REPORT ON

THE MEMBERS TRANSACTION SURVEY 1995

Research, Planning & Development

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EXECUTIVE SUMMARY

The Members Transaction Survey is carried out annually to study the composition of trading by Exchange members. This year's survey covers members' transactions from October 1994 to September 1995.

There are two main types of trading: principal and agency trading. Agency trading is further divided into individual and institutional, originating from either local or overseas investors. The members are divided into 3 groups by turnover, namely Group I, II and III, contributing to the top, middle and bottom one-third of total market turnover respectively.

The major points of this year's survey findings are as follows :

- Local investors contributed 66% of total turnover while overseas participation contributed 30%. Principal trading remained at a low level of 4%.

- Individual agency trading contributed 35% of total turnover and institutional agency trading contributed 61%.

- Members with larger turnover had more institutional and overseas business. On the other hand, retail and local agency business was more significant for members with relatively small turnover.

- Group I and Group II members together captured almost all the overseas agency trading (92%). The overseas orders mainly came from the UK (35% of total overseas trading) and the US (32%).

- Instead of more or less equal contribution to total turnover by individual and institutional investors as experienced in the past four years, in the study period this year, there was a significant decrease in the relative percentage contribution by individual investors and a corresponding increase in that by institutional investors. Further, instead of a contribution by overseas investors of more or less a quarter of market turnover throughout the past four years, an increase in their percentage contribution in this year's survey period was also observed with a corresponding decrease in that by local investors, though to a lesser extent than the difference for individual and institutional investors.

The change in the pattern of individual vs institutional and local vs overseas agency trading in this year's study period may be due mainly to the change in market sentiment. This year's study period was relatively bearish compared to the previous years. The bearish sentiment may have induced individual investors (who are mostly local) to withdraw from the market more than institutional investors (a significant proportion of which are overseas).

