



The Stock Exchange of Hong Kong

**SECONDARY MARKET SURVEY 1999**

**28 December 1999**

**(For enquires, please contact Research & Planning Division)**

## 1. OBJECTIVES

The Stock Exchange of Hong Kong (the ‘Exchange’) conducted the Secondary Market Survey 1999 in August to September 1999. The objectives of the survey are: (1) to measure the satisfaction of the major secondary market user groups — brokers, local fund managers and other investment advisers — with quality factors of the securities secondary market in Hong Kong; and (2) to obtain their feedback on development issues. This is the second survey on the secondary market, the first being in 1996. The “Secondary market” refers to the Exchange’s market for the trading of securities.

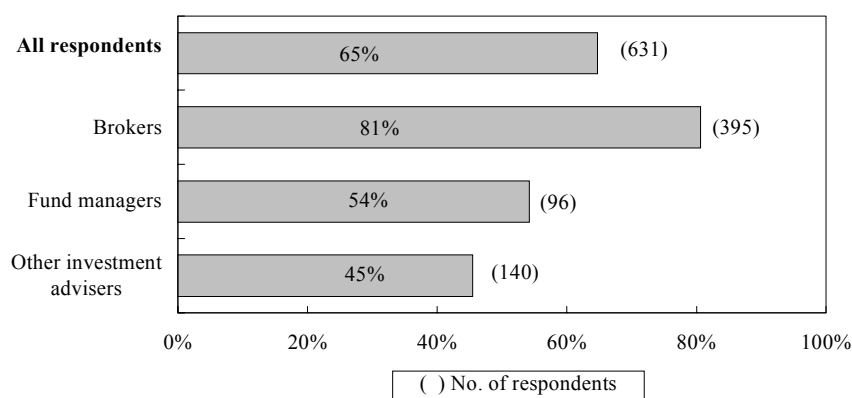
## 2. METHODOLOGY

The survey fieldwork was conducted in August to September 1999. Survey questionnaires were sent to the target population of 975 respondents, inviting the dealing directors (for brokers) or the managing directors (for the others) of the responding firm to complete and return on a voluntary basis. The target population consists of *brokers* — all trading members of the Exchange (490), *local fund managers* (177) who were identified either as the member of the Hong Kong Investment Funds Association (HKIFA) or a registered person or institution classified as such with the Securities and Futures Commission (SFC), and *other investment advisers* (308) registered with the SFC (excluding those in the corporate finance business — i.e. primary market participants).

Most of the survey questions were phrased on a 7-point scale ranging from negative to positive about the factor in question. Respondents were asked to mark their position on the scale.

The overall response rate, at 65%, was high and the survey findings are believed to be representative of the target market user groups. As understood, there are a certain number of other investment advisers who in fact do not participate in the Hong Kong stock market but could not be identified in the target population. Therefore, although the recorded response rate was less than half for other investment advisers, the *effective* response rate is believed to be higher.

Figure 1. Response rate by type of respondent



### 3. SURVEY RESPONSES

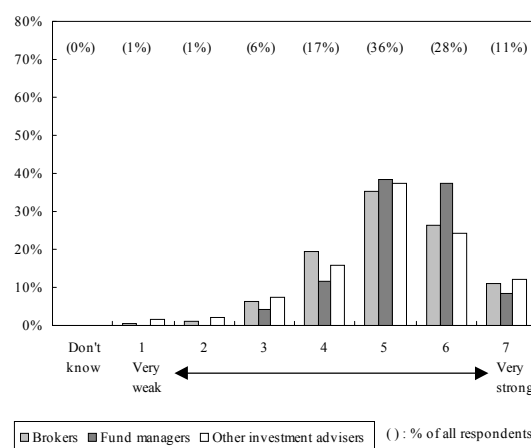
For each question below where applicable, the mean scores on a 1-7 point scale by respondent type were presented along with the chart of the percentage of respondents choosing each option. For analysis purposes, brokers were further divided into two groups — those contributing the top two-thirds of market turnover were considered to be large brokers (50 in total) and the rest small brokers (345 in total). For the stock options market, responses from Options Trading Members (OTMs) and non-OTMs were examined. The breakdown of responses is presented when significant difference in opinion is found. From the survey, the highest mean score obtained is 5.53 and the lowest is 3.0.

#### 3.1 Market confidence

Overall, the respondents had relatively strong confidence in the Hong Kong stock market and considered it attractive to investors. However, their confidence in the China-incorporated enterprises listed in Hong Kong was comparatively weak. Respondents showed quite high interest in the Growth Enterprise Market but relatively low interest in the listed Exchange Fund Notes market.

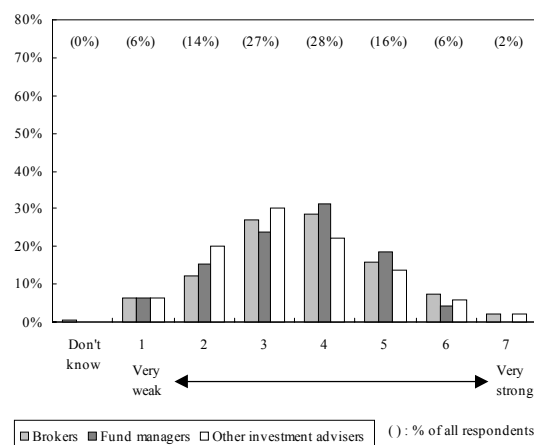
##### **Q1. Your confidence in the Hong Kong stock market as a whole is .....**

	<u>Mean score</u>
Brokers	5.11
Fund managers	5.34
Other investment advisers	5.06
<i>All</i>	<i>5.13</i>



##### **Q2. Your confidence in Hong Kong-listed China-incorporated enterprises is ....**

	<u>Mean score</u>
Brokers	3.67
Fund managers	3.53
Other investment advisers	3.42
<i>All</i>	<i>3.59</i>

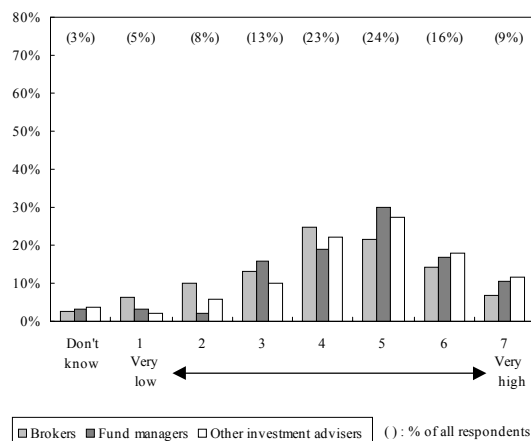


**Q3. Your interest in the forthcoming market for growth enterprise stocks is .....**

	<u>Mean score</u>
Brokers	4.20 *
Large brokers	5.10 #
Small brokers	4.06 #
Fund managers	4.68 *
Other investment advisers	4.72 *
All	4.39

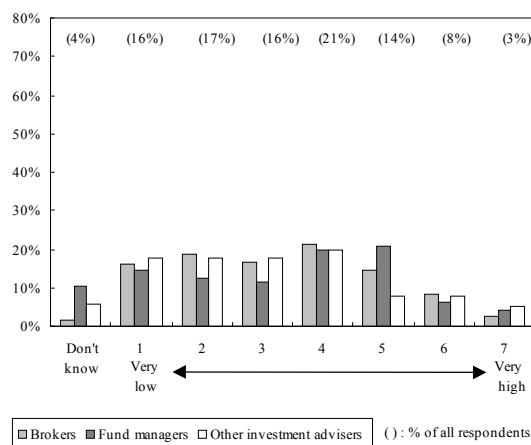
\* Significantly different between groups at 0.1% level

# Significantly different between groups at 0.1% level



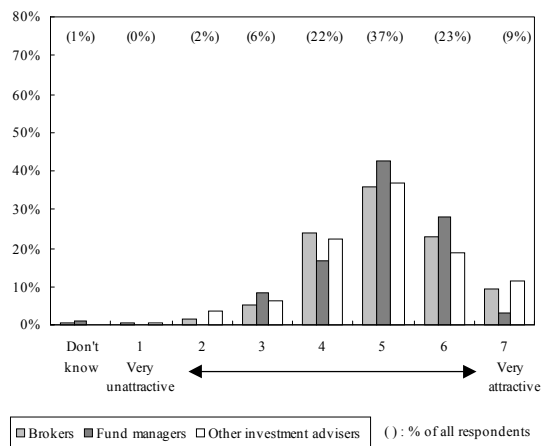
**Q4. Your interest in trading Exchange Fund Notes on the Exchange is .....**

	<u>Mean score</u>
Brokers	3.36
Fund managers	3.62
Other investment advisers	3.27
All	3.38



**Q5. To investors, the Hong Kong stock market is .....**

	<u>Mean score</u>
Brokers	5.01
Fund managers	5.01
Other investment advisers	4.93
All	4.99

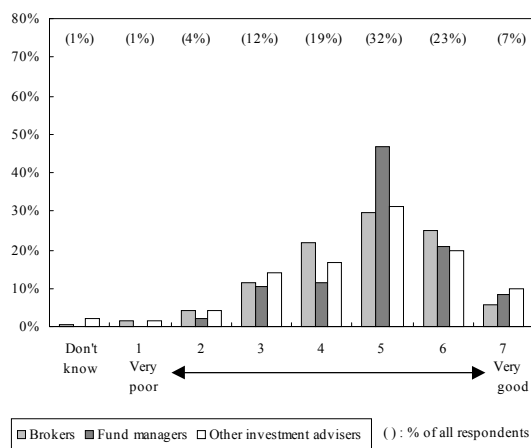


### 3.2 Stock trading and settlement

The performance in trading liquidity and price efficiency was quite satisfactory. However, concerns were expressed about the liquidity of small stocks with some respondents asking for a market making system for small stocks. In this area, fund managers' satisfaction level was quite high while brokers felt relatively less satisfied. Strong support was obtained for the practice of compulsory buy-in on T+3 for failed settlements. There was a relatively strong opinion that the trading floor is unnecessary. Hong Kong investors were considered not ready for Internet trading.

