

Research & Corporate Development

CASH MARKET  
TRANSACTION SURVEY 2009/10

February 2011



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

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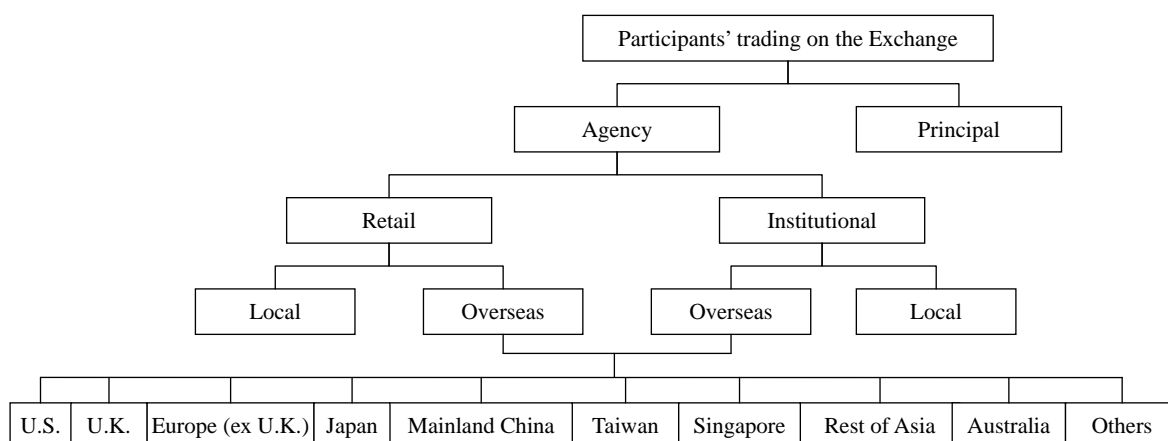
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# 1. INTRODUCTION

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 securities market, including the Main Board and the Growth Enterprise Market (GEM), by investor type (see classification chart below). The market share of online trading<sup>1</sup> is also assessed.

## Classification of Stock Exchange Participants' trading



The Cash Market Transaction Survey 2009/10 covered EPs' transactions on both the Main Board and the Growth Enterprise Market for the 12-month period from October 2009 to September 2010. Fieldwork was conducted during October 2010 to December 2010.

Survey questionnaires were mailed to 455 EPs in the target population. Out of the 455 questionnaires sent, 409 duly completed questionnaires were received, representing an overall response rate of 90% by number or 99% by turnover value in the target population.

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

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## 2. KEY FINDINGS

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In the context of a year-on-year increase of 9% in the total turnover value of the HKEx cash market to HK\$15,797,318 million during the study period, the following are the key findings of the survey.

### Trading value by investor type

- (1) In 2009/10, the contribution of *local investors* to total market turnover decreased from 50% in 2008/09 to 44%, which was the lowest level since the survey started in 1991. It was also the first time that local investors contributed less than half of the total market turnover. Over the past decade, local investors contributed 51% of the cumulative market turnover.
- (2) In 2009/10, the contribution of *overseas investors* to total market turnover increased from 42% in 2008/09 to 46% and for the first time surpassed local investors' contribution. Overseas investors' cumulative contribution to total market turnover in the past decade was 42%.
- (3) *Institutional investors*' contribution to total market turnover increased from 62% in 2008/09 to 64% in 2009/10, mainly from overseas institutions.
- (4) *Retail investors*' contribution to total market turnover decreased from 30% in 2008/09 to a record low of 26% in 2009/10, predominantly from local retail investors.
- (5) The contribution to total market turnover from *EP principal trading* increased from 8% in 2008/09 to a record high of 10% in 2009/10.
- (6) In 2009/10, the contribution to total market turnover from *local retail investors* decreased further to 21% from the previous record low of 25% in 2008/09. *Local institutional investors* contributed 23% to total market turnover in 2009/10, compared to 24% in 2008/09.
- (7) *Overseas institutional investors* continued to be the largest contributor to total market turnover with a 42% contribution in 2009/10, up from 38% in 2008/09.
- (8) In 2009/10, overseas investor trading (predominantly from overseas institutions) *in value terms* grew by 20% year-on-year, while EP principal trading grew by 27%. Local investor trading, on the other hand, fell by 4% in value terms, with local retail investor trading recorded a drop of 8%.

### Trading value by overseas investors by origin

- (9) *UK investors* were the largest contributors to overseas investors trading in 2009/10. Their contribution increased from 23% of overseas investor trading in 2008/09 to 29%. *US investors*' contribution dropped significantly from 36% of overseas investor trading in 2008/09 to 24%. US investors ranked behind UK investors for the first time since surpassing them in 2004/05. In 2009/10, the contribution from *Continental European investors* rebounded to 16% from 10% in 2008/09.
- (10) In 2009/10, *Asian investors* contributed in aggregate 27% of total overseas investor trading, compared to 26% in 2008/09. *Mainland investors* continued to be the largest contributors among Asian investors, with a contribution of 11% compared to 12% in the previous year. The contribution from Singaporean investors in 2009/10 was 9%, compared to 8% in 2008/09.

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- (11) *In value terms*, the total trading of all overseas investors increased by 20% in 2009/10. The trading value of Continental European investors recorded the largest increase, 85%. On the other hand, US investors were the only group with a decrease (by 19%) in trading value among overseas investors.