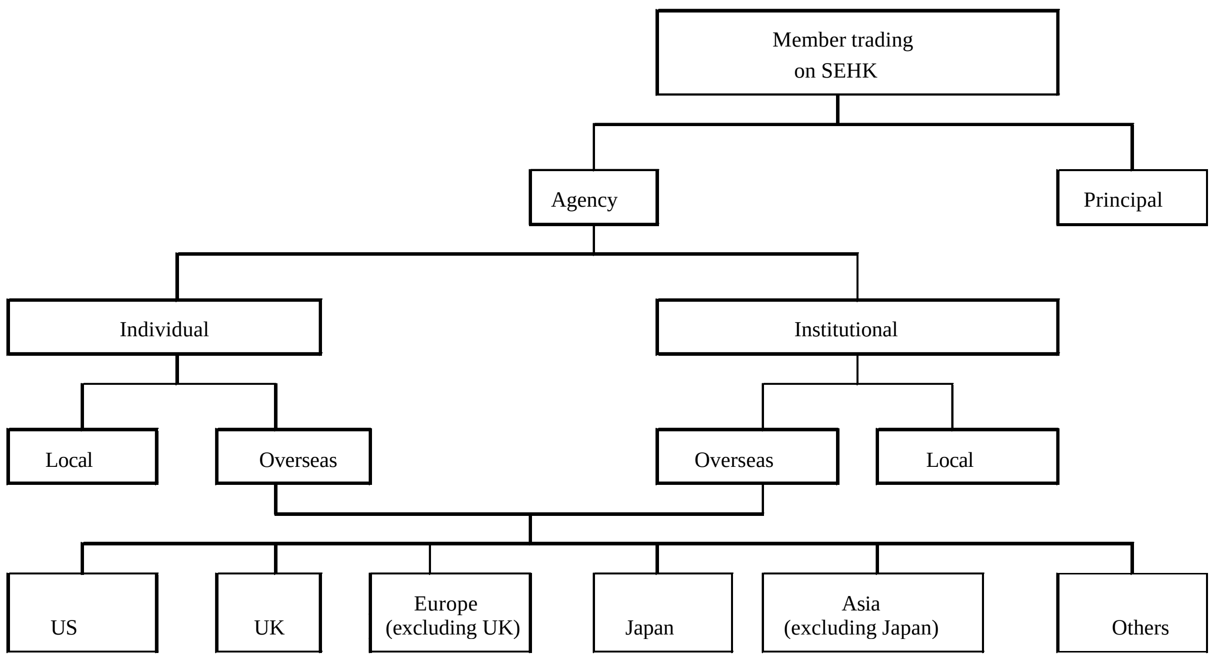
1. OBJECTIVES

The Exchange has carried out the Members Transaction Survey annually since 1991 to understand the composition of members' trading.

Similar to previous surveys, the main objectives of this year's Survey are :

- finding out the composition of trading of the Exchange members for the past 12 months (October 1994 - September 1995) in accordance with the breakdown as shown in Figure 1;
- examining the relative significance of the different types of investors in terms of their respective contribution to total market turnover;
- examining the relative contribution by origin of overseas orders;
- comparing the change in the distribution of turnover by type of trading with previous surveys' results.

Figure 1. Classification of members' trading on the Exchange



2. TARGET POPULATION

The target population includes all the trading members of the Exchange who had become trading members prior to the end of March 1995 (i.e. who were in business for over six full months during the study period) and remained so at the end of October 1995. This population is subject to a selection process to exclude those members whose trading was suspended from July 1995 to September 1995, or ceased to be members on or before September 1995, or whose trading was for less than 6 months during the study period. The selection process aims to avoid unnecessary distortion of results by members who were in an abnormal course of business.

In addition, two or more Individual Members (in contrast to Corporate Members) may operate as a partnership firm and turnover records are maintained for the entire firm instead of for the individual partners. For the ease of administration and analysis, member firms are used as responding units.

As a result, there are 464 member firms who are eligible to be included in the study (i.e. the ultimate target population).

3. STUDY PERIOD

The study covers the members' transactions from 1 October 1994 to 30 September 1995.

4. METHODOLOGY AND SAMPLE

As for the 1994 survey, members were grouped into three categories according to their relative contribution to the total market turnover to observe their different trading patterns, if any.

Member firms contributing the first one-third accumulation of turnover fell into Group I, the second one-third to Group II and the final one-third to Group III. To achieve a fairer ranking of member firms by their turnover, the actual turnover of new member firms whose trading period was less than 12 months during the full-year study period was annualised.

As a result of the classification, there were 11 member firms in Group I , 43 in Group II and 410 in Group III.

Since the number of member firms in Group I and II was relatively small, all the members in these two groups were included in the sample to ensure the representativeness. A random sampling method was applied to Group III member firms on the consideration of cost-effectiveness since they were much larger in number, with a sampling fraction of 60%.

The resultant sample consisted of 300 member firms, of which 11 were in Group I, 43 in Group II and 246 in Group III. Pre-coded questionnaires were then mailed to the sampled member firms. Members were asked to provide an estimated percentage breakdown of their trading during the study period in accordance with the trading classification as shown in Figure 1.

Each member firm' s answers in percentage terms were weighted by its actual turnover value in order to obtain the relative contribution of each type of trading to the total market turnover. However, Group III members in the sample represented 60% by number of the target population while Group I and II members in the target population were fully represented in the sample. In order to have equal representation for Group III members, their weighted answers were further adjusted to produce results that could be extrapolated onto the target population without bias towards any one member group.

(See Appendix 1 for the questionnaire and Appendix 2 for the representativeness of Group III members in the sample).

5. RESPONSE RATE

Out of the 300 questionnaires sent out, 296 duly completed questionnaires were received, representing a good overall response rate of 99%. Among these, 11 were from Group I members (response rate = 100%), 43 were from Group II members (response rate = 100%) and 242 were from Group III members (response rate = 98%).