**Q6. The overall liquidity for Hong Kong stocks is .....**

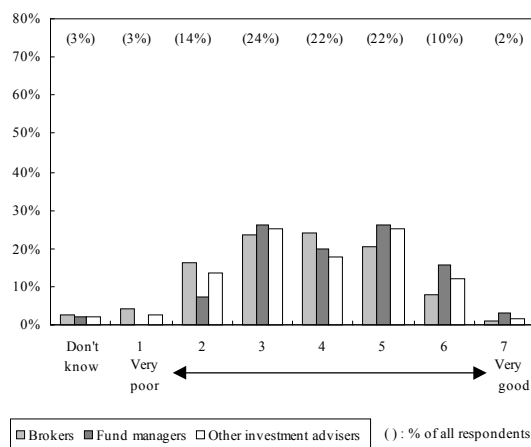
	<u>Mean score</u>
Brokers	4.71
Fund managers	4.99
Other investment advisers	4.76
All	4.77



**Q7. The overall market depth (ability of the market to absorb a large order without severely moving the share price) of Hong Kong stocks is .....**

	<u>Mean score</u>
Brokers	3.70 *
Fund managers	4.27 *
Other investment advisers	3.93 *
All	3.84

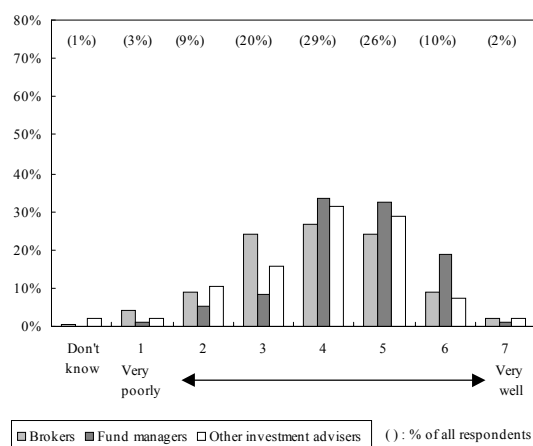
\* Significantly different between groups at 1% level



**Q8. Stock prices reflect market and company information .....**

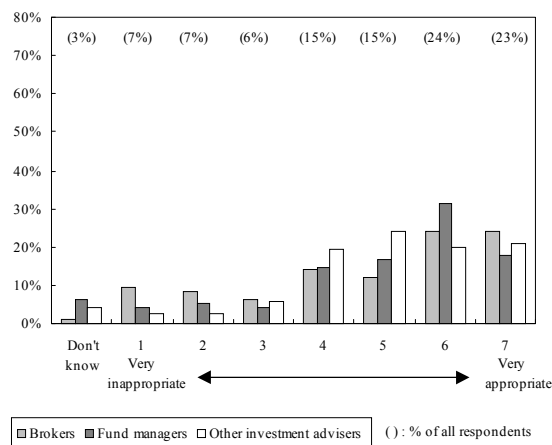
	<u>Mean score</u>
Brokers	3.95 *
Fund managers	4.51 *
Other investment advisers	4.06 *
All	4.06

\* Significantly different between groups at 0.1% level



**Q9. The current practice of compulsory buy-in on T+3 for failed settlements is .....**

	<u>Mean score</u>
Brokers	4.83
Fund managers	5.12
Other investment advisers	5.11
All	4.93

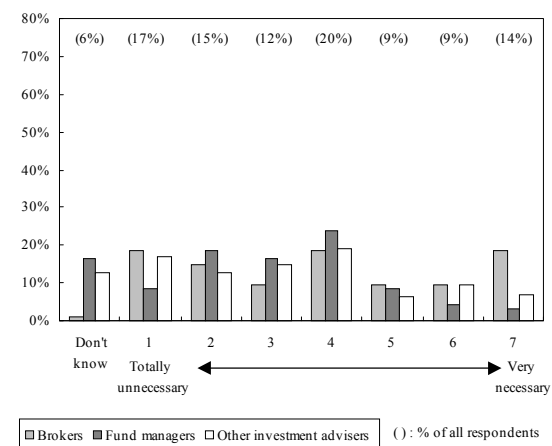


**Q10. The trading floor is .....**

	<u>Mean score</u>
Brokers	3.89 *
Large brokers	2.52 #
Small brokers	4.09 #
Fund managers	3.36 *
Other investment advisers	3.48 *
All	3.74

\* Significantly different between groups at 5% level

# Significantly different between groups at 0.1% level

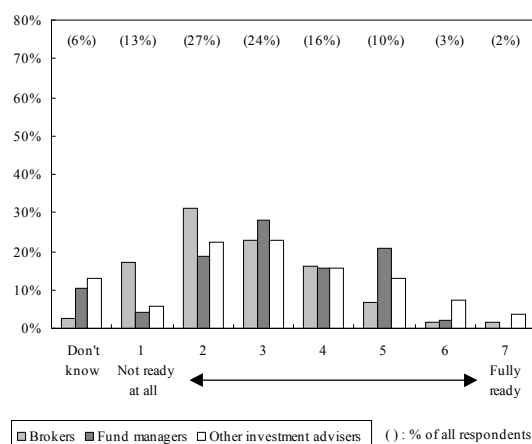


**Q11. For internet trading, investors in Hong Kong are .....**

	<u>Mean score</u>
Brokers	2.74 *
Large brokers	3.53 #
Small brokers	2.63 #
Fund managers	3.41 *
Other investment advisers	3.48 *
All	3.00

\* Significantly different between groups at 0.1% level

# Significantly different between groups at 0.1% level



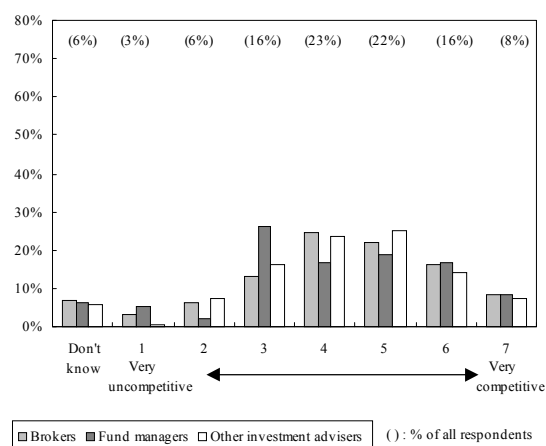
**3.3 Transaction Costs**

Transactions costs in Hong Kong were considered internationally rather competitive and are not of much concern to market participants. To increase the competitiveness of the Hong Kong stock market, brokers considered a reduction in stamp duty the most effective while fund managers and other advisers preferred cutting the brokerage commission. However, while fund managers supported the abolition of the minimum commission rate, most brokers opposed it, especially the small ones.

**Q12. In comparison with global stock markets, Hong Kong transaction costs are .....**

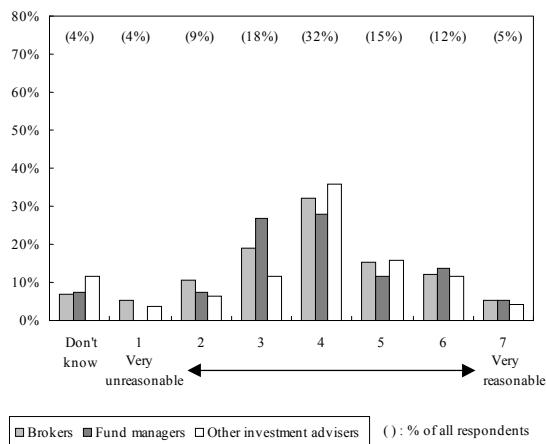
	<u>Mean score</u>
Brokers	4.48
Large brokers	3.88 #
Small brokers	4.57 #
Fund managers	4.33
Other investment advisers	4.45
All	4.45

# Significantly different between groups at 1% level

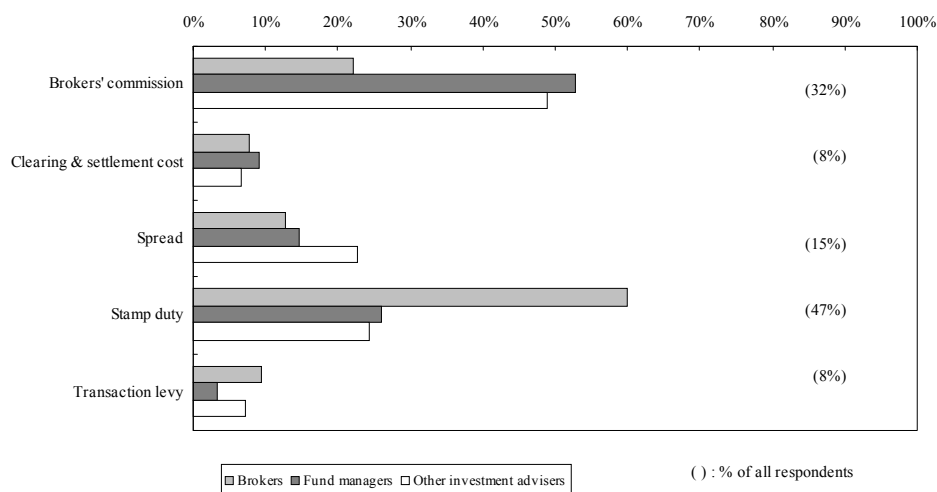


**Q13. The current fees charged by Hongkong Clearing (including settlement fee, scrip fee, etc.) are .....**

	<u>Mean score</u>
Brokers	3.98
Fund managers	4.13
Other investment advisers	4.19
<i>All</i>	4.05

