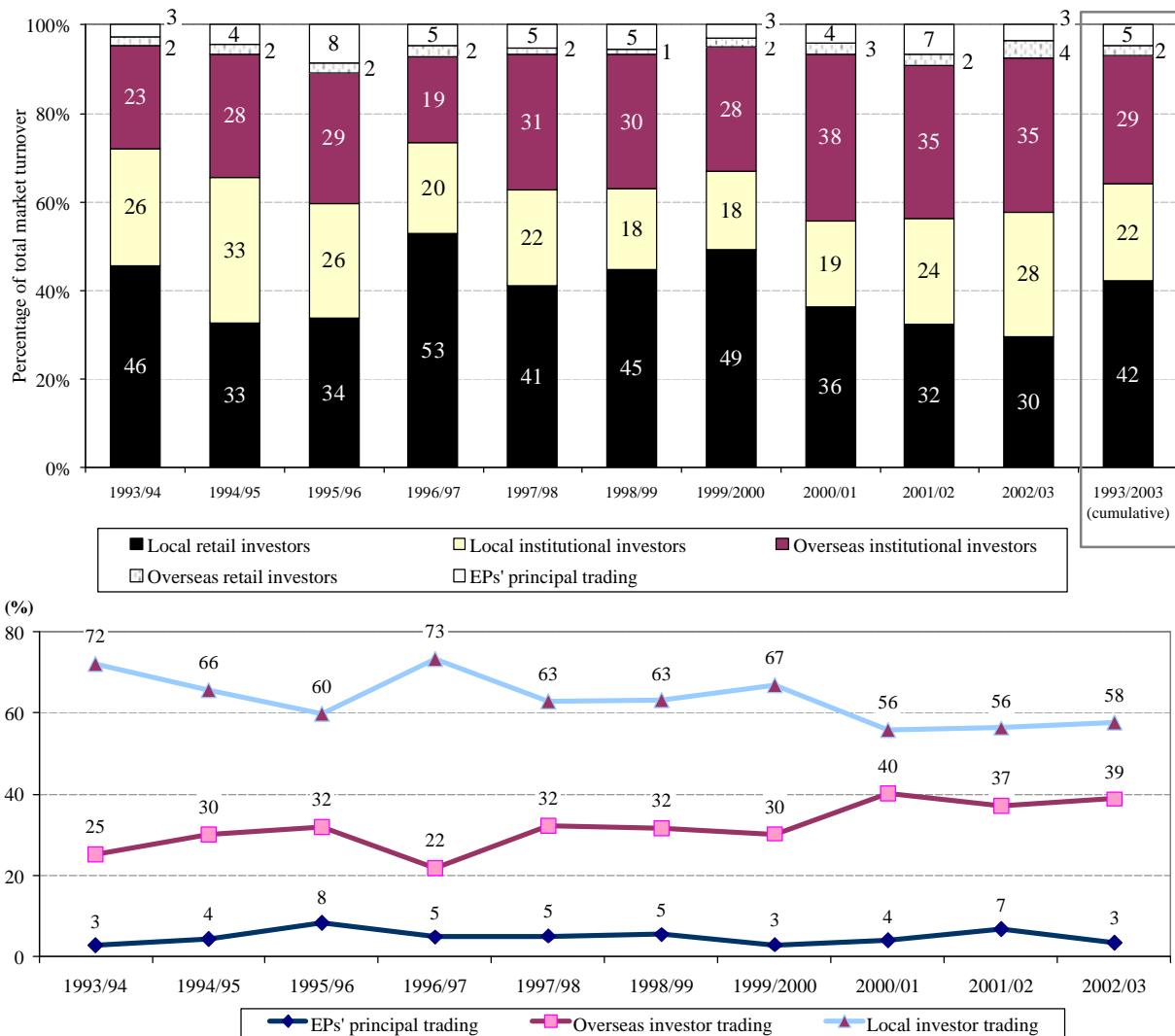


## 8. DISTRIBUTION OF MARKET TRADING VALUE OVER TIME (FIGURES 7 -10)

- Local investors remained the major contributors to market turnover (58% in 2002/03), but their contribution declined from a relatively high level of about 70% in the early 1990s. On the other hand, the contribution from overseas investors increased to close to 40% in recent years compared to about 30% in the 1990s.
- Local retail investors were the dominant market participants in the past decade, contributing 42% of the cumulative market turnover in the past decade. However, their contribution fluctuated a lot over the years and declined to about 30% in the recent two years, a similarly low level as in the bearish years in 1994/95 and 1995/96.
- The contribution from local retail investors was found to be very sensitive to the market sentiment increasing in bullish markets and decreasing in bearish markets. However, in 2002/03, the contribution from local retail investors dropped against an increase in total market turnover for the first time. But it should be noted that market turnover recovered mainly in the last few months of the 2002/03 study period.
- For the third year since 2000/01, overseas institutional investors surpassed local retail investors and became the largest type of contributors to market turnover (35% in 2002/03). The contribution from overseas institutions was 29% of cumulative market turnover in the past decade.
- EPs' principal trading maintained at relatively low level in the past decade (5% of cumulative market turnover), though it had a tendency to increase in percentage contribution during bearish periods (e.g. 1995/96 and 2001/02).