The overall responded sample represented 64% in number and 86% in turnover value of the target population while the responded sample of Group III members represented 59% in number and 57% in turnover of all Group III members in the target population.

6. SURVEY LIMITATIONS AND DATA RELIABILITY

We employed a similar methodology to that used for the 1994 survey. It is expected that members respond to the survey giving their best understanding of the *substance* of the transaction, rather than the legal or accounting form. However, several limitations pertaining to the nature of the methodology remain.

Firstly, the true origin of an order (local or overseas) may not be known to the brokers. Orders may be placed by a local individual/institution under the direction of an overseas investors or vice versa. Therefore, there may be under/over-reporting of overseas order-flow.

Secondly, respondents were asked to provide their best *estimates* of the respective percentages.

Thirdly, as random sampling is used for Group III members, sampling error does exist. However, the sampling error should be minimized due to the high sampling fraction of 60% and the high response rate of 98%.

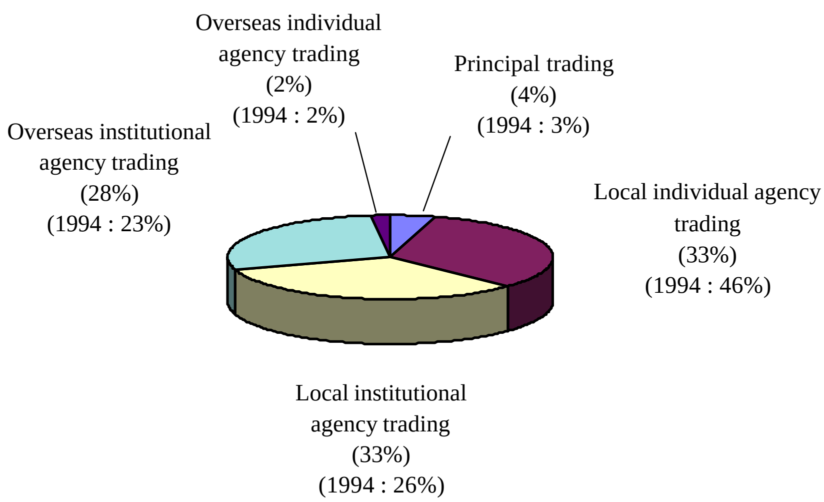
By and large, the findings of this year's survey are considered reliable and projectable to the entire member population.

7. SURVEY FINDINGS

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

- Local agency trading contributed 66% of the market turnover while overseas participation contributed 30%.
- The contribution of institutional agency trading was almost double that of individual agency trading (61% vs 35%).
- Principal trading and overseas individual agency trading remained at relatively low levels (4% and 2% respectively).

Figure 2. Distribution of trading by type of trade



7.2 Business composition of members by type of trade (Table 1)

We classified members into three groups by the size of their turnover. Comparison was made to see if members of different turnover sizes had different business composition.

- Agency trading was still the core business for members of all groups (over 94%).

- Institutional agency trading was the main business for Group I members (97%) and Group II members (72%). But Group III members' major clients were individuals (77%).

- Nearly half of the agency business for Group I members originated overseas (49%). This proportion decreased as the turnover size of members decreased, down to 7% for Group III members.

- For individual agency trading, local orders were still the majority for the members of all groups (ranging from 75% for Group I to 97% for Group III). For institutional agency trading, local and overseas orders had equal contribution for both Group I and II members, but concentration on local orders (80%) was observed for Group III members.