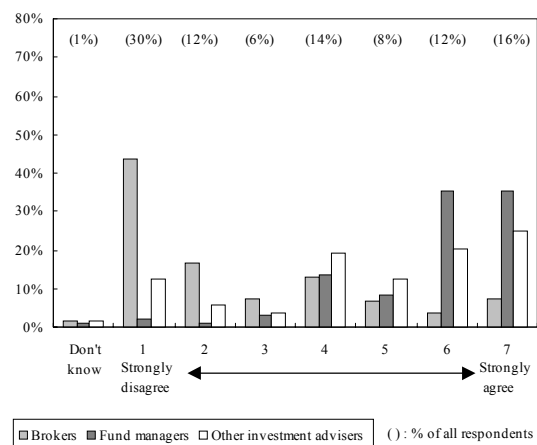


**Q14. The cost item for which a reduction is most effective in increasing the Hong Kong stock market's competitiveness**



**Q15. You ..... to the abolition of the minimum commission rate.**

	<u>Mean score</u>
Brokers	2.63 *
Large brokers	3.73 #
Small brokers	2.47 #
Fund managers	5.76 *
Other investment advisers	4.77 *
<i>All</i>	3.59



\* Significantly different between groups at 0.1% level

# Significantly different between groups at 0.1% level

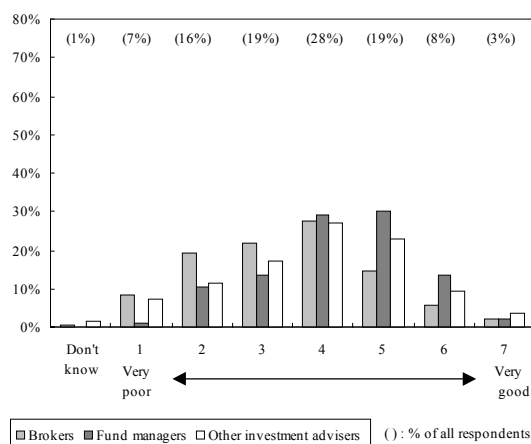
### 3.4 Information dissemination

On the whole, fund managers were more satisfied with the dissemination of information while brokers showed more dissatisfaction. All types of respondents showed satisfaction about the accessibility of real-time trading data and historical market information. However, the disclosure of issuer information, especially price-sensitive information, as well as its accessibility were not very satisfactory. (Note that a primary market database was launched on the Exchange's website shortly before the fieldwork of the survey.)

**Q16. The disclosure of financial results by issuers is .....**

	<u>Mean score</u>
Brokers	3.47 *
Fund managers	4.26 *
Other investment advisers	3.91 *
<i>All</i>	3.69

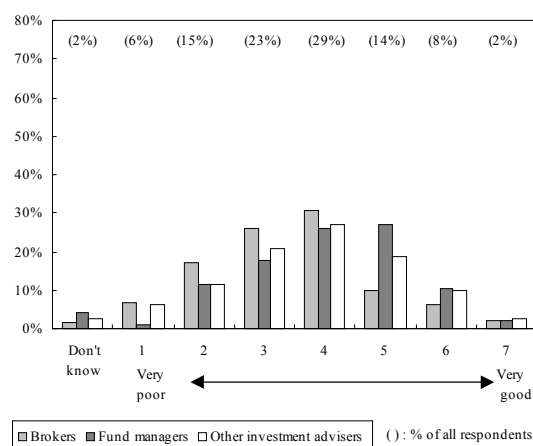
\* Significantly different between groups at 0.1% level



**Q17. The disclosure of notifiable transactions by issuers is .....**

	<u>Mean score</u>
Brokers	3.48 *
Fund managers	4.11 *
Other investment advisers	3.84 *
<i>All</i>	3.65

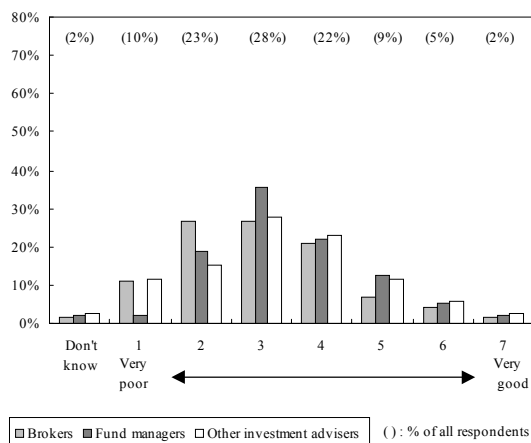
\* Significantly different between groups at 0.1% level



**Q18. The disclosure of price-sensitive information by issuers is .....**

	<u>Mean score</u>
Brokers	3.06 *
Fund managers	3.49 *
Other investment advisers	3.38 *
<i>All</i>	3.20

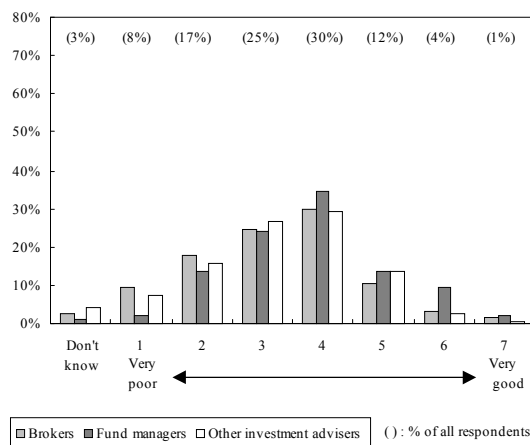
\* Significantly different between groups at 1% level



**Q19. The accessibility of issuers' information is .....**

	<u>Mean score</u>
Brokers	3.30 *
Fund managers	3.81 *
Other investment advisers	3.40 *
<i>All</i>	3.40

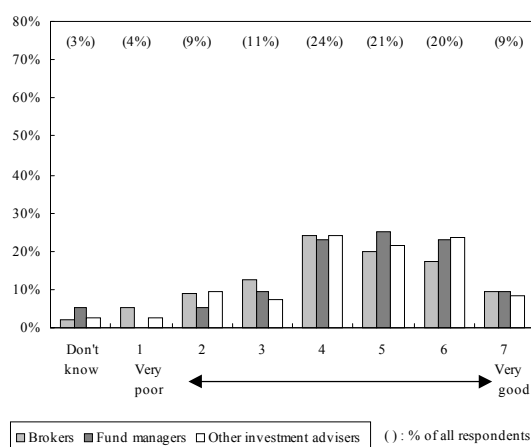
\* Significantly different between groups at 1% level



**Q20. The accessibility of real-time trading data is .....**

	<u>Mean score</u>
Brokers	4.37 *
Fund managers	4.84 *
Other investment advisers	4.62 *
<i>All</i>	4.49

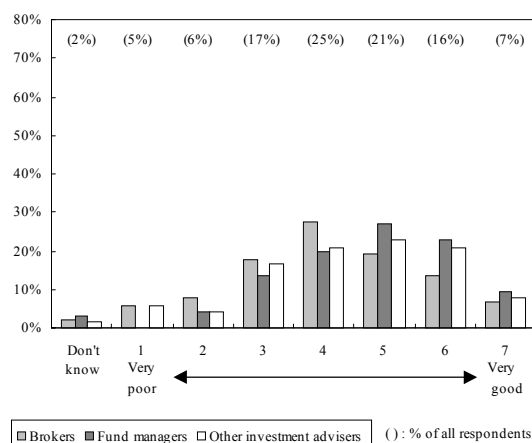
\* Significantly different between groups at 5% level



**Q21. The accessibility of historical market information is .....**

	<u>Mean score</u>
Brokers	4.15 *
Fund managers	4.82 *
Other investment advisers	4.46 *
<i>All</i>	4.32

\* Significantly different between groups at 0.1% level

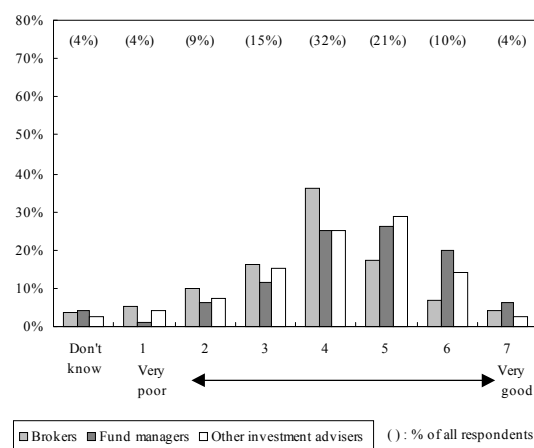


**Q22. The distribution of issuers' corporate documents to shareholders is .....**

	<u>Mean score</u>
Brokers	3.91 *
Large brokers	4.30 #
Small brokers	3.85 #
Fund managers	4.60 *
Other investment advisers	4.24 *
<i>All</i>	4.09