**Retail online trading**<sup>2</sup>

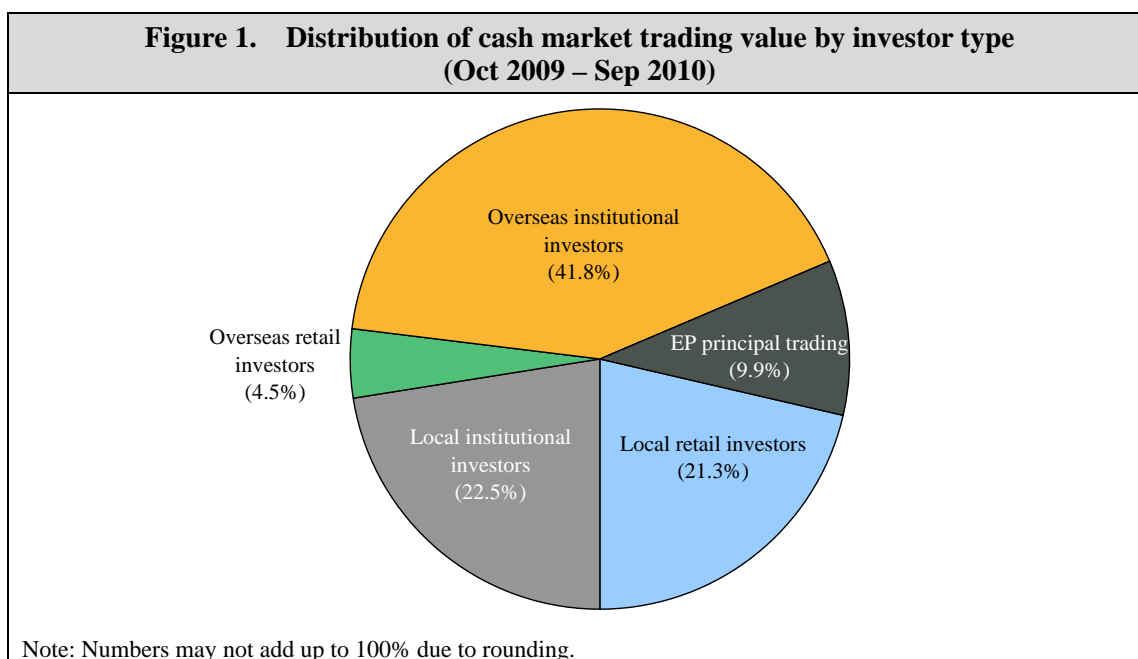
- (12) The proportion of retail online trading increased from 21% of total retail investor in 2008/09 to 27% in 2009/10. It accounted for 7% of total market turnover, compared to 6% in 2008/09.
- (13) *In value terms*, retail online trading increased by 19% in 2009/10, compared to the 9% increase in the total market turnover.
- (14) About 45% (or 185 EPs) of all responding EPs reported themselves as online brokers in 2009/10, up from 42% (or 173 EPs) in 2008/09. Retail online trading constituted 17% of the total turnover of online brokers in 2009/10, compared to 16% in 2008/09.

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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

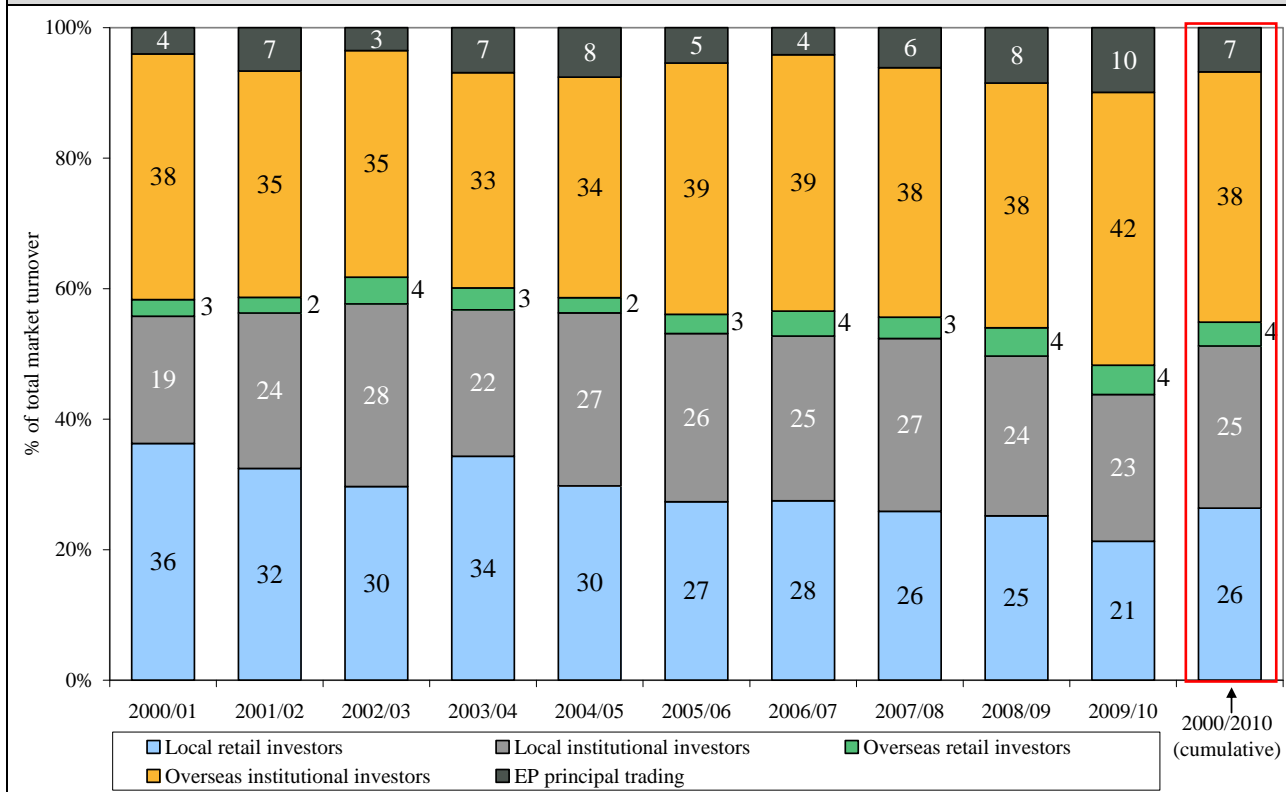
### 3.1 Distribution of market trading value by investor type