Table 1. Business composition of different member group by type of trade

	Group I members %		Group II members %		Group III members %		All members %	
	1994	1995	1994	1995	1994	1995	1994	1995
All trading								
Agency	96.50	94.93	97.35	95.20	98.06	96.61	97.30	95.59
Principal	3.50	5.07	2.65	4.80	1.94	3.39	2.70	4.41
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Agency trading								
Individual	16.19	2.85	49.84	27.72	80.54	77.03	48.93	36.48
Institutional	83.81	97.15	50.16	72.28	19.46	22.97	51.07	63.52
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Agency trading								
Local	53.94	50.96	73.39	60.87	95.01	92.86	74.16	68.67
Overseas	46.06	49.04	26.61	39.13	4.99	7.14	25.84	31.33
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Individual agency trading								
Local	91.39	74.99	94.90	88.07	97.82	96.71	96.12	94.03
Overseas	8.61	25.01	5.10	11.93	2.18	3.29	3.88	5.97
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Institutional agency trading								
Local	46.71	50.25	52.02	50.38	83.39	79.97	53.12	54.12
Overseas	53.29	49.75	47.98	49.62	16.61	20.03	46.88	45.88
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Local agency trading								
Individual	27.43	4.19	64.45	40.28	82.92	80.18	63.42	49.96
Institutional	72.57	95.81	35.55	59.72	17.08	19.82	36.58	50.04
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Overseas agency trading								
Individual	3.03	1.45	9.55	8.49	35.22	35.47	7.35	6.93
Institutional	96.97	98.55	90.45	91.51	64.78	64.53	92.65	93.07
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

7.3 Distribution of market share in different types of trade by member group (Table 2)

- Group I members captured about half of the institutional agency trading (51%), while Group III members captured 73% of the individual agency trading.

- Group III members alone captured 75% of the local individual agency trading.

- Group I and Group II members together captured almost all the overseas agency trading (92%).

- Group I members alone captured 55% of overseas institutional agency trading. But the share of overseas institutional agency trading (5%) for Group III members was significantly lower than Group I and II members .

Table 2. Distribution of market share in different types of trade by member group

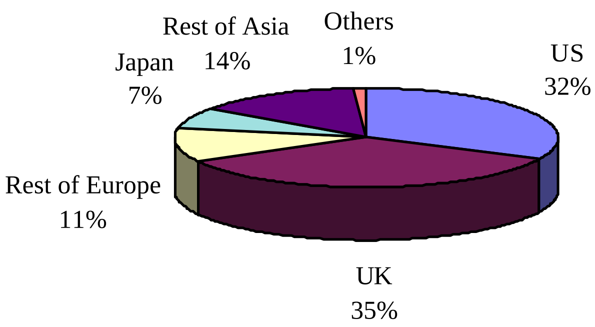
	Group I members %		Group II members %		Group III members %		All members %
	1994	1995	1994	1995	1994	1995	1994 & 1995
All trading	33.38	33.43	33.58	33.40	33.05	33.17	100.00
Agency	33.10	33.20	33.60	32.05	33.30	34.75	100.00
Principal	43.33	38.46	32.92	35.08	23.75	26.46	100.00
Agency trading	33.10	33.20	33.60	32.05	33.30	34.75	100.00
Individual	10.95	2.58	34.22	24.28	54.82	73.14	100.00
Institutional	54.32	50.87	32.99	36.54	12.69	12.59	100.00
Agency trading	33.10	33.20	33.60	32.05	33.30	34.75	100.00
Local	24.08	24.82	33.25	28.51	42.67	46.67	100.00
Overseas	58.98	52.15	34.59	40.01	6.43	7.84	100.00
Individual agency trading	10.95	2.58	34.22	24.28	54.82	73.14	100.00
Local	10.41	2.08	33.79	24.28	55.79	74.93	100.00
Overseas	24.29	9.23	44.93	41.38	30.79	40.10	100.00
Institutional agency trading	54.32	50.87	32.99	36.54	12.69	12.59	100.00
Local	47.77	47.51	32.31	34.01	19.92	18.48	100.00
Overseas	61.74	55.23	33.76	39.34	4.50	5.44	100.00

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

Members were asked to give an estimated percentage breakdown of their overseas orders in value terms by the following origins : US, UK, rest of Europe, Japan, rest of Asia and others.

- The UK and the US were the two major sources of overseas orders, having comparable contribution to the total overseas agency trading (35% and 32%). Together with Japan (7%), they totally accounted for 74% of all overseas agency trading.