\* Significantly different between groups at 0.1% level

# Significantly different between groups at 5% level

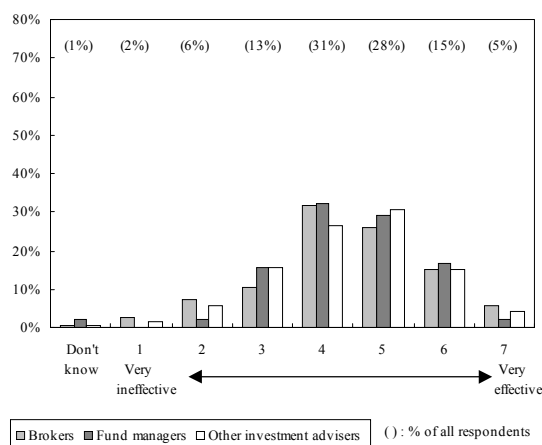


### 3.5 Regulation

The overall performance of market regulation was considered satisfactory. Such overall positive perception was comparable to the findings of the survey in 1996, despite the adverse events of the intervening years. However, the regulation of market manipulation and especially insider trading was rather unsatisfactory, comparable to similar negative findings of the survey in 1996. Opinions regarding investor protection were quite diverse, and there were some suggestions for improvement, e.g. more education, more concern for investors' interests. Some support was obtained for granting more statutory power to the regulatory bodies for effective enforcement of regulation.

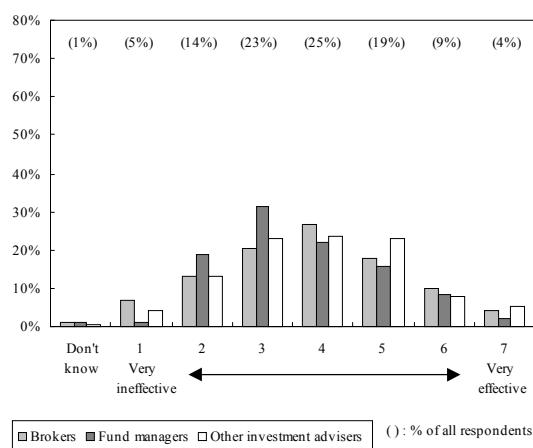
**Q23. In maintaining a fair and orderly market, Hong Kong stock market regulation is .....**

	<u>Mean score</u>
Brokers	4.40
Fund managers	4.50
Other investment advisers	4.42
<i>All</i>	4.42



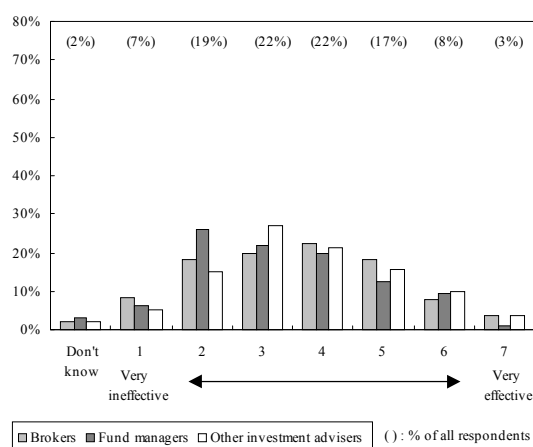
**Q24. The regulation of market manipulation is .....**

	<u>Mean score</u>
Brokers	3.83
Fund managers	3.66
Other investment advisers	3.92
<i>All</i>	3.83



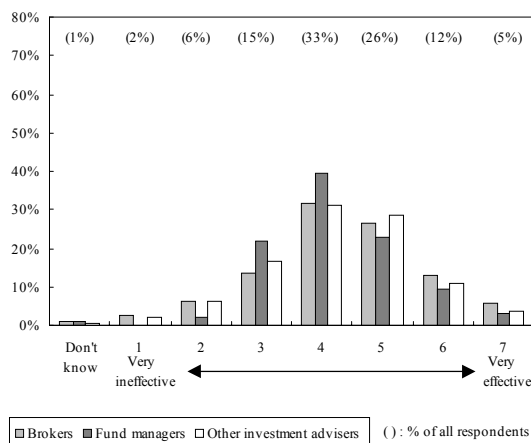
**Q25. The regulation of insider dealing is .....**

	<u>Mean score</u>
Brokers	3.62
Fund managers	3.40
Other investment advisers	3.74
<i>All</i>	3.61



**Q26. In ensuring the overall market integrity, Hong Kong stock market regulation is .....**

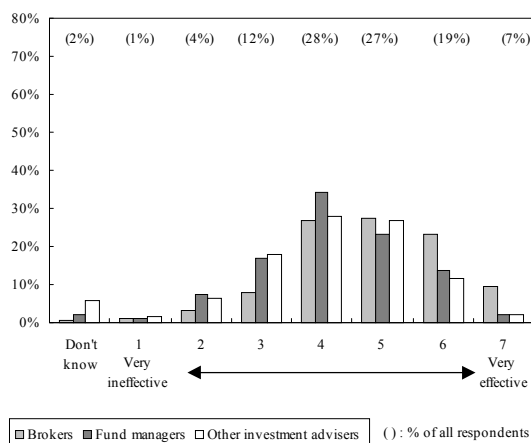
	<u>Mean score</u>
Brokers	4.36
Fund managers	4.25
Other investment advisers	4.25
<i>All</i>	4.32



**Q27. The regulation of brokers' conduct of business is .....**

	<u>Mean score</u>
Brokers	4.85 *
Fund managers	4.22 *
Other investment advisers	4.22 *
<i>All</i>	4.62

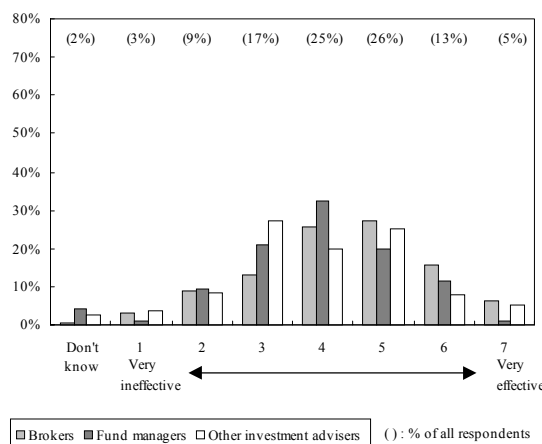
\* Significantly different between groups at 0.1% level



**Q28. Investor protection offered by the Hong Kong stock market regulatory regime is .....**

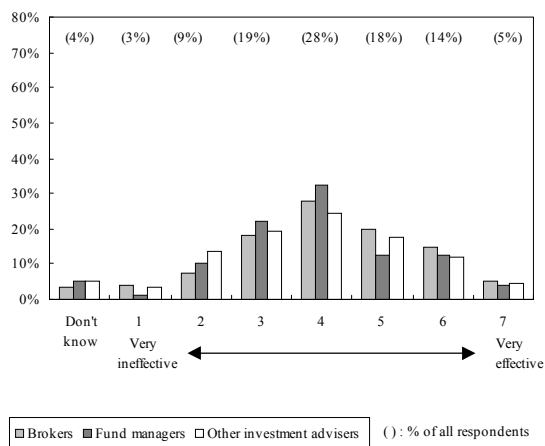
	<u>Mean score</u>
Brokers	4.38 *
Fund managers	4.03 *
Other investment advisers	4.01 *
<i>All</i>	4.25

\* Significantly different between groups at 1% level



**Q29. The legal means in Hong Kong for investors to protect their rights are .....**

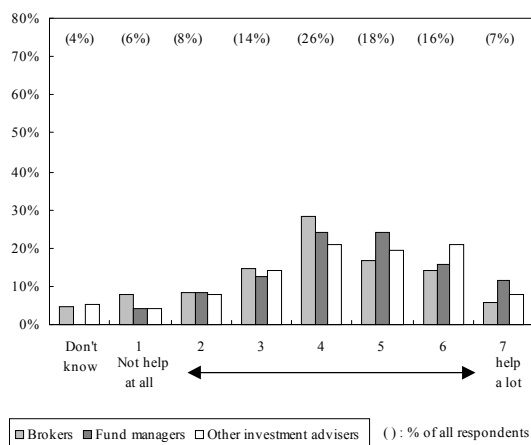
	<u>Mean score</u>
Brokers	4.20
Fund managers	4.04
Other investment advisers	3.98
<i>All</i>	4.13



**Q30. For the effective enforcement of regulation, granting more statutory power to the regulatory bodies would .....**

	<u>Mean score</u>
Brokers	4.09 *
Fund managers	4.48 *
Other investment advisers	4.44 *
<i>All</i>	4.23

\* Significantly different between groups at 5% level



**3.6 System & Technology**

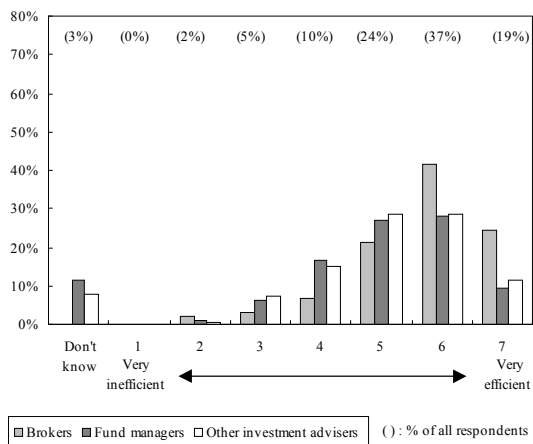
The performance of the trading, clearing and settlement process was very satisfactory. This is comparable to the high satisfaction level obtained in 1996. Technological development in the market as a whole was considered fast but that in the broker industry was not as good. Some respondents commented on the importance of technology for further market development but the findings also reflect small brokers' uneasiness with technological development.

