

Research & Planning

CASH MARKET  
TRANSACTION SURVEY 2005/06

March 2007



Hong Kong Exchanges and Clearing Limited  
香港交易及結算所有限公司

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# CONTENTS

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	<b>Page</b>
1. Introduction .....	1
2. Key findings .....	2
3. Figures and tables .....	3
3.1 Distribution of market trading value by investor type .....	3
3.2 Distribution of overseas investor trading value by origin .....	6
3.3 Retail online trading .....	8
Glossary .....	9
Appendix 1. Representativeness of the responded sample vis-à-vis the target population of Exchange Participants .....	10
Appendix 2. Survey methodology .....	11

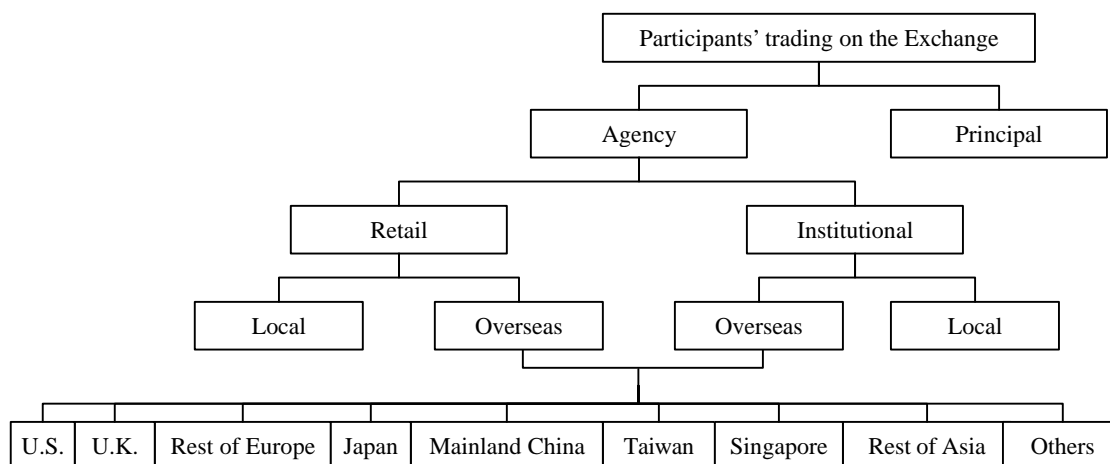
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# 1. INTRODUCTION

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The Cash Market Transaction Survey (CMTS) 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 investor type (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 2005/06 covered EPs' transactions on both the Main Board and the Growth Enterprise Market for the 12-month period from October 2005 to September 2006. Fieldwork was conducted during October 2006 to January 2006.

Survey questionnaires were mailed to 413 EPs in the target population. Out of the 413 questionnaires sent, 351 duly completed questionnaires were received, representing an overall response rate of 85% by number or 95% by turnover value of target respondents.

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

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## 2. KEY FINDINGS

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### **Trading value by investor type**

- (1) Local investors remained the major contributors (53%) of total market turnover in 2005/06 but their contribution in 2005/06 was the lowest during the past decade (the past ten study periods). Local investors' contribution has been below 60% since 2000/01 compared with above 60% in the 1990s. They contributed 60% of the cumulative market turnover in the past decade.
- (2) Overseas investors, mainly institutional investors, contributed 41% of total market turnover in 2005/06, the highest level in the past decade. Their contribution has been 36% or above since 2000/01 compared with below one-third in the 1990s. They contributed 35% of the cumulative market turnover in the past decade.
- (3) The market share of Exchange Participants' principal trading was 5% in 2005/06, down from 8% in 2004/05.
- (4) The contribution from local retail investors was 27% in 2005/06, compared to 30% in 2004/05. Local institutional investors contributed 26% of total market turnover in 2005/06, compared with 27% in 2004/05.
- (5) Overseas institutional investors made the largest contribution among all contributor groups in 2005/06, up from 34% in 2004/05 to 39% in 2005/06. They have been the largest contributor since 2000/01 except in 2003/04 when local retail investors' contribution was similarly large.

### **Trading value by overseas investors by origin**

- (6) US investors were the major contributors to overseas investor trading in 2005/06 (26% vs 29% in 2004/05). They were followed by investors from the UK (24% vs 25% in 2004/05) and the rest of Europe (23% vs 22% in 2004/05).
- (7) The aggregate contribution from Asian origins to overseas investor trading was 21% in 2005/06, up from 18% in 2004/05. Asian investors' contribution has fluctuated between 18% and 23% since 1997/98.
- (8) Among the Asian origins, Singapore and Mainland China have contributed the largest market shares of overseas investor trading (9% and 5% respectively in 2005/06) since 2002/03 when they were separately identified.