Figure 3. Distribution of overseas agency trading by origin



8. COMPARISON

When compared with the survey findings of the past four years, the trading patterns of members were fairly stable over the years except there was a significant decrease in the market share of local individual agency trading and the corresponding increase in that of institutional agency trading in the 1995 survey.

In addition, the market turnover during the study period increased from year to year since the 1991 survey but in the 1995 survey, it decreased by 47% relative to 1994. As a result, turnover value of all kinds of trading in the 1995 survey was lower than in previous years.

Major points of comparison are presented below (see Figure 4).

8.1 Similar observations as previous years

- Principal trading remained relatively low, though it increased by one percentage point to 4% from 1994.

- Overseas individual agency trading remained stable at about 2% over the past five years.

- The US remained a major source of overseas orders, and probably the UK as well.

- Comparison was made among members grouped by size of turnover in both the 1994 and 1995 surveys. In both surveys, we observed that members in a group of larger turnover value had greater contribution from institutional and overseas clients to their business, and greater market share in institutional and overseas agency trading.

8.2 Different observations from previous years

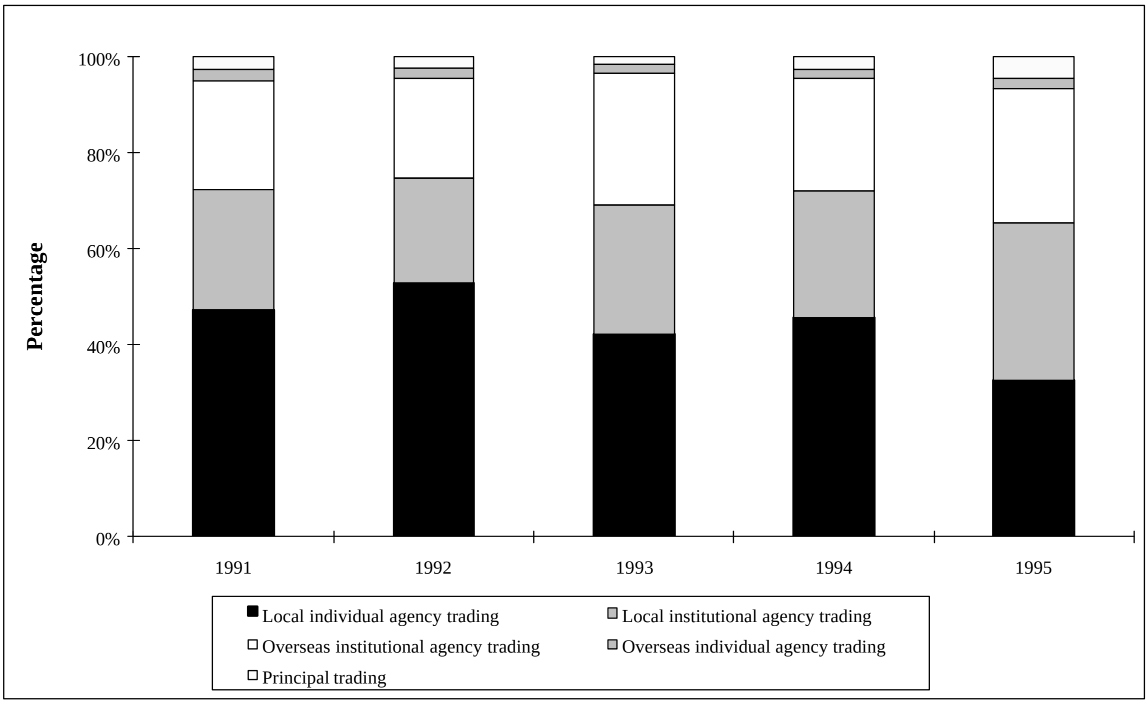
- The pattern of almost equal contribution of individual and institutional agency trading in the previous years was broken in 1995. The contribution to the total market turnover of individual agency trading dropped to only 35% while that of institutional agency trading expanded to 61%.