**Q31. Order execution (from order input to confirmation of the execution) for stock transactions is .....**

	<u>Mean score</u>
Brokers	5.71 *
Large brokers	5.30 #
Small brokers	5.77 #
Fund managers	5.16 *
Other investment advisers	5.22 *
All	5.53

\* Significantly different between groups at 0.1% level

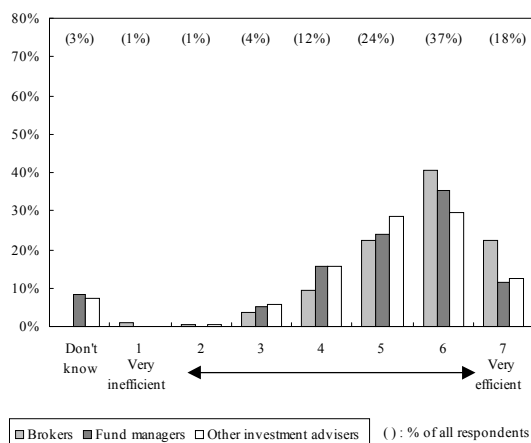
# Significantly different between groups at 5% level



**Q32. The clearing and settlement process for stock transactions is .....**

	<u>Mean score</u>
Brokers	5.62 *
Fund managers	5.35 *
Other investment advisers	5.26 *
All	5.51

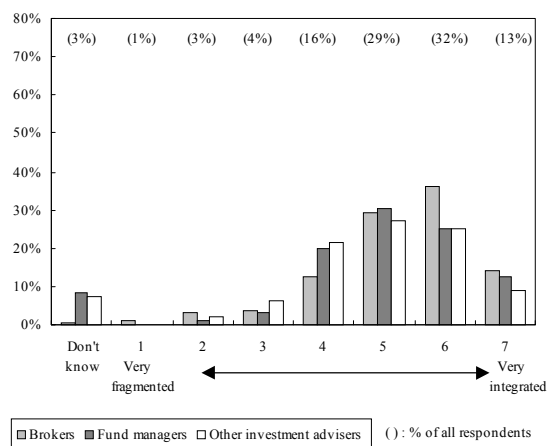
\* Significantly different between groups at 1% level



**Q33. The whole transaction process (from order placing by investor to settlement and registration) for stock transactions is .....**

	<u>Mean score</u>
Brokers	5.31
Large brokers	4.88 #
Small brokers	5.37 #
Fund managers	5.23
Other investment advisers	5.02
All	5.24

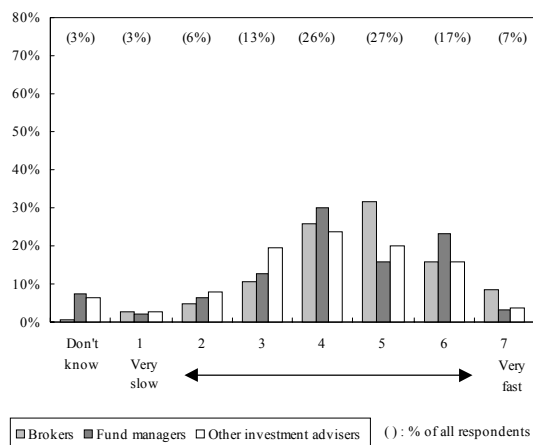
# Significantly different between groups at 1% level



**Q34. The pace of technological development in the Hong Kong stock market is .....**

	<u>Mean score</u>
Brokers	4.61 *
Large brokers	3.96 #
Small brokers	4.70 #
Fund managers	4.43 *
Other investment advisers	4.20 *
All	4.50

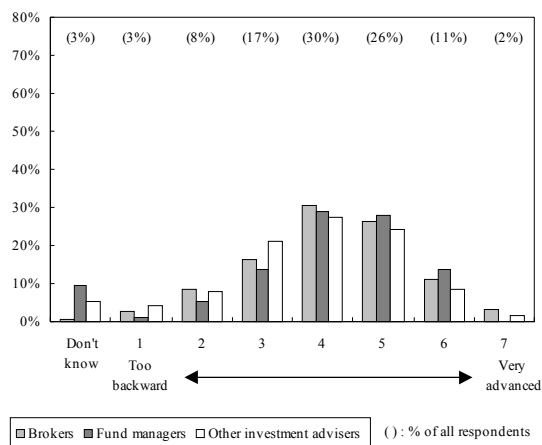
\* Significantly different between groups at 5% level  
 # Significantly different between groups at 0.1% level



**Q35. In the light of keen global competition, technology in the brokerage industry is .....**

	<u>Mean score</u>
Brokers	4.15
Large brokers	3.62 #
Small brokers	4.23 #
Fund managers	4.31
Other investment advisers	3.96
All	4.13

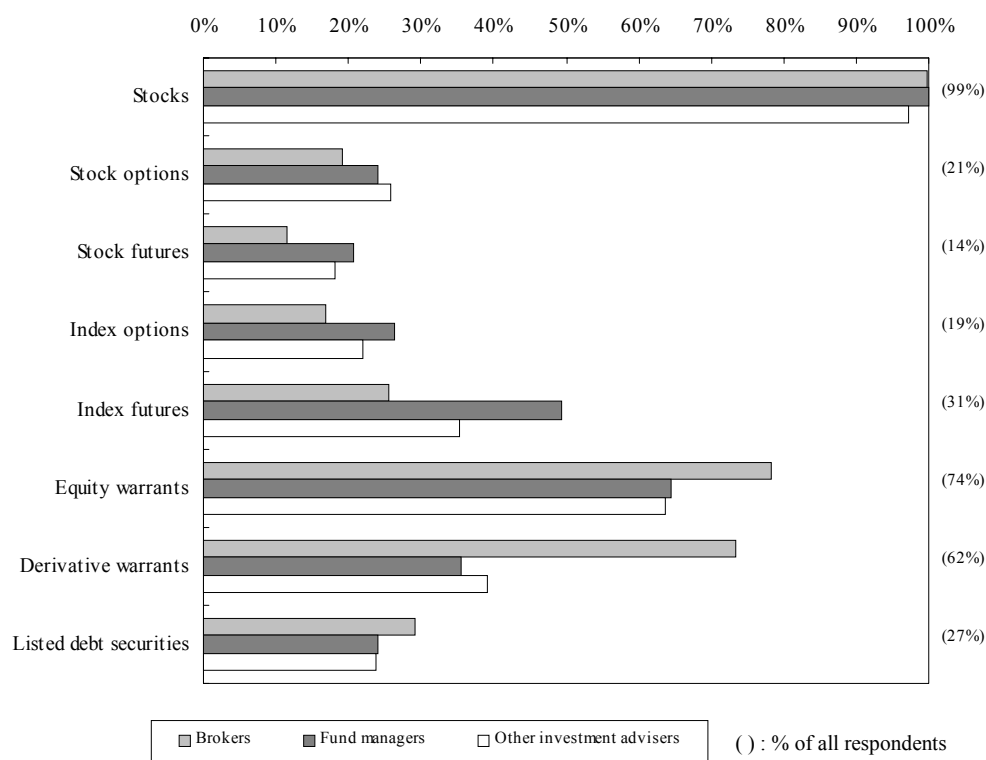
# Significantly different between groups at 1% level



**3.7 Products & Services**

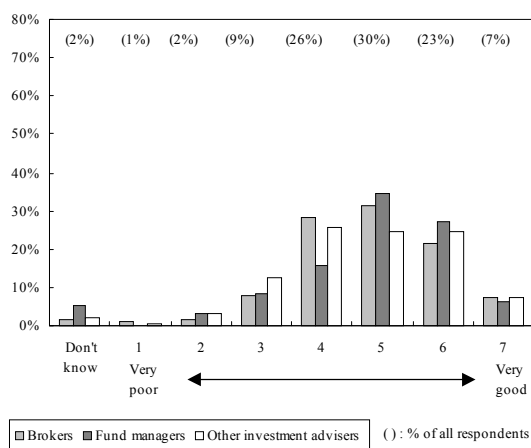
The securities product variety and the quality of various market services, including those of brokers, custodians, investment advisers, information vendors, share registrars and Hongkong Clearing, as well as index services, were satisfactory. Brokers themselves were more satisfied with their performance than fund managers and advisers were. Many obstacles to a wider acceptance of investor participation in the Central Clearing and Settlement System (CCASS) were identified. Many respondents opposed the extension of trading hours.