- The contribution from UK investors decreased for the fifth consecutive year from 44% of overseas investor trading in 1997/98 to 25% in 2002/03, the lowest in the past decade. The contribution from US investors also decreased to the lowest level in the past decade (22% in 2002/03). Meanwhile, the contribution from the rest of Europe (excluding the UK) grew to about a quarter of overseas investor trading in the recent two years, compared to less than 15% in the past. European investors (excluding UK) surpassed US investors and became the second largest overseas origin in 2002/03. Trading from Europe as a whole (including UK and the rest of Europe) remained at around 50% of overseas investor trading in the past six years.
- The contribution from Asian investors as a whole remained at around 20% of overseas investor trading in the past six years.
- The contribution from Mainland China as an origin of overseas investor trading increased for the fourth consecutive year from 1% of overseas investor trading in 1998/99 to 8% in 2002/03.



**Figure 7. Distribution of trading value by investor type  
(1993/94 - 2002/03)**

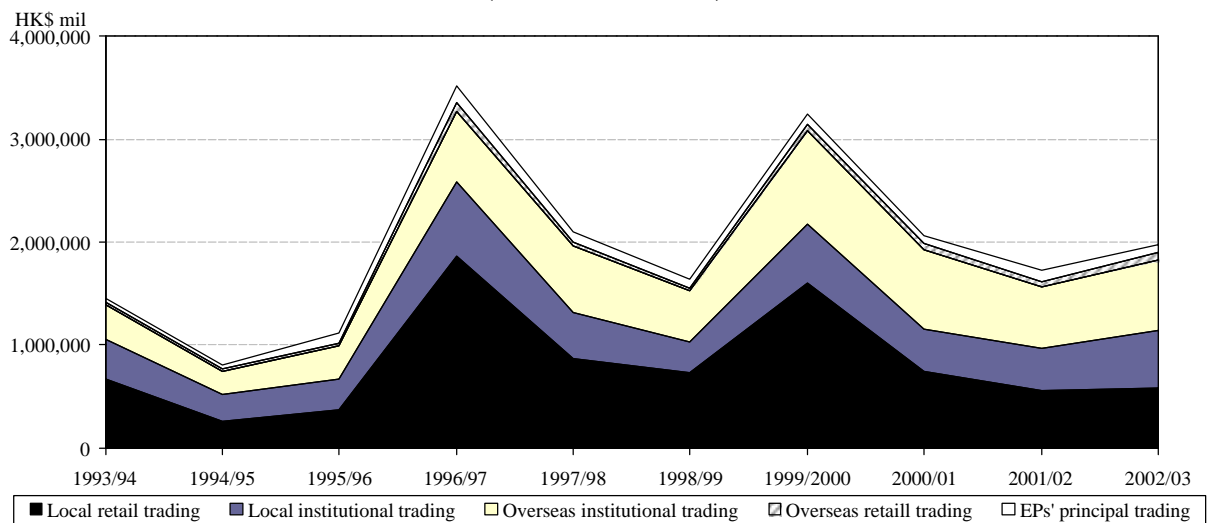


Type	Distribution of trading by type of trade										1993/2003 cumulative market turnover (%)
	1993/94 %	1994/95 %	1995/96 %	1996/97 %	1997/98 %	1998/99 %	1999/2000 %	2000/01 %	2001/02 %	2002/03 %	
EPs' principal trading	2.70	4.43	8.43	4.77	5.06	5.38	2.90	4.00	6.65	3.49	4.54
Overseas investor trading	25.15	30.02	31.84	21.85	32.11	31.53	30.19	40.23	37.08	38.84	31.25
Retail	1.85	2.08	2.35	2.49	1.54	1.30	2.13	2.58	2.39	4.10	2.32
Institutional	23.30	27.94	29.49	19.36	30.58	30.23	28.06	37.65	34.69	34.73	28.93
Local investor trading	72.15	65.55	59.73	73.38	62.83	63.09	66.91	55.77	56.27	57.67	64.21
Retail	45.75	32.73	33.76	52.94	41.16	44.87	49.38	36.27	32.46	29.69	42.09
Institutional	26.40	32.81	25.97	20.44	21.67	18.22	17.53	19.50	23.81	27.98	22.12