### **Retail online trading**

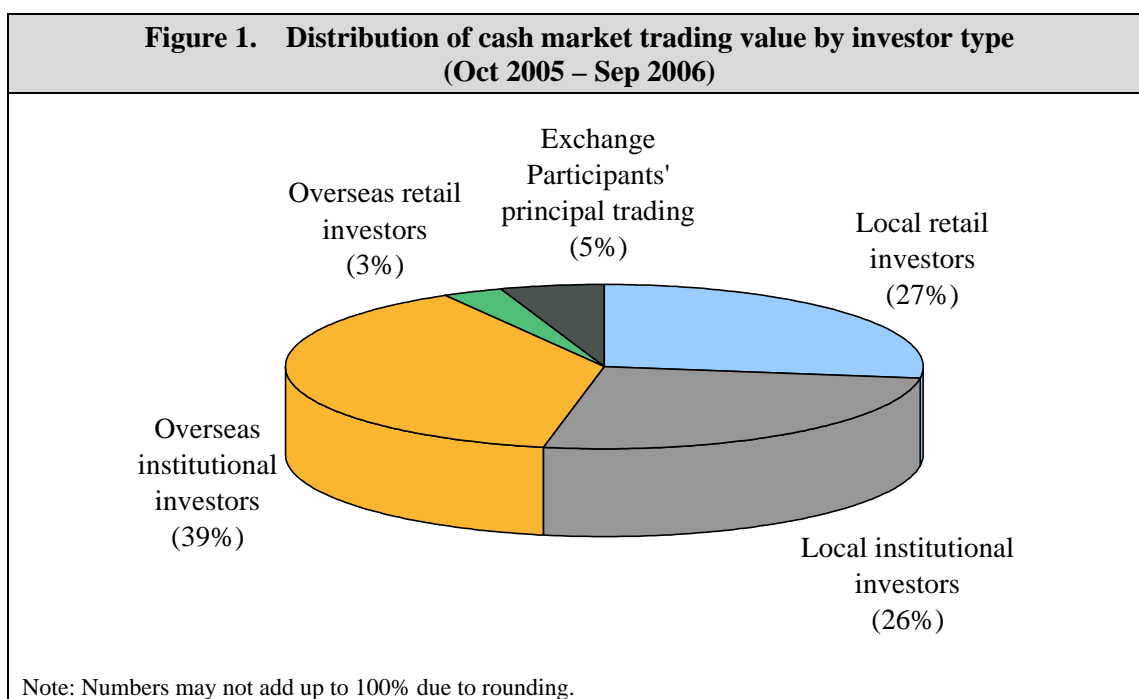
- (9) Retail online trading accounted for 13% of total retail investor trading in 2005/06, up from 11% in 2004/05 (or 4% of total market turnover, a level maintained since 2003/04)<sup>2</sup>.

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<sup>2</sup> Since EPs might not be able to identify retail online trading channeled via banks (which might be regarded as their institutional clients), the level of retail online trading might be subject to under-estimation.

## 3. FIGURES AND TABLES

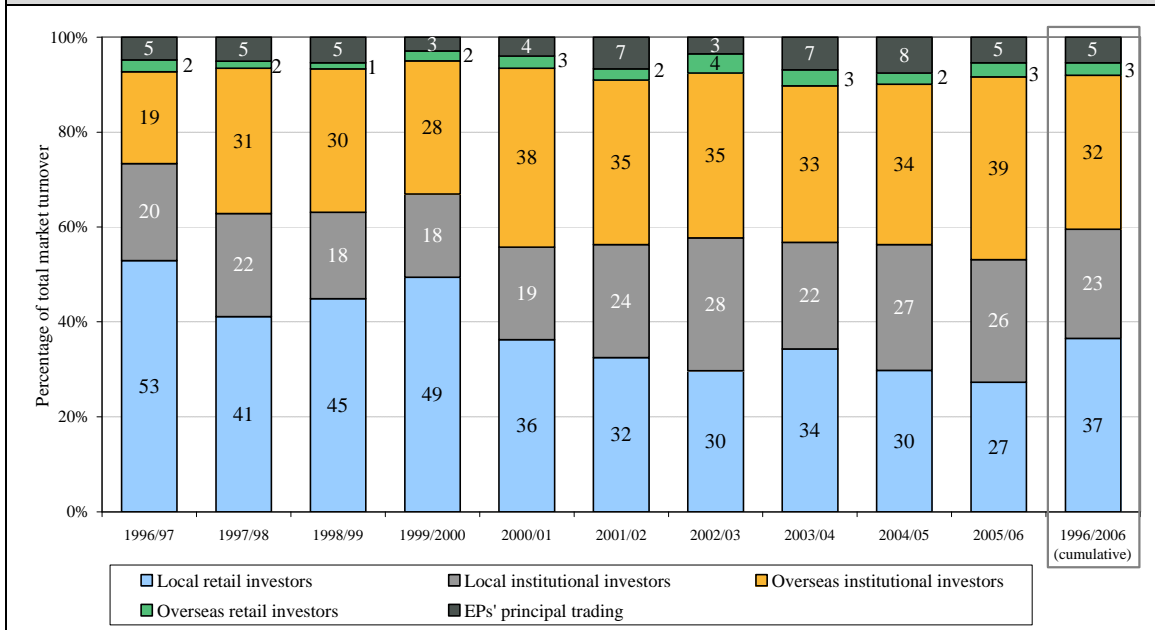
### 3.1 Distribution of market trading value by investor type