**Q36. Ever traded the following exchange-listed products in Hong Kong?**



**Q37. In satisfying your business needs, the variety of traded securities products on the Stock Exchange is .....**

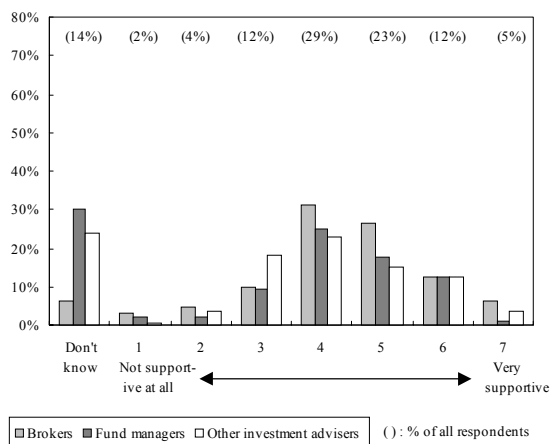
	<u>Mean score</u>
Brokers	4.84
Fund managers	4.98
Other investment advisers	4.77
All	4.84



**Q38. To the development of the derivative warrants market, the existing market structure is .....**

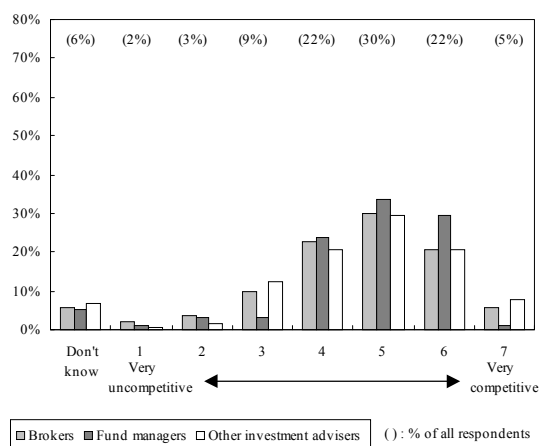
	<u>Mean score</u>
Brokers	4.44
Large brokers	4.06 #
Small brokers	4.50 #
Fund managers	4.37
Other investment advisers	4.30
All	4.41

# Significantly different between groups at 5% level



**Q39. For the listing and trading of China securities, the Hong Kong stock market is .....**

	<u>Mean score</u>
Brokers	4.68
Fund managers	4.87
Other investment advisers	4.83
All	4.74

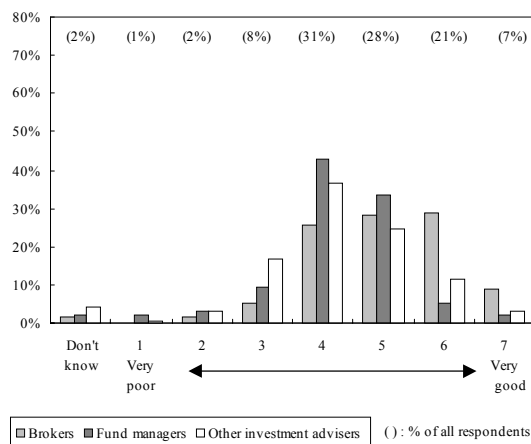


**Q40. The business conduct of brokers is .....**

	<u>Mean score</u>
Brokers	5.06 *
Large brokers	4.71 #
Small brokers	5.11 #
Fund managers	4.29 *
Other investment advisers	4.33 *
All	4.78

\* Significantly different between groups at 0.1% level

# Significantly different between groups at 5% level

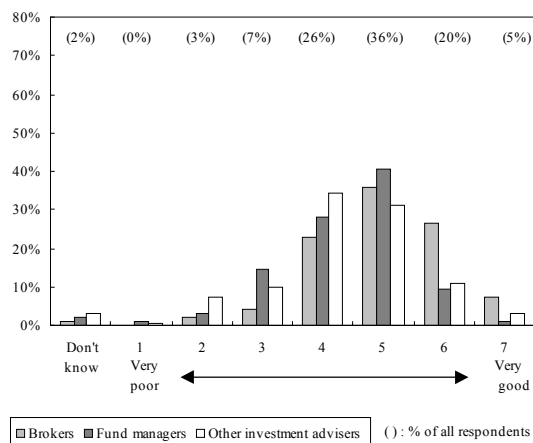


**Q41. The quality of the service offered by brokers is .....**

	<u>Mean score</u>
Brokers	5.03 *
Large brokers	4.63 #
Small brokers	5.08 #
Fund managers	4.39 *
Other investment advisers	4.36 *
All	4.79

\* Significantly different between groups at 0.1% level

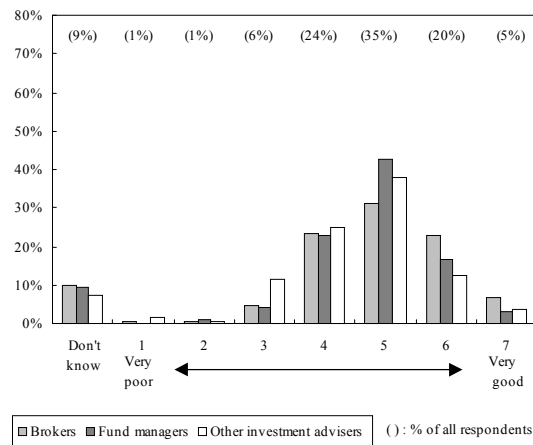
# Significantly different between groups at 1% level



**Q42. The quality of the service offered by custodians is .....**

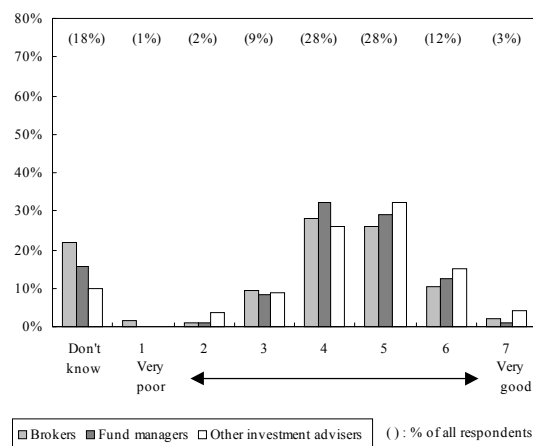
	<u>Mean score</u>
Brokers	4.99 *
Fund managers	4.87 *
Other investment advisers	4.60 *
All	4.88

\* Significantly different between groups at 1% level



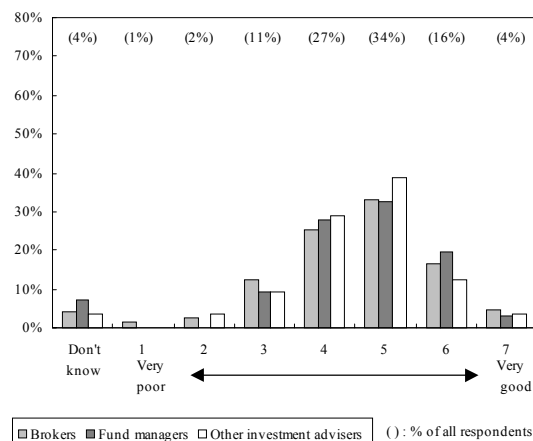
**Q43. The quality of the service offered by investment advisers is .....**

	<u>Mean score</u>
Brokers	4.47
Fund managers	4.56
Other investment advisers	4.66
All	4.53



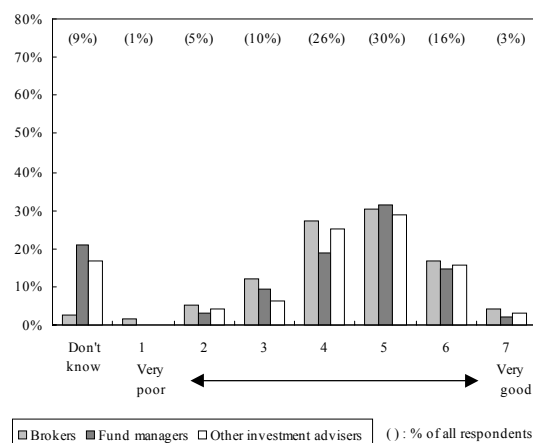
**Q44. The quality of the service offered by information vendors is .....**

	<u>Mean score</u>
Brokers	4.61
Fund managers	4.78
Other investment advisers	4.60
<i>All</i>	4.63



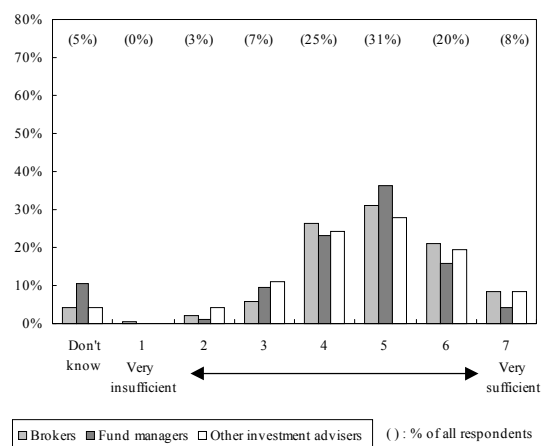
**Q45. The quality of the service offered by share registrars is .....**

	<u>Mean score</u>
Brokers	4.50
Fund managers	4.64
Other investment advisers	4.65
<i>All</i>	4.55



**Q46. For supporting market activities, the current index services offered in the market are .....**

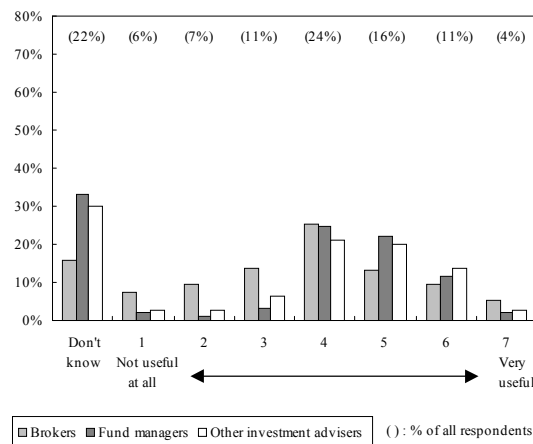
	<u>Mean score</u>
Brokers	4.90
Fund managers	4.77
Other investment advisers	4.77
<i>All</i>	4.85