**Table 1. Breakdown of contribution by type of trade in cash market (2007/08 – 2009/10)**

Type of trade	2007/08	2008/09	2009/10
<b>All trading</b>			
Agency	93.88	91.51	<b>90.08</b>
Principal	6.12	8.49	<b>9.92</b>
	100.00	100.00	<b>100.00</b>
<b>Agency trading</b>			
Retail	31.02	32.26	<b>28.61</b>
Institutional	68.98	67.74	<b>71.39</b>
	100.00	100.00	<b>100.00</b>
<b>Agency trading</b>			
Local	55.81	54.27	<b>48.60</b>
Overseas	44.19	45.73	<b>51.40</b>
	100.00	100.00	<b>100.00</b>
<b>Retail investor trading</b>			
Local	88.88	85.36	<b>82.55</b>
Overseas	11.12	14.64	<b>17.45</b>
	100.00	100.00	<b>100.00</b>
<b>Institutional investor trading</b>			
Local	40.94	39.47	<b>35.00</b>
Overseas	59.06	60.53	<b>65.00</b>
	100.00	100.00	<b>100.00</b>
<b>Local investor trading</b>			
Retail	49.40	50.74	<b>48.59</b>
Institutional	50.60	49.26	<b>51.41</b>
	100.00	100.00	<b>100.00</b>
<b>Overseas investor trading</b>			
Retail	7.81	10.33	<b>9.72</b>
Institutional	92.19	89.67	<b>90.28</b>
	100.00	100.00	<b>100.00</b>

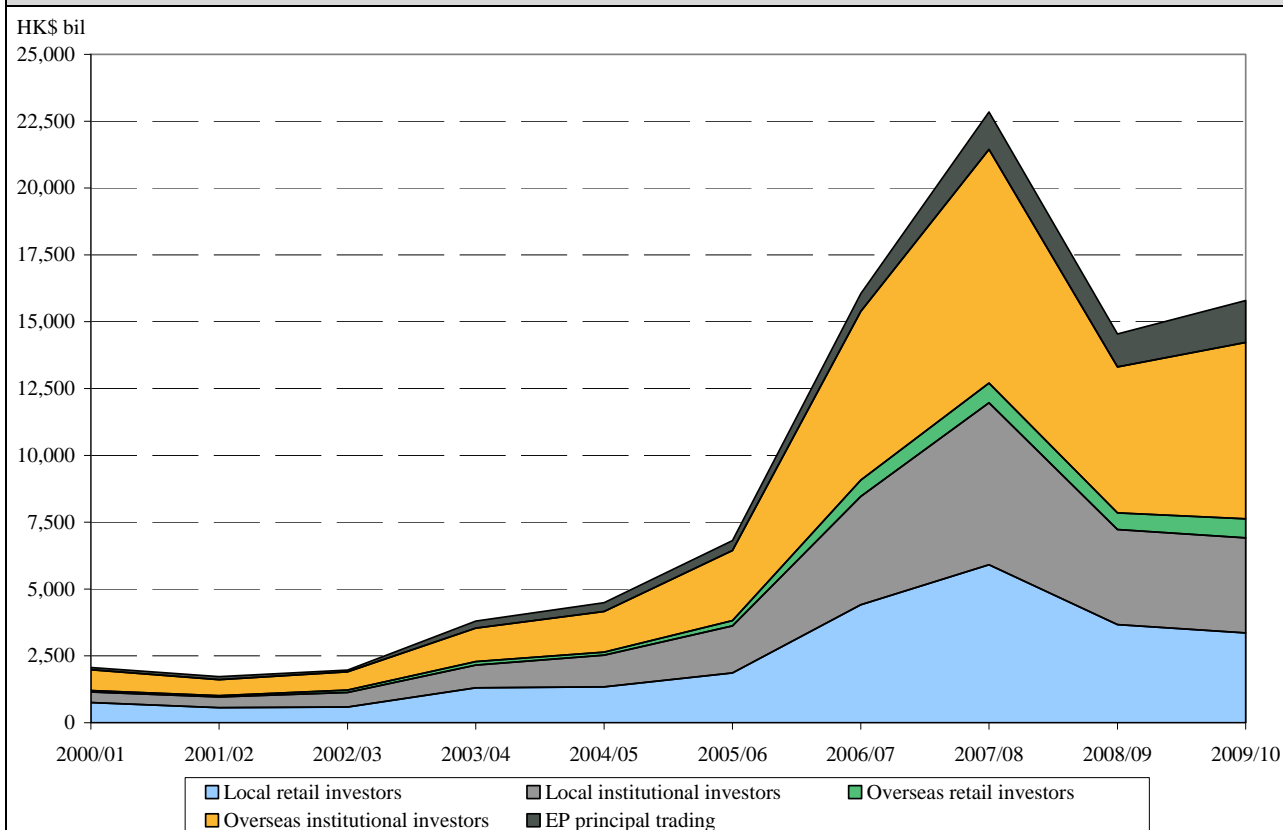
**Figure 2. Distribution of cash market trading value by investor type (2000/01 – 2009/10)**