**Table 1. Breakdown of contribution by type of trade in cash market (2003/04 – 2005/06)**

Type of trade	2003/04	2004/05	2005/06
<b>All trading</b>			
Agency	93.11	92.43	<b>94.59</b>
Principal	6.89	7.57	<b>5.41</b>
	100.00	100.00	<b>100.00</b>
<b>Agency trading</b>			
Retail	40.43	34.76	<b>32.03</b>
Institutional	59.57	65.24	<b>67.97</b>
	100.00	100.00	<b>100.00</b>
<b>Agency trading</b>			
Local	60.97	60.90	<b>56.16</b>
Overseas	39.03	39.10	<b>43.84</b>
	100.00	100.00	<b>100.00</b>
<b>Retail investor trading</b>			
Local	91.08	92.71	<b>90.22</b>
Overseas	8.92	7.29	<b>9.78</b>
	100.00	100.00	<b>100.00</b>
<b>Institutional investor trading</b>			
Local	40.53	43.96	<b>40.10</b>
Overseas	59.47	56.04	<b>59.90</b>
	100.00	100.00	<b>100.00</b>
<b>Local investor trading</b>			
Retail	60.40	52.91	<b>51.46</b>
Institutional	39.60	47.09	<b>48.54</b>
	100.00	100.00	<b>100.00</b>
<b>Overseas investor trading</b>			
Retail	9.24	6.48	<b>7.14</b>
Institutional	90.76	93.52	<b>92.86</b>
	100.00	100.00	<b>100.00</b>

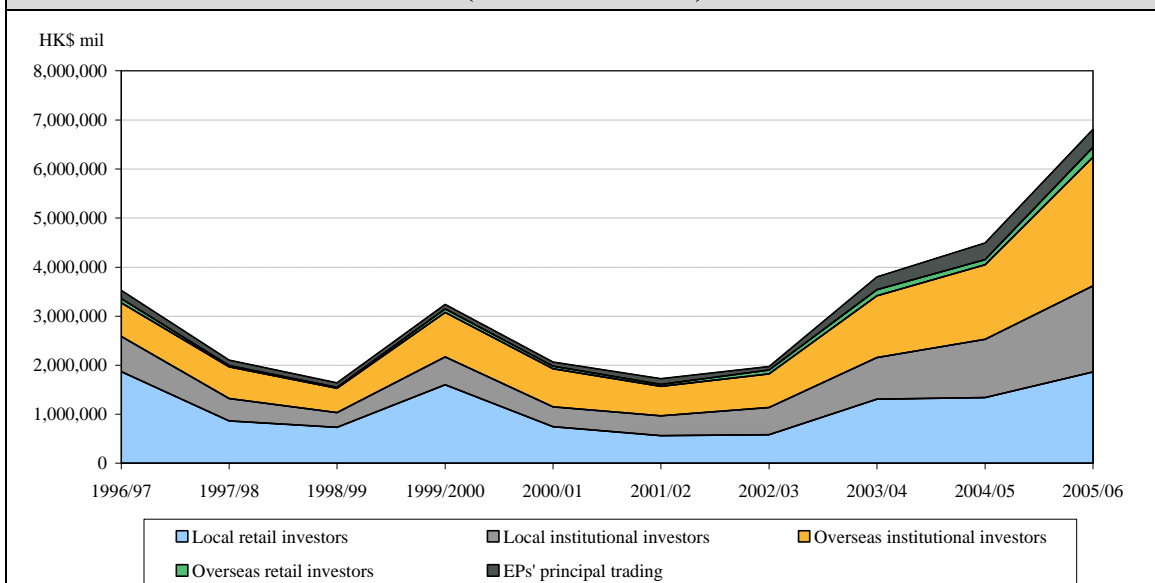
**Figure 2. Distribution of cash market trading value by investor type (1996/97 – 2005/06)**