- Overseas agency trading increased to 30% in 1995 compared to about a quarter throughout the previous years.

- Of the agency business, that from individual clients declined sharply for Group I members (3% in 1995 vs 16% in 1994) and for Group II members (28% in 1995 vs 50% in 1994), while that for Group III members remained equally high (77% vs 81%). This brought about a significant decline in the market share of Group I and II members in individual agency trading (3% in 1995 vs 11% in 1994 for Group I, 24% in 1995 vs 34% in 1994 for Group II).

- The local and overseas composition of agency business for Group II members changed to emphasize more the overseas portion (39% in 1995 vs 27% in 1994). The pattern for Group I and III members remained relatively stable: a more or less equal contribution of local and overseas agency business for Group I; and a major contribution of local agency business for Group III.

Figure 4. Comparison of the distribution of trading by type of trade (1991-1995)



Type of trade	1991 %	1992 %	1993 %	1994 %	1995 %	1991-1995 %
Principal trading	2.60	2.33	1.43	2.70	4.43	2.65
Overseas individual agency trading	2.36	2.05	1.96	1.85	2.08	1.99
Overseas institutional agency trading	22.68	20.79	27.47	23.30	27.94	24.74
Local institutional agency trading	25.12	22.03	26.74	26.40	32.81	26.90
Local individual agency trading	47.24	52.80	42.40	45.75	32.73	43.73

8.3 The 5-year trading pattern

Based on the percentage results of the 5 years' surveys and the respective total turnover of the target populations, the relative contribution of different types of trade to members' trading during these 5 years was calculated. The 5-year overall trading figures revealed that local individuals contributed most to the market turnover (44% of total market turnover and 62% of local agency turnover) and overseas institutional investors also had considerable participation (contributing 25% of market turnover).

9. DISCUSSION

In the 1995 survey, the relative contribution of individual versus institutional, and local versus overseas, agency trading was found to differ significantly from previous years. However, we found that the change in relative contribution was caused by the disproportionate decrease in the values of the different types of trading in the 1995 survey period relative to the 1994 survey period.

In the 1995 survey period, the individual agency trading value declined by over 60% relative to the 1994 survey period, much more than the institutional agency trading value which declined by about one-third. And the local agency trading dropped 51% compared to the 36% drop in overseas agency trading. Note that individual agency trading was mostly local.

The above observation perhaps also explains the change in the business composition of Group I and II members. Since the client base of Group I and II members were mainly institutions, the decline in the business share of individual trading relative to institutional trading for Group I and II members was striking. But the decline was not so striking for Group III members whose client base was mainly individuals.

The observation that individual investors withdrew from the market much more than institutions during the 1995 survey period could explain most of the major changes in the trading pattern in 1995. This behaviour of individual investors may probably be due to the relatively bearish market sentiment in the 1995 survey period compared to the 1994 survey period, implying that they may be more sensitive to a change in market sentiment than institutional investors. It will not be known whether the change in trading pattern is a long term trend until subsequent surveys have been conducted.

GLOSSARY OF TERMS

Group I Members :
Members of the Exchange who contributed the top one-third of the total market turnover value for the period of October 1994 to September 1995.

Group II Members :
Members of the Exchange who contributed the second one-third of total market turnover value for the period of October 1994 to September 1995.

Group III Members :
Members of the Exchange who contributed the bottom one-third of total market turnover value for the period of October 1994 to September 1995.

Principal Trading :
Trading on the member’ s own behalf.

Agency Trading :
Trading on behalf of the member’ s clients.

(Local / Overseas) Individual Agency Trading :
Trading on behalf of individual clients in Hong Kong or overseas.

(Local / Overseas) Institutional Agency Trading :
Trading on behalf of institutional clients in Hong Kong or overseas.

Individual Clients :
A client who trades on his/her personal account.

Institutional Clients :
A client who is not an individual client.