**Q47. The Compulsory Stock Borrowing and Lending Service offered by Hongkong Clearing is .....**

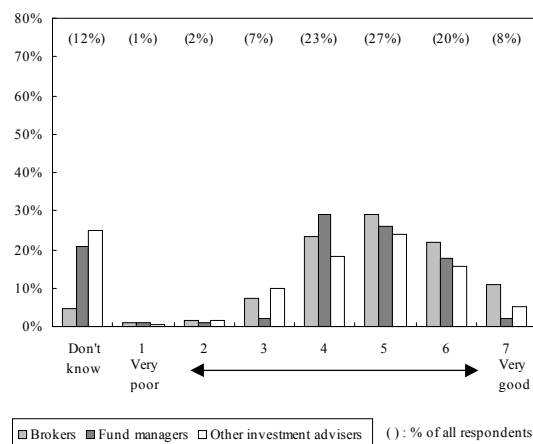
	<u>Mean score</u>
Brokers	3.92 *
Fund managers	4.59 *
Other investment advisers	4.51 *
All	4.12

\* Significantly different between groups at 0.1% level



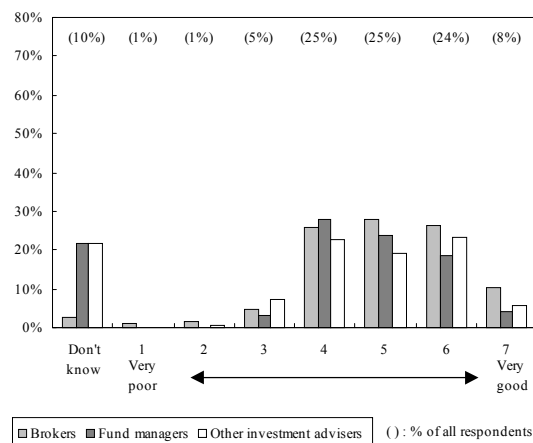
**Q48. The quality of the nominee services (including subscription, voting, dividend distribution, etc) provided by Hongkong Clearing is .....**

	<u>Mean score</u>
Brokers	4.96
Fund managers	4.76
Other investment advisers	4.74
All	4.89

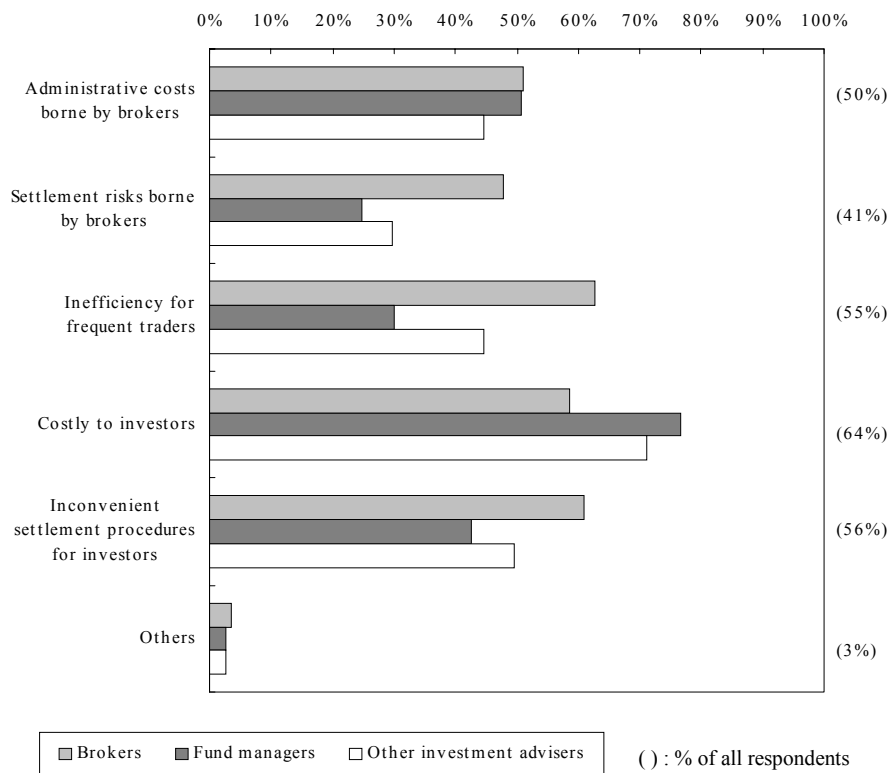


**Q49. The quality of the share depository services (including stock deposit and withdrawal) provided by Hongkong Clearing is .....**

	<u>Mean score</u>
Brokers	5.02
Fund managers	4.91
Other investment advisers	4.94
All	4.99

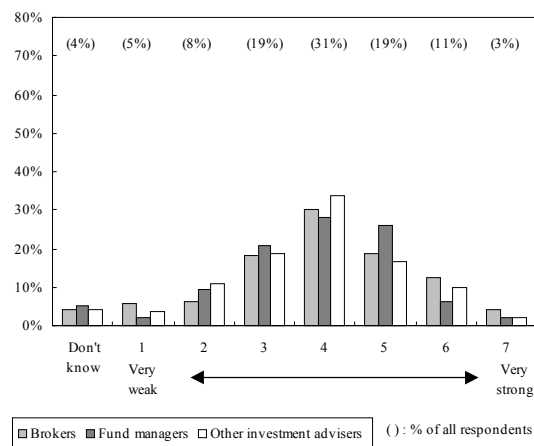


**Q50. The major obstacles to a wider acceptance of investor participation in Central Clearing and Settlement System (CCASS)**



**Q51. The Exchange's sensitivity to investor concerns is .....**

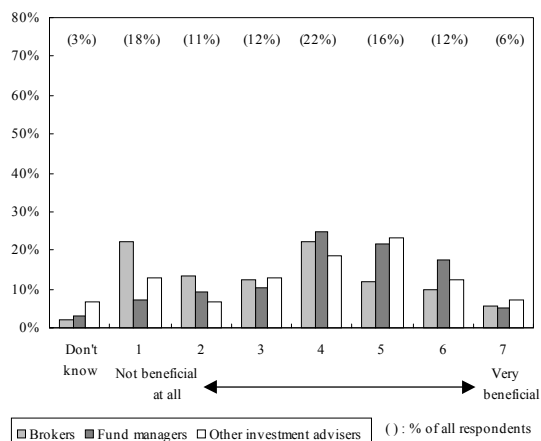
	<u>Mean score</u>
Brokers	4.08
Fund managers	3.99
Other investment advisers	3.92
All	4.03



**Q52. The extension of Hong Kong stock market trading hours would be .....**

	<u>Mean score</u>
Brokers	3.40 *
Fund managers	4.23 *
Other investment advisers	4.05 *
<i>All</i>	3.67

\* Significantly different between groups at 0.1% level



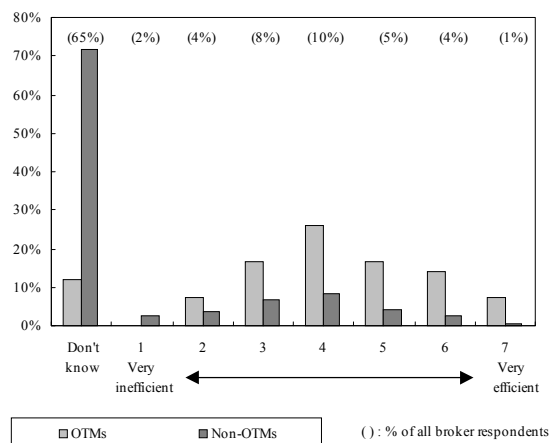
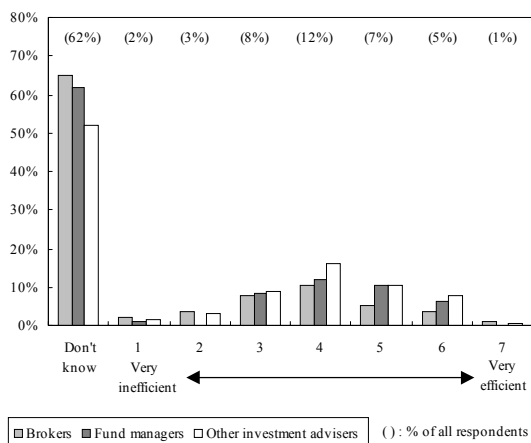
**3.8 Stock Options Market**

Not all respondents were familiar with the stock options market (only about 35% of respondents expressed their view). Among those who expressed their view, the clearing and settlement for stock options was regarded as more satisfactory than order execution, while opinions on the quality of service offered by options trading members were divided. OTMs who are experienced traders in stock options were quite positive while non-OTMs were somewhat negative. The most significant reason for fund managers not to trade stock options is prohibition by trust deeds and rules.