Type of trade	Distribution of cash market trading by type of trade (%)										1996/2006 cumulative market turnover (%)
	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	
EPs' principal trading	4.77	5.06	5.38	2.90	4.00	6.65	3.49	6.89	7.57	5.41	5.40
Overseas investor trading	21.85	32.11	31.53	30.19	40.23	37.08	38.84	36.34	36.14	41.47	35.08
Retail	2.49	1.54	1.30	2.13	2.58	2.39	4.10	3.36	2.34	2.96	2.62
Institutional	19.36	30.58	30.23	28.06	37.65	34.69	34.73	32.99	33.80	38.51	32.47
Local investor trading	73.38	62.83	63.09	66.91	55.77	56.27	57.67	56.77	56.30	53.12	59.52
Retail	52.94	41.16	44.87	49.38	36.27	32.46	29.69	34.29	29.78	27.34	36.54
Institutional	20.44	21.67	18.22	17.53	19.50	23.81	27.98	22.48	26.51	25.78	22.98

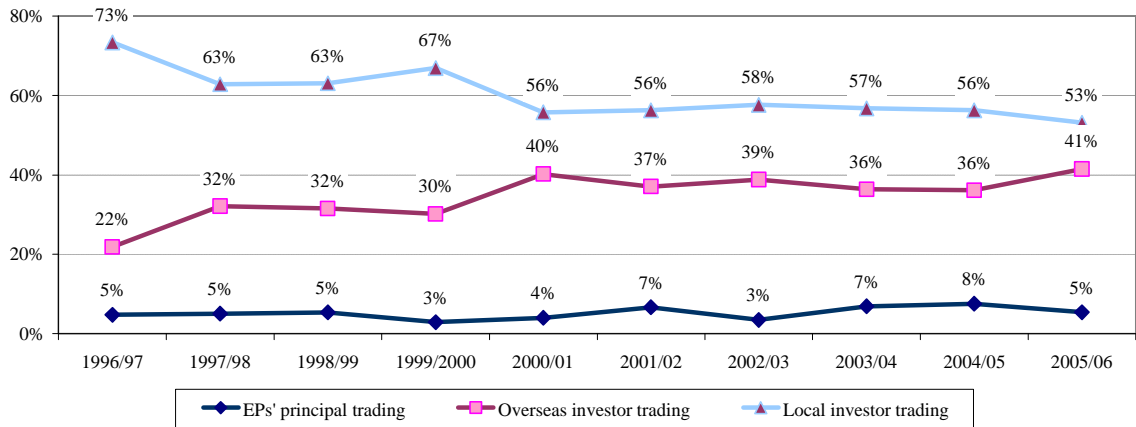
Note: Numbers may not add up to sub-totals or 100% due to rounding.

**Figure 3. Implied value of cash market trading by investor type (1996/97 – 2005/06)**



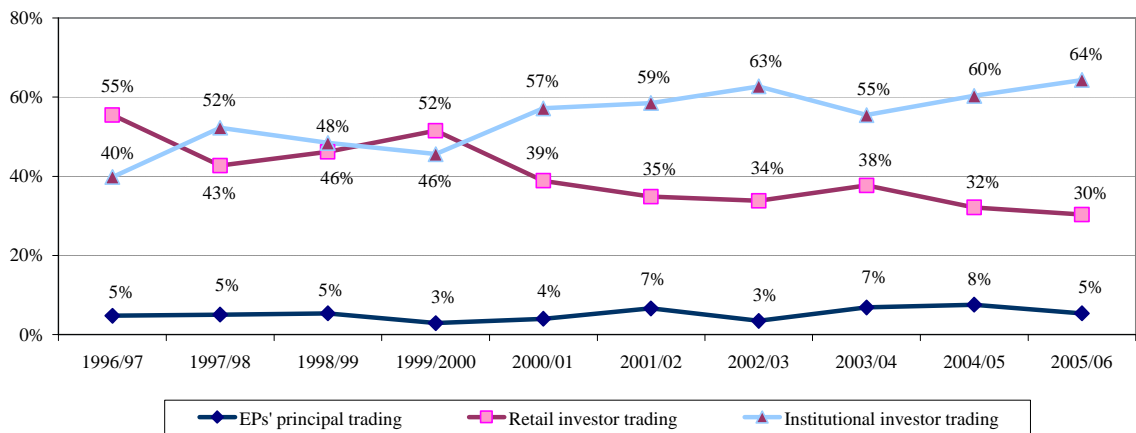
Note: The implied value of trading for a particular type of trade is determined by multiplying the percentage contribution to market turnover by that type of trade as obtained from the survey by the actual overall market turnover during the study period for that year of survey.