Type of trade	Distribution of cash market trading by type of trade (%)										2000/2010 cumulative market turnover (%)
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	
EP principal trading	4.00	6.65	3.49	6.89	7.57	5.41	4.15	6.12	8.49	9.92	6.77
Overseas investor trading	40.23	37.08	38.84	36.34	36.14	41.47	43.10	41.49	41.84	46.30	42.02
Retail	2.58	2.39	4.10	3.36	2.34	2.96	3.81	3.24	4.32	4.50	3.66
Institutional	37.65	34.69	34.73	32.99	33.80	38.51	39.30	38.25	37.52	41.80	38.36
Local investor trading	55.77	56.27	57.67	56.77	56.30	53.12	52.75	52.39	49.66	43.78	51.21
Retail	36.27	32.46	29.69	34.29	29.78	27.34	27.50	25.88	25.20	21.27	26.36
Institutional	19.50	23.81	27.98	22.48	26.51	25.78	25.24	26.51	24.46	22.51	24.85

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

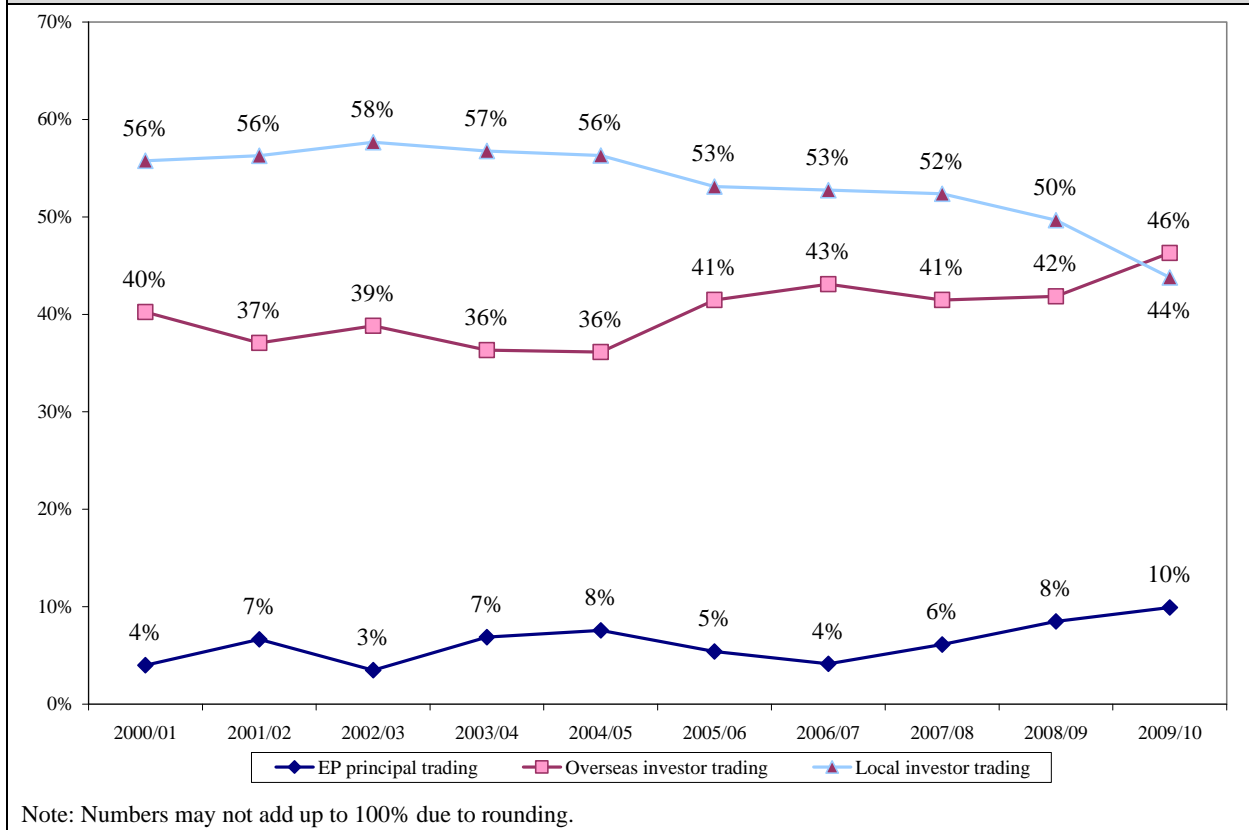
**Figure 3. Implied value of cash market trading by investor type  
(2000/01 – 2009/10)**