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



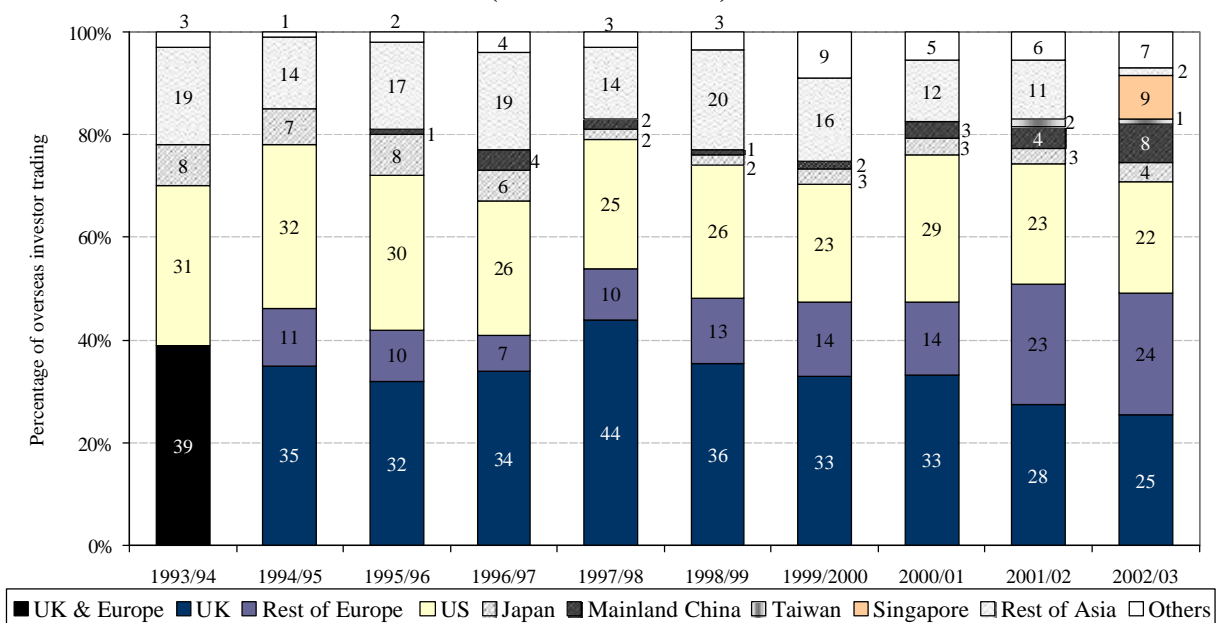
**Figure 8. Implied value of trading in the market by type of trade (1993/94 - 2002/03)**



Note:

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 9. Distribution of overseas investor trading by origin (1993/94 - 2002/03)**



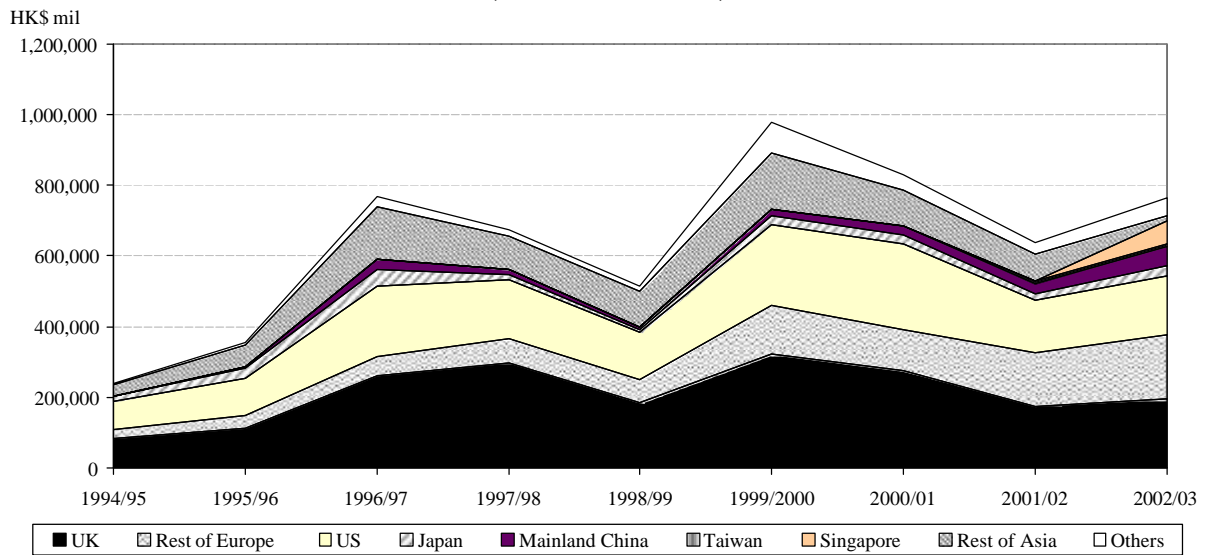
Notes:

- (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. Taiwan was included in the rest of Asia in surveys prior to 2001/02 Survey. Singapore was included in the rest of Asia in surveys prior to 2002/03 Survey.
- (3) Others includes Australia, British Virgin Islands, Canada, New Zealand, Cayman Islands and Africa.
- (4) Numbers may not add up to 100% due to rounding.





**Figure 10. Implied value of overseas investor trading by origin  
(1994/95 - 2002/03)**



*Note:*

- (1) 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.
- (2) Mainland China was included in the rest of Asia in the 1994/95 Surveys. Taiwan was included in the rest of Asia in surveys prior to 2001/02 Survey. Singapore was included in the rest of Asia in surveys prior to 2002/03 Survey.
- (3) Others includes Australia, British Virgin Islands, Canada, New Zealand, Cayman Islands and Africa.
- (4) Numbers may not add up to 100% due to rounding.



## GLOSSARY

### ***Principal trading***

Trading on the participant firm's own account.

### ***Agency trading***

Trading on behalf of the participant firm's clients, including client trading channelled from the firm's parent or sister companies.

### ***Individual/Retail clients/investors***

Clients/investors who trade on their personal accounts.

### ***Institutional clients/investors***

Clients/investors who are not individual clients/investors.

### ***Local clients/investors***

Individual/retail clients/investors residing in Hong Kong or institutional clients/investors operating in Hong Kong Hong Kong as the source of funds.

### ***Overseas clients/investors***

Individual/retail clients/investors residing outside Hong Kong or institutional clients/investors operating outside Hong Kong overseas as the source of funds.

### ***Online trading***

Retail trading originating from orders entered directly by clients/investors and channelled to the brokers via electronic media such as the Internet. 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.

### ***Online brokers***

Respondents who claimed that part of their retail agency trading was online trading.

### ***Large-sized brokers***

Stock Exchange Participants who contributed the top one-third of the total turnover value of the target population for the study period.

### ***Medium-sized brokers***

Stock Exchange Participants who contributed the second one-third of the total turnover value of the target population for the study period.

### ***Small-sized brokers***

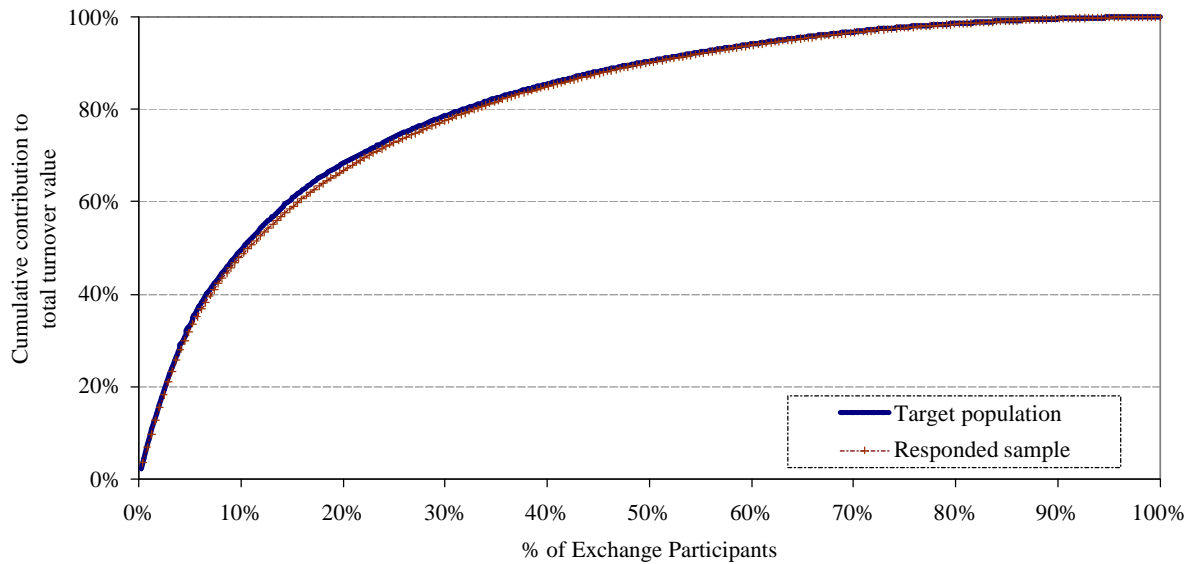
Stock Exchange Participants who contributed the bottom one-third of the total turnover value of the target population for the study period.