**Figure 4. Distribution of cash market trading value by investor type (local vs overseas) (1996/97 – 2005/06)**



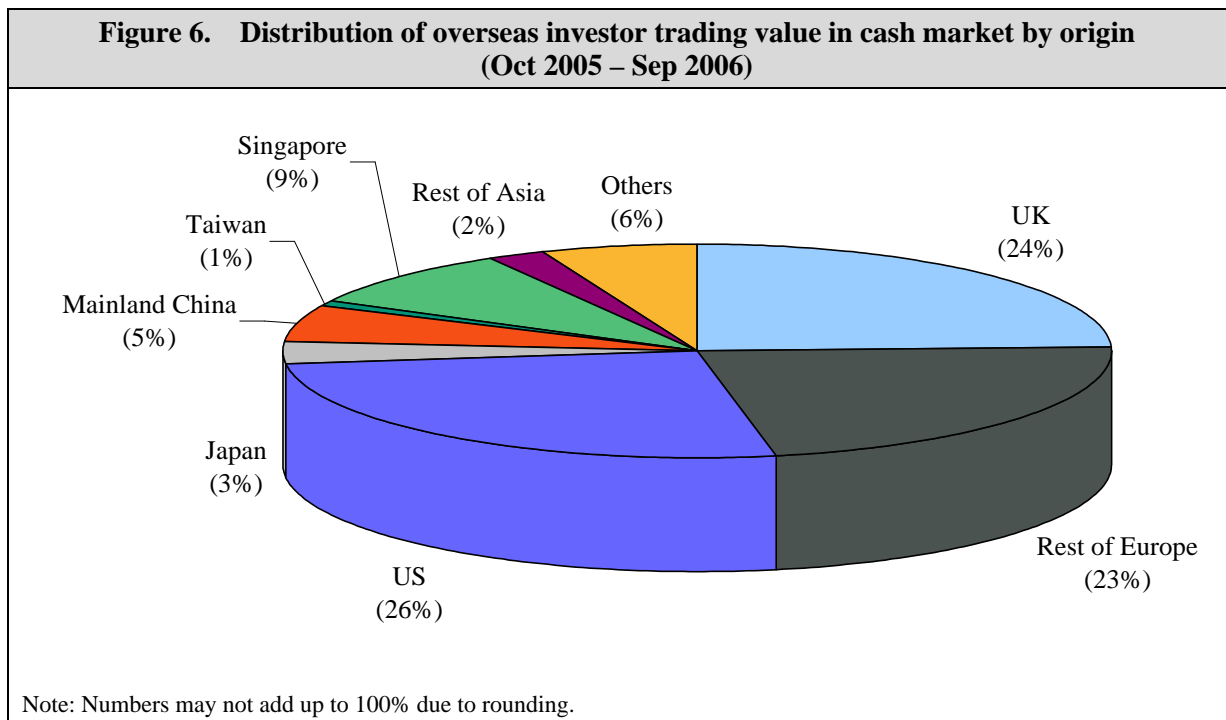
Note: Numbers may not add up to 100% due to rounding.

**Figure 5. Distribution of cash market trading value by investor type (retail vs institutional) (1996/97 – 2005/06)**



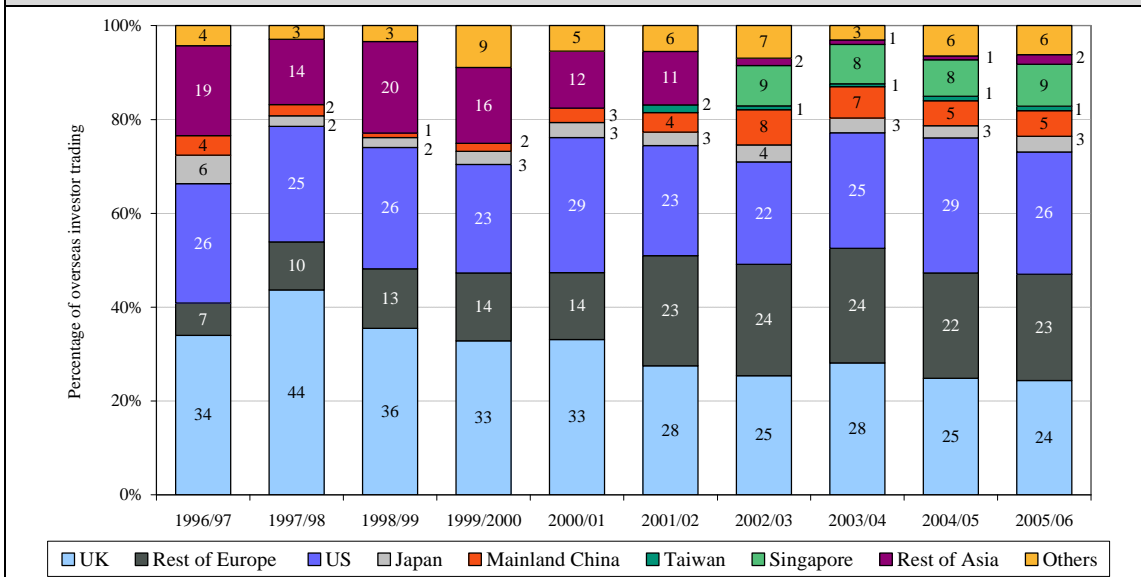
Note: Numbers may not add up to 100% due to rounding.