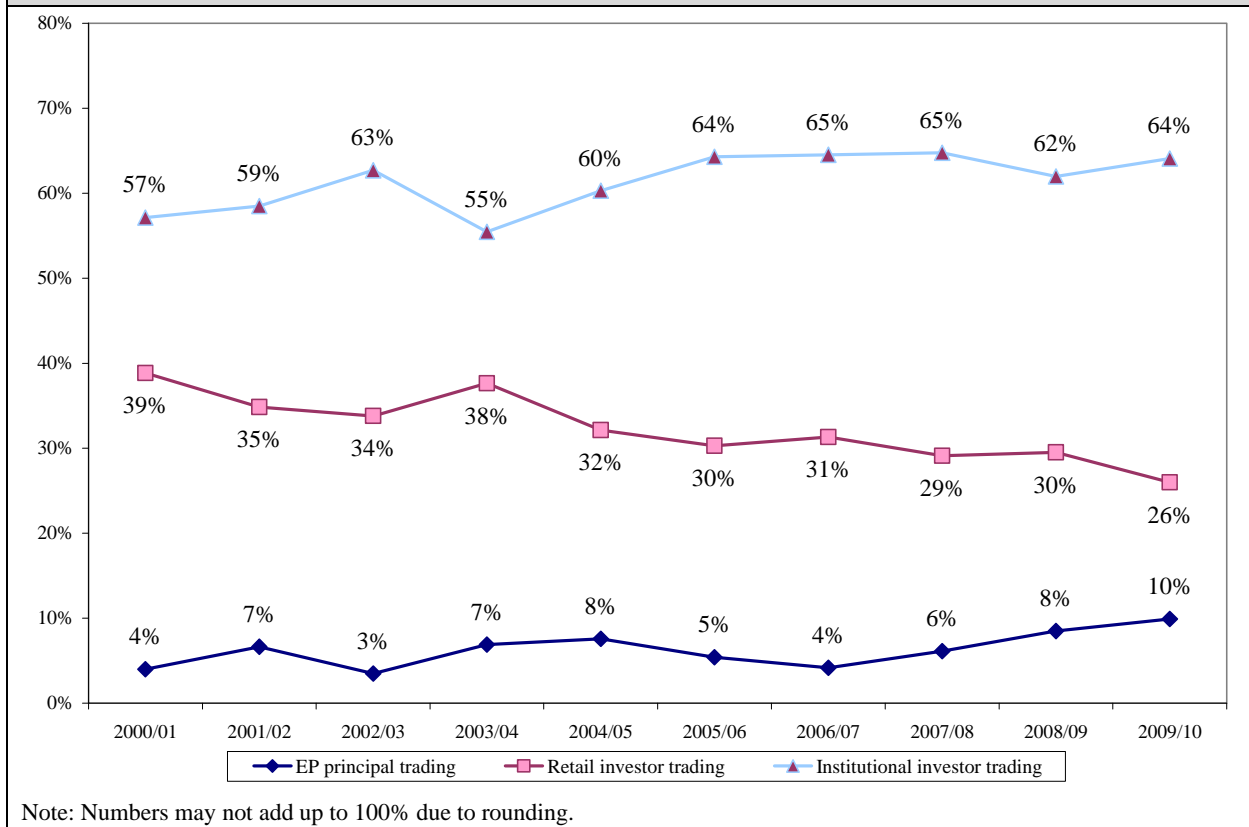
Type of trade	Year-on-year % change									
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
EP principal trading	-12.08	38.70	-39.93	280.48	29.88	8.23	80.90	110.00	-11.68	26.87
Overseas investor trading	-15.09	-23.04	19.75	80.54	17.57	73.87	144.94	36.98	-35.79	20.19
Retail	-22.66	-22.77	96.42	57.87	-17.53	91.51	202.90	21.08	-15.04	13.06
Institutional	-14.51	-23.06	14.47	83.21	21.14	72.65	140.48	38.52	-37.54	21.01
Local investor trading	-46.90	-15.73	17.16	89.91	17.25	42.96	134.03	41.35	-39.65	-4.25
Retail	-53.21	-25.26	4.55	122.84	2.70	39.06	137.13	33.93	-38.02	-8.30
Institutional	-29.15	1.98	34.35	54.97	39.45	47.35	130.74	49.44	-41.24	-0.07
Retail investor trading	-51.95	-25.09	10.85	114.95	0.89	42.88	143.56	32.36	-35.46	-5.17
Institutional investor trading	-20.14	-14.51	22.56	70.61	28.56	61.53	136.57	42.79	-39.06	12.69
<b>Total</b>	<b>-36.29</b>	<b>-16.49</b>	<b>14.33</b>	<b>92.92</b>	<b>18.24</b>	<b>51.50</b>	<b>135.68</b>	<b>42.31</b>	<b>-36.33</b>	<b>8.62</b>