### Appendix 1. Response rate

Participant group	Target population	Survey sample	Responded sample	Response rate	As % of turnover value in sample	As % of turnover in target population
Large-sized brokers	8	8	8	100.00%	100.00%	100.00%
Medium-sized brokers	20	20	20	100.00%	100.00%	100.00%
Small-sized brokers	404	262	244	93.13%	93.22%	59.40%
<b>All participants</b>	<b>432</b>	<b>290</b>	<b>272</b>	<b>93.79%</b>	<b>98.31%</b>	<b>86.12%</b>

### Appendix 2. Representativeness of responded sample to target population of small-sized Exchange Participants





## **Appendix 3. Survey methodology**

### **1. Target population**

- (1) Included all Stock Exchange Participants who became trading participants prior to the end of March 2003 (i.e. who had been in business for over 6 full months during the study period) and remained so at the end of September 2003.
- (2) Excluded participants whose trading was suspended from July 2003 to September 2003 or ceased on or before September 2003 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) Each Exchange Participant firm was regarded as one responding unit. A partnership firm operated by two or more individual participants is regarded as one responding unit.

### **2. Methodology**

- (1) The study period is from October 2002 to September 2003.
- (2) Exchange Participants (EPs) in the target population were ranked in descending order of their turnover value and were divided into three groups with equal shares by turnover value — 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). To achieve a fairer ranking, the actual turnover of new EPs whose trading periods were less than 12 months during the full-year study period were annualised for the ranking. The actual turnovers of the EPs were used in analysing the results.
- (3) The survey sample consisted of all large-sized and medium-sized brokers as well as a random sample covering 60% of small-sized brokers in the target population. Survey questionnaires were mailed to the respective target respondents in the sample.
- (4) In order to provide for refusals, the random sample for small-sized brokers to whom questionnaires were sent was somewhat larger than 60% to ensure that the resulting responded sample could achieve 60% of the small-sized EP population. As a result, 142 EPs were not included in the survey sample. The use of a random sampling method is expected to have no significant impact on the quality of the major survey findings, given the high sampling ratio and a close follow-up.
- (5) There was close telephone follow-up to ensure a high response rate.
- (6) 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 requested to provide their consolidated trading composition including trading channelled through their affiliate or sister companies as far as possible, if applicable. For those who were known to have such situation but who refused to provide details, implied percentage figures from the rest of the responses in the same size group were used.



### Appendix 3. Survey methodology (cont'd)

- (7) For online trading, respondents were asked to give the percentage share of retail agency trading during the study period as online trading.
- (8) Each responding EP's answers in percentage terms were weighted by the respondent's total turnover value (or retail agency turnover value for online trading) accordingly to obtain respective values in the responded sample. Based on the respective size group's total turnover value in the responded sample relative to that in the target population, the implied percentage shares of different types of trade in the market were then calculated.
- (9) 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 actual total market turnover during the study period for that year of survey.

### 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.
- (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 originated from overseas and were placed through that local institution, or vice versa.
- (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.
- (4) Random sampling used for small-sized EPs is subject to sampling error. Besides, errors would also result from refusals even upon close follow-up. Since the response rates of EPs of different size groups are high, such error should have minimal impact on the findings. *(See appendix 2 for the representativeness of responded sample of target population of small-sized EPs.)*

\*\*\* End \*\*\*