### 3.2 Distribution of overseas investor trading value by origin





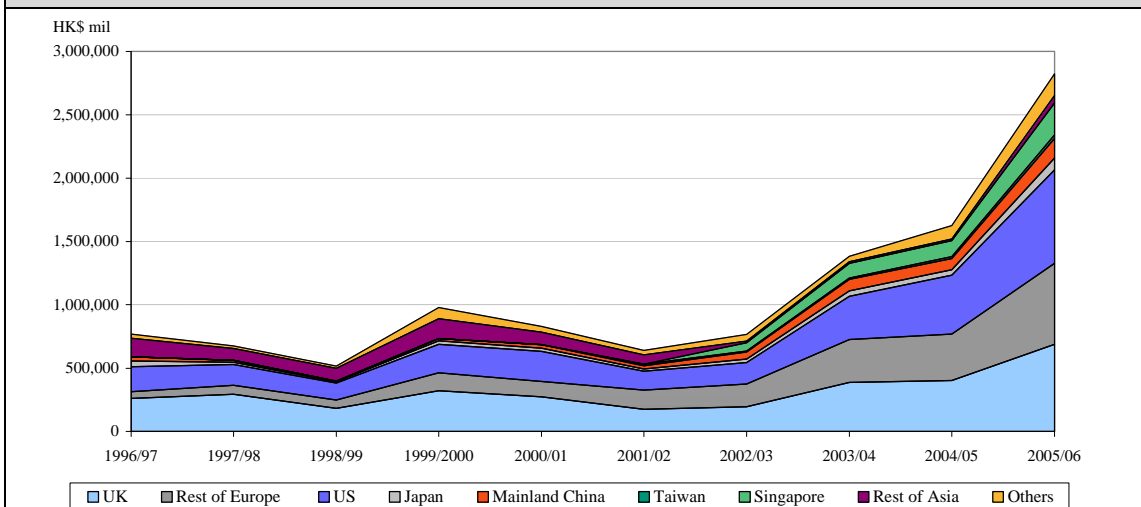
**Figure 7. Distribution of overseas investor trading in cash market by origin (1996/97 – 2005/06)**



Overseas origin	Distribution of overseas investor trading by origin (%)									
	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
UK & Europe	40.84	53.87	48.22	47.26	47.36	51.00	49.13	52.57	47.31	47.03
UK	34.02	43.64	35.52	32.82	33.11	27.53	25.45	28.13	24.82	24.40
Rest of Europe	6.82	10.23	12.70	14.44	14.24	23.47	23.68	24.44	22.50	22.64
US	25.50	24.66	25.84	23.12	28.80	23.42	21.81	24.61	28.75	26.08
Asia	29.41	18.56	22.55	20.71	18.44	20.07	22.11	19.77	17.53	20.73
Japan	6.01	2.28	2.07	2.83	3.20	2.88	3.66	3.13	2.56	3.33
Mainland China	4.20	2.35	0.93	1.70	3.06	4.13	7.50	6.65	5.41	5.44
Taiwan						1.68	0.83	0.66	0.92	0.96
Singapore							8.57	8.40	7.80	8.95
Rest of Asia	19.20	13.93	19.55	16.18	12.18	11.38	1.54	0.93	0.83	2.06
Others	4.24	2.90	3.39	8.91	5.40	5.51	6.95	3.05	6.40	6.15
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