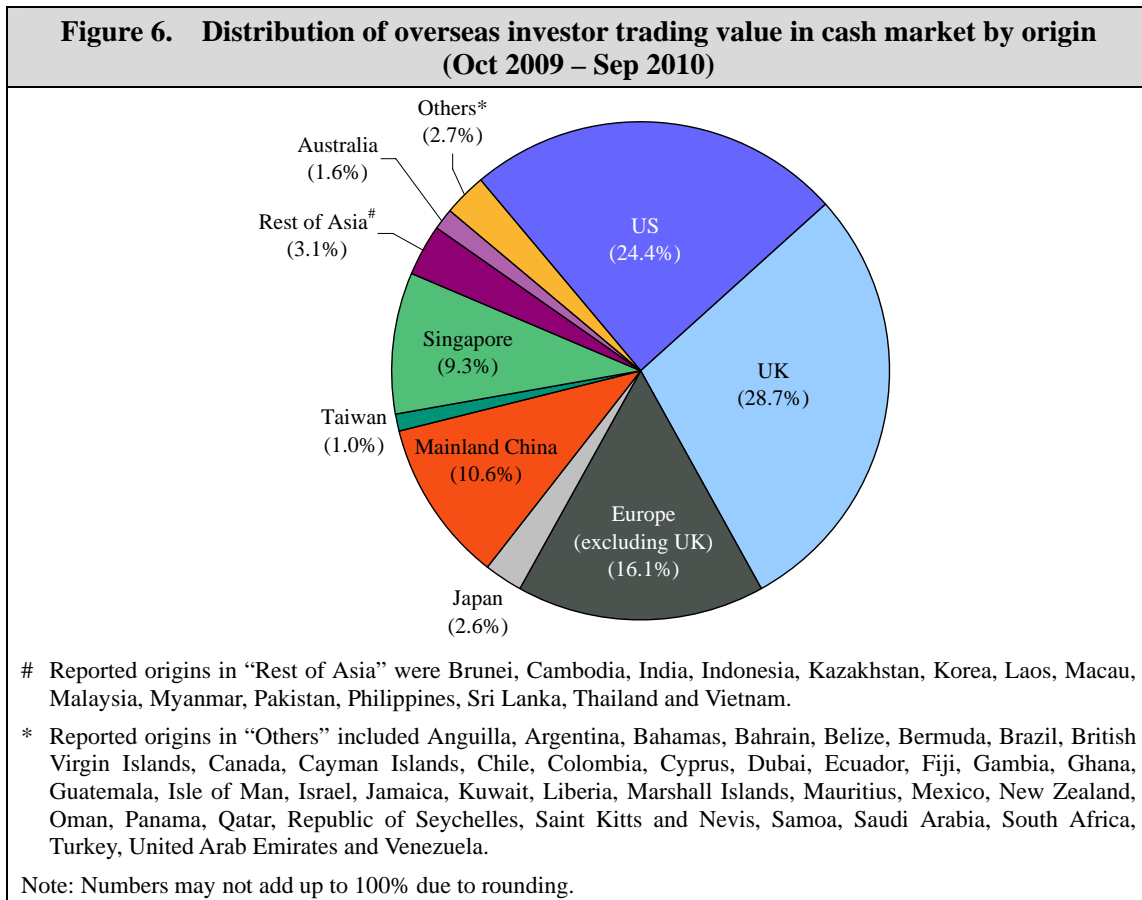
**Figure 4. Distribution of cash market trading value by investor type (local vs overseas) (2000/01 – 2009/10)**



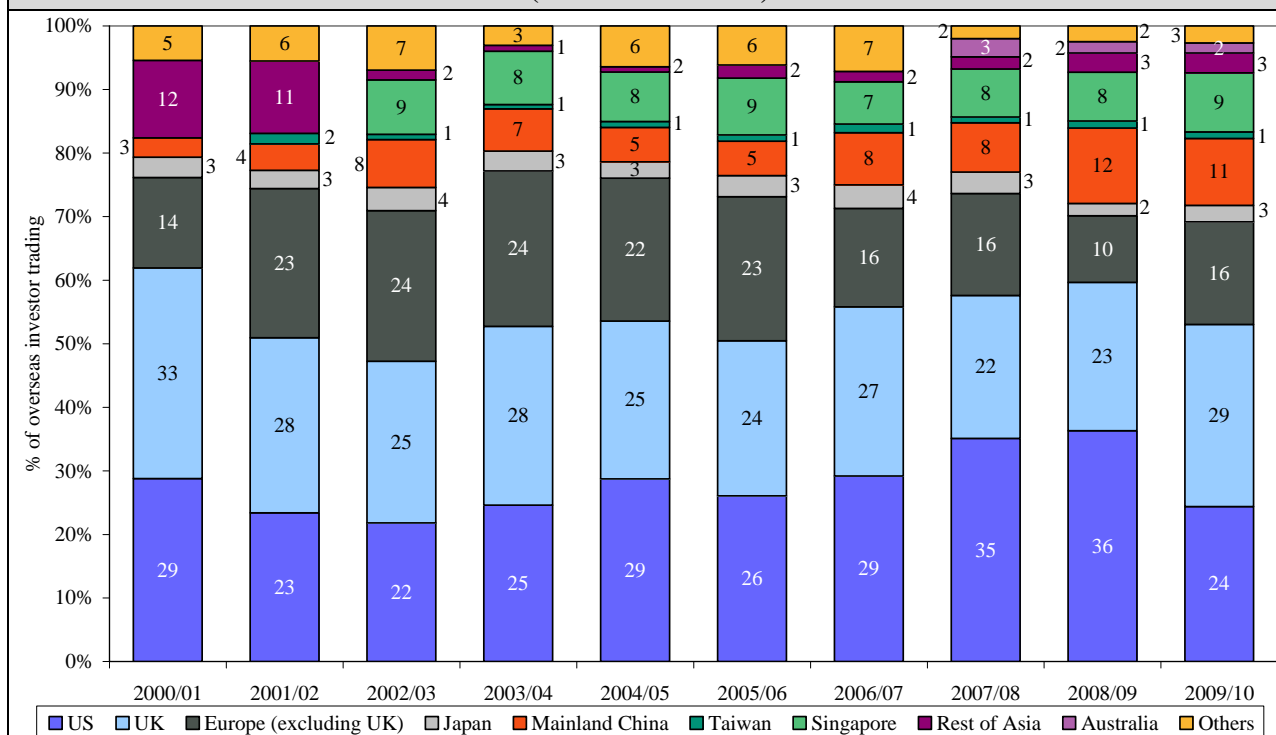
**Figure 5. Distribution of cash market trading value by investor type (retail vs institutional) (2000/01 – 2009/10)**