**Q53. Order execution (from order input to confirmation of the execution) for stock options transactions is .....**

	<u>Mean score</u>		<u>Mean score</u>
Brokers	3.84	OTMs	4.41 <sup>#</sup>
Fund managers	4.31	Non-OTMs	3.63 <sup>#</sup>
Other investment advisers	4.20		
<i>All</i>	4.01	<i>All brokers</i>	3.84

<sup>#</sup> Significantly different between groups at 1% level

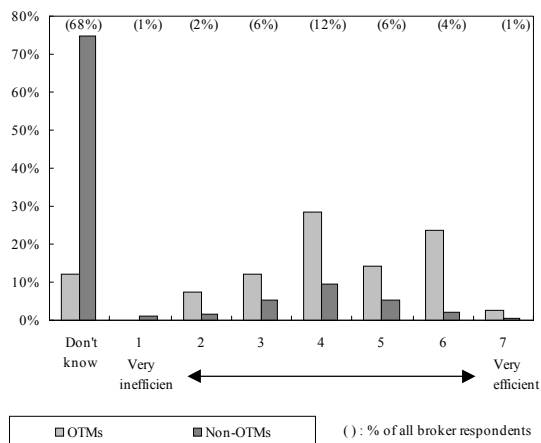
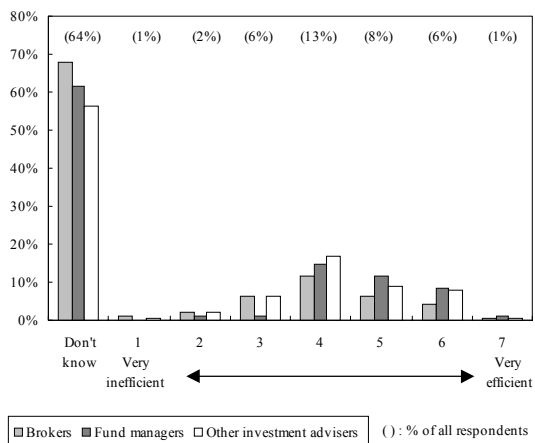


**Q54. The clearing and settlement process for stock options transactions is .....**

	<u>Mean score</u>		<u>Mean score</u>
Brokers	4.12 *	OTMs	4.49#
Fund managers	4.75 *	Non-OTMs	3.97#
Other investment advisers	4.32 *		
<i>All</i>	4.28	<i>All brokers</i>	4.12

\* Significantly different between groups at 5% level

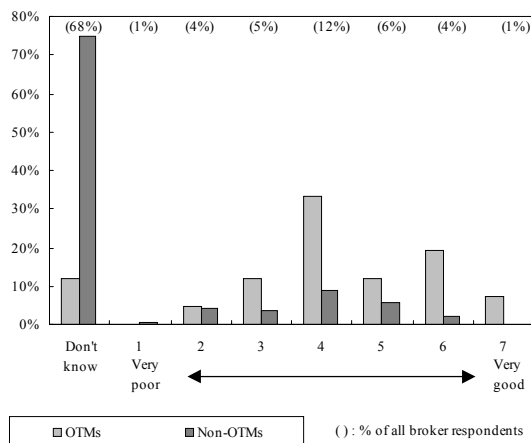
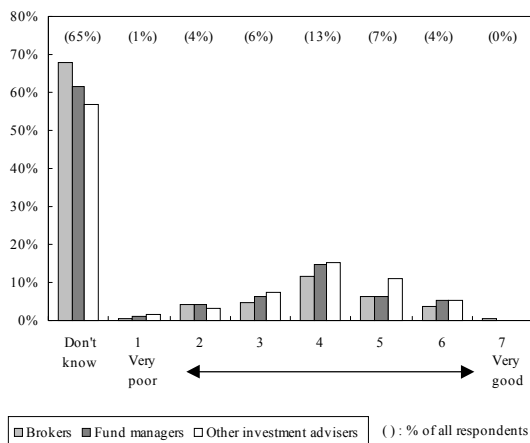
# Significantly different between groups at 5% level



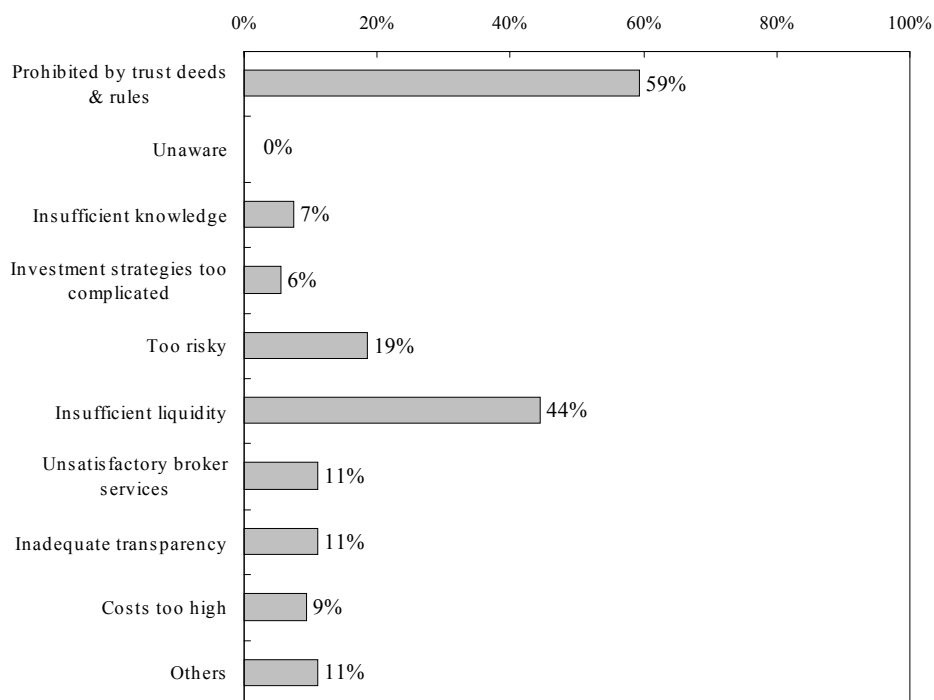
**Q55. The quality of the service offered by options trading members is .....**

	<u>Mean score</u>		<u>Mean score</u>
Brokers	4.04	OTMs	4.57#
Fund managers	3.97	Non-OTMs	3.82#
Other investment advisers	4.08		
<i>All</i>	4.04	<i>All brokers</i>	4.04

# Significantly different between groups at 1% level



**Q56. Major reasons for not trading Hong Kong stock options (fund managers only)**

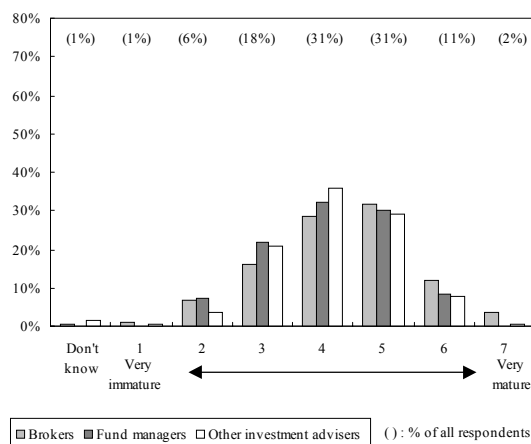


**3.9 General**

*Hong Kong investors were considered neither very mature nor very immature. But the skills and knowledge in Hong Kong for further development were considered rather good. Support was obtained for the alliance of the Hong Kong stock market with overseas exchanges for increasing competitiveness.*

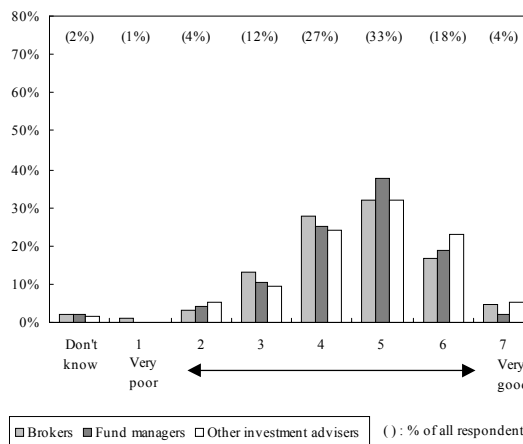
**Q57. Investors in the Hong Kong stock market are .....**

	<u>Mean score</u>
Brokers	4.34
Fund managers	4.10
Other investment advisers	4.17
All	4.27



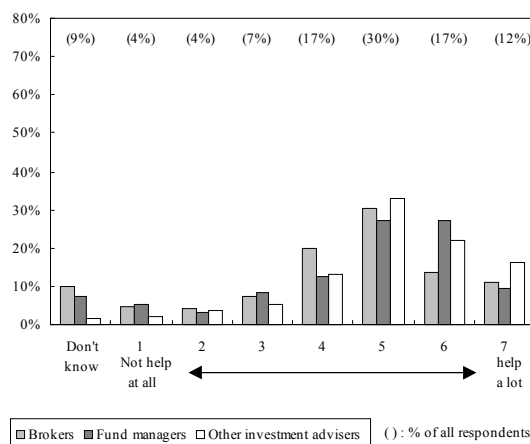
**Q58. In terms of skills and knowledge, the positioning of the Hong Kong securities industry for future development is .....**

	<u>Mean score</u>
Brokers	4.57
Fund managers	4.64
Other investment advisers	4.75
All	4.62



**Q59. In raising Hong Kong stock market's competitiveness, alliance with overseas exchanges would .....**

	<u>Mean score</u>
Brokers	4.68 *
Fund managers	4.85 *
Other investment advisers	5.14 *
All	4.81



\* Significantly different between groups at 5% level

**Hong Kong should ally with .....**