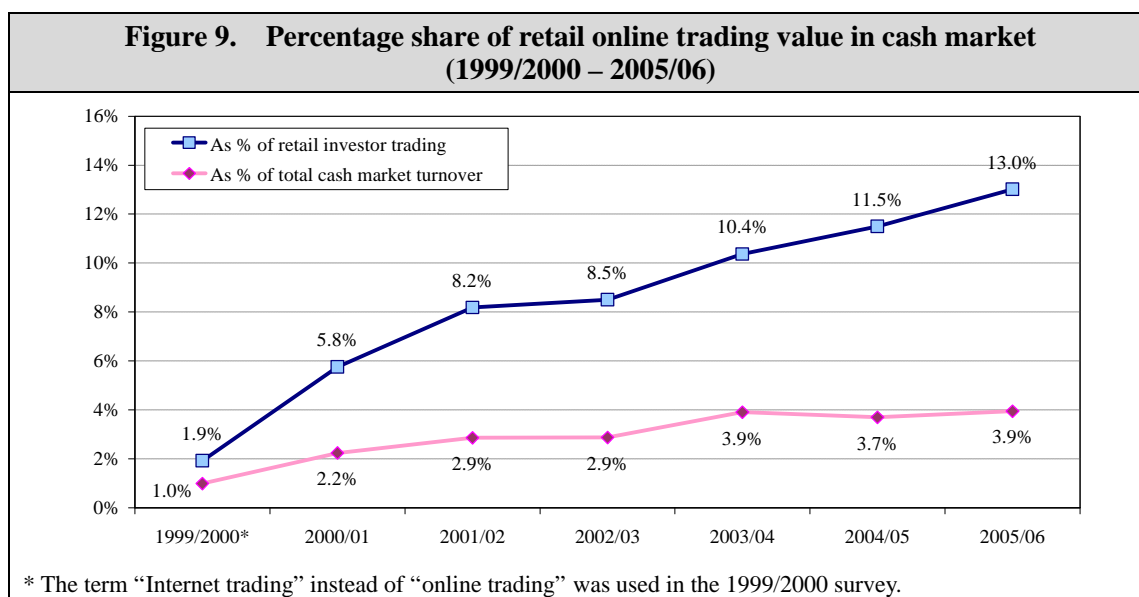
Notes:  
 (1) Taiwan was included in the rest of Asia in surveys prior to 2001/02. Singapore was included in the rest of Asia in surveys prior to 2002/03.  
 (2) Numbers may not add up to sub-totals or 100% due to rounding.

**Figure 8. Implied value of overseas investor trading in cash market by origin (1996/97 – 2005/06)**



Notes:  
 (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) Taiwan was included in the rest of Asia in surveys prior to 2001/02. Singapore was included in the rest of Asia in surveys prior to 2002/03.

### 3.3 Retail online trading



**Table 2. Statistics on retail online trading in cash market (2004/05 and 2005/06)**

	2004/05	2005/06
<b>Online brokers<sup>(1)</sup></b>		
Number of online brokers <sup>(2)</sup>	97	105
- As % of all responding EPs	25.66%	29.91%
<b>Online trading</b>		
Total implied online trading value (HK\$ mil, 2-sided) <sup>(3)</sup>	331,481	536,625
- As % of total market turnover	3.69%	3.94%
- As % of all investor trading	4.00%	4.17%
- As % of retail investor trading	11.50%	13.01%
- As % of total turnover of online brokers	12.65%	14.73%
Notes:		
(1) "Online brokers" refers to EPs offering online trading service to retail clients since the 2004/05 survey but in the previous surveys refers to EPs recording retail online trading. It must be noted that online brokers are identified among the respondents only and not among the entire EP population.		
(2) In the 2004/05 survey, one respondent, which is believed to have substantial online trading business channeled from its subsidiary, did not provide the percentage on its online trading through its subsidiary. The respondent was nevertheless regarded as an online broker but was treated as a case with missing response in computing statistics on online trading value.		
(3) Implied online trading value is the reported percentage of retail investor trading as online trading multiplied by the EP's retail turnover value. The retail turnover value of an EP is in turn calculated by multiplying the reported percentage of total turnover as retail trading by the EP's total turnover during the study period.		