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



**Figure 7. Distribution of overseas investor trading in cash market by origin (2000/01 – 2009/10)**



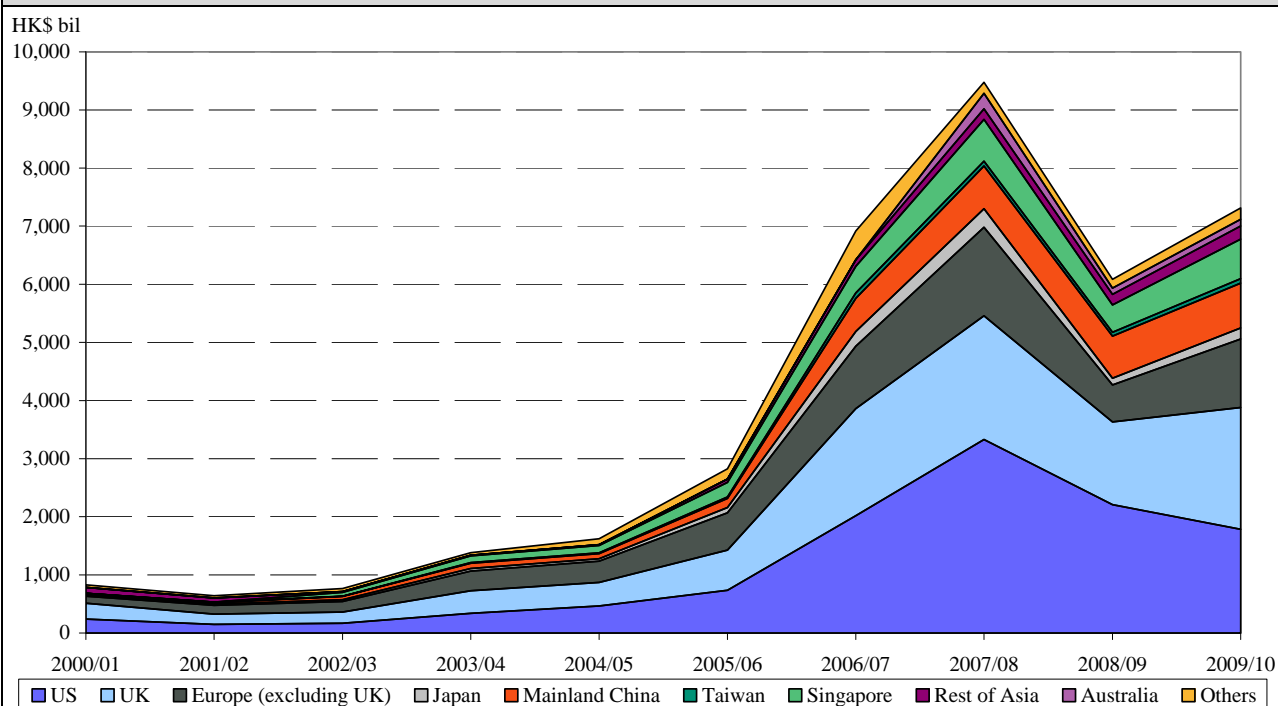
Overseas origin	Distribution of overseas investor trading by origin (%)									
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
US	28.80	23.42	21.81	24.61	28.75	26.08	29.19	35.13	36.31	24.37
Europe	47.36	51.00	49.13	52.57	47.31	47.03	42.12	38.51	33.84	44.81
UK	33.11	27.53	25.45	28.13	24.82	24.40	26.61	22.46	23.35	28.68
Europe (excluding UK)	14.24	23.47	23.68	24.44	22.50	22.64	15.51	16.05	10.49	16.13
Asia	18.44	20.07	22.11	19.77	17.53	20.73	21.52	21.52	25.58	26.56
Japan	3.20	2.88	3.66	3.13	2.56	3.33	3.69	3.39	1.92	2.58
Mainland China	3.06	4.13	7.50	6.65	5.41	5.44	8.22	7.75	11.86	10.55
Taiwan		1.68	0.83	0.66	0.92	0.96	1.36	0.89	1.11	1.03
Singapore			8.57	8.40	7.80	8.95	6.63	7.55	7.69	9.28
Rest of Asia	12.18	11.38	1.54	0.93	0.83	2.06	1.63	1.94	3.00	3.11
Australia								2.85	1.81	1.60
Others	5.40	5.51	6.95	3.05	6.40	6.15	7.17	1.99	2.46	2.66
<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 "Rest of Asia" in surveys prior to 2001/02. Singapore was included in "Rest of Asia" in surveys prior to 2002/03. Australia was included in "Others" in surveys prior to 2007/08.