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# GLOSSARY

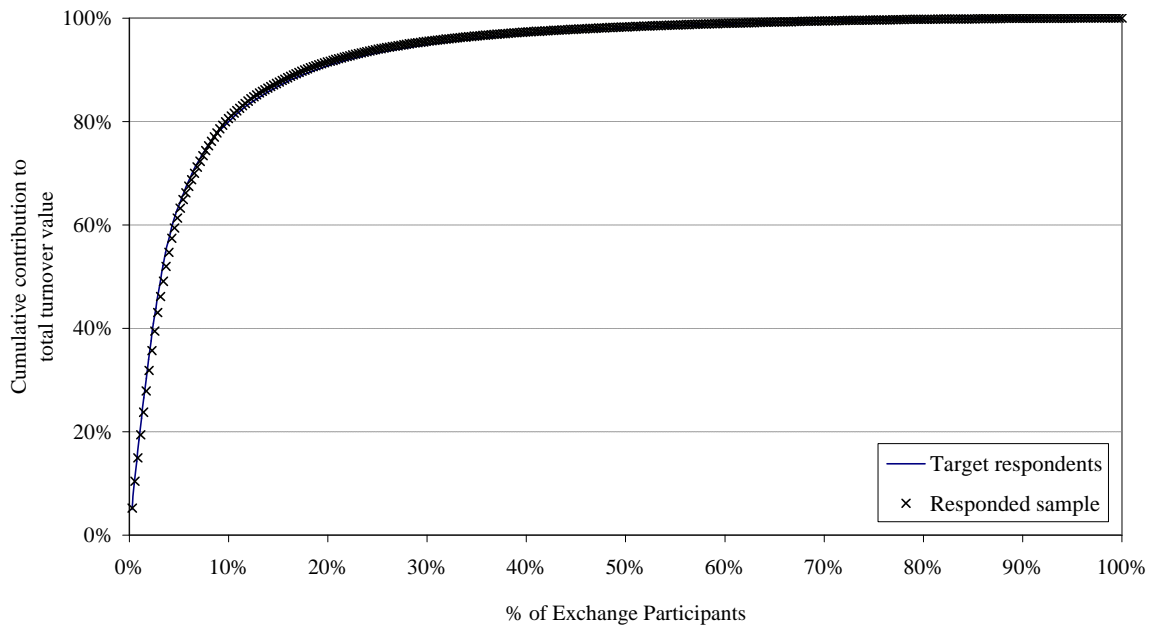
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<b>Principal trading:</b>	Trading on the participant firm's own account.
<b>Agency trading:</b>	Trading on behalf of the participant firm's clients, including investor trading channeled from the firm's parent or sister companies.
<b>Individual/Retail investors:</b>	Investors who trade on their personal accounts.
<b>Institutional investors:</b>	Investors who are not individual/retail investors.
<b>Local investors:</b>	Individual/retail investors residing in Hong Kong or institutional investors operating in Hong Kong Hong Kong as the source of funds.
<b>Overseas investors:</b>	Individual/retail investors residing outside Hong Kong or institutional investors operating outside Hong Kong overseas as the source of funds.
<b>Online trading:</b>	Retail trading originating from orders entered directly by investors and channeled to the brokers via electronic media such as the Internet.
<b>Online brokers:</b>	Stock Exchange Participants who offer online trading service to retail investors.

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# APPENDIX 1. REPRESENTATIVENESS OF THE RESPONDED SAMPLE VIS-À-VIS THE TARGET POPULATION OF EXCHANGE PARTICIPANTS

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## **APPENDIX 2. SURVEY METHODOLOGY**

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### **(1) Target population**

The target population included all trading Stock Exchange Participants of the cash market who became trading participants prior to the end of March 2006 (i.e. who had been in business for over 6 full months during the study period) and remained so at the end of September 2006. It excluded participants whose trading was suspended from July 2006 to September 2006 or ceased on or before September 2006 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.

All Exchange Participants (EPs) are corporations.

### **(2) Methodology**

The study period is from October 2005 to September 2006.

EPs in the target population were ranked in descending order by turnover value. To achieve a fairer ranking, the actual turnover of new EPs whose trading period was less than 12 months during the study period were annualised for the ranking. The actual turnover of the EPs was used in analysing the results.

The survey sample consisted of all EPs in the target population. Survey questionnaires were mailed to each EP firm in the sample, with close telephone follow-up to ensure a high response rate, especially for the EPs which were top-ranked in the target population by turnover value.

The survey sampling method had changed in different years of the survey series. In 2001/02 and 2002/03 surveys, the survey sample consisted of all brokers contributing the top two-thirds of turnover value in the target population as well as a random sample covering 60% of brokers contributing the bottom one-third of turnover value. In the prior years and since the 2003/04 survey, a census approach was adopted, i.e. all brokers in the target population were included in the survey sample.

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. The question about online trading has been refined since the 2004/05 survey — respondents were asked whether they offered online trading service to retail clients and the proportion of retail online trading; in prior years they were asked to give only the proportion of retail online trading, if any. There might be cases where an EP provided the services but no online trading was recorded.

EPs were requested to provide their consolidated trading composition including trading channeled 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, they were treated as cases with missing value for which a mean substitution method was adopted.

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Each responding EP's answers in percentage terms were weighted by the respondent's total turnover value accordingly to obtain respective values in the responded sample. The implied percentage shares of different types of trade in the market were then calculated, adjusted by the response rate in value terms relative to the target population.

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**

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.

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.

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.

Some bank-related EPs might not be able to provide the trading composition of client orders originated from their associated banks and would treat the banks as their local institutional clients.

The non-responded EPs (who have very small market shares individually) may have different trading composition from the responded EPs. Since the survey has a high response rate by turnover value, the impact of the non-responded EPs to the overall findings should be negligible. Nevertheless, there might be some impact on trade types which had relatively low contribution to market turnover.

The random sampling method used in the previous surveys in 2001/02 and 2002/03 would also have consequences similar to those stated in the above paragraph. Therefore, for trade types with very small contributions, the relative changes in their contributions over the years should be interpreted with caution.

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