(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 (2000/01 – 2009/10)**

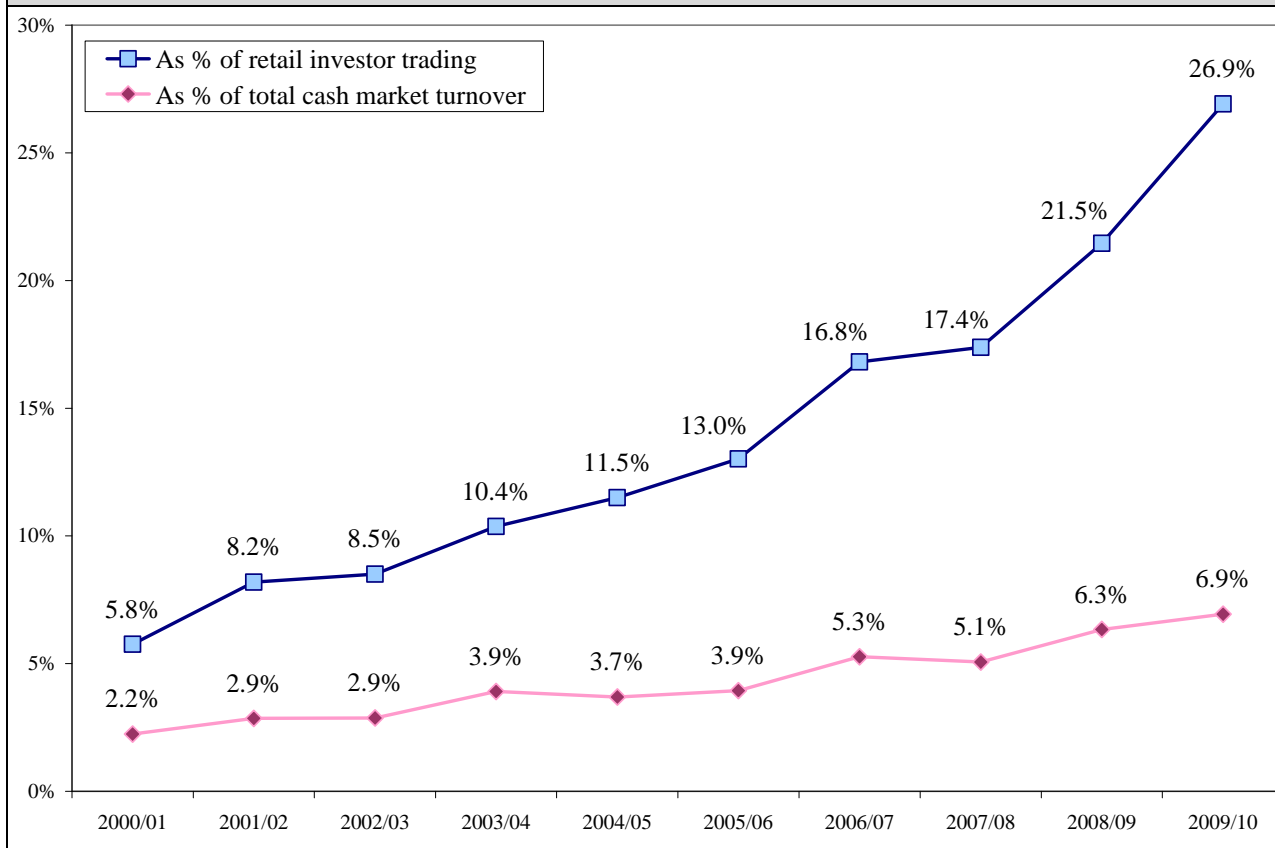


Overseas origin	Year-on-year % change									
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
US	5.77	-37.43	11.56	103.65	37.35	57.74	174.18	64.82	-33.62	-19.36
Europe	-14.91	-17.11	15.35	93.18	5.81	72.84	119.34	25.24	-43.58	59.19
UK	-14.32	-36.00	10.67	99.55	3.73	70.94	167.18	15.59	-33.25	47.65
Europe (excluding UK)	-16.25	26.82	20.83	86.34	8.21	74.94	67.79	41.80	-58.04	84.86
Asia	-24.40	-16.23	31.93	61.44	4.25	105.56	154.28	36.96	-23.67	24.78
Japan	-3.96	-30.59	52.19	54.08	-3.55	125.46	171.62	25.94	-63.67	61.76
Mainland China	52.68	3.70	117.55	60.14	-4.42	74.77	270.15	29.16	-1.67	6.89
Taiwan			-40.66	43.58	64.20	80.19	246.84	-9.74	-20.58	12.29
Singapore			76.82	9.26	99.33	81.53	55.86	-34.52	44.96	
Rest of Asia	-36.09	-28.09	-83.77	9.39	4.63	330.99	93.48	63.27	-0.93	24.78
Australia									-59.26	6.39
Others	-48.49	-21.54	50.98	-20.69	146.76	67.10	185.15	-61.96	-20.48	29.91
<b>Total</b>	<b>-15.09</b>	<b>-23.04</b>	<b>19.75</b>	<b>80.54</b>	<b>17.57</b>	<b>73.87</b>	<b>144.94</b>	<b>36.98</b>	<b>-35.79</b>	<b>20.19</b>

Notes: Taiwan was included in "Rest of Asia" in surveys prior to 2001/02. Singapore was included in "Rest of Asia" in surveys prior to 2002/03. Australia was included in "Others" in surveys prior to 2007/08, for which year-on-year percentage change in implied value of investor trading was not available.

### 3.3 Retail online trading

**Figure 9. Percentage share of retail online trading value in cash market (2000/01 – 2009/10)**



**Table 2. Statistics on retail online trading in cash market (2005/06 – 2009/10)**

	2005/06	2006/07	2007/08	2008/09	2009/10
Responded sample size	351	380	404	410	409
<b>Online brokers<sup>(1)</sup></b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
Number of online brokers	105	126	155	173	185
- As % of all responding EPs	29.91%	33.16%	38.37%	42.20%	45.23%
<b>Online trading</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
Total implied trading value (HK\$m)	268,566	845,014	1,156,321	921,416	1,095,691
- As % of total market turnover	3.94%	5.26%	5.06%	6.34%	6.94%
- As % of all agency (investor) trading	4.17%	5.49%	5.39%	6.92%	7.70%
- As % of total retail investor trading	13.01%	16.81%	17.38%	21.46%	26.91%
- As % of total turnover of online brokers	14.73%	16.27%	15.39%	16.48%	17.12%

Notes:

(1) "Online brokers" refers to EPs offering online trading service to retail clients since the 2004/05 survey but refers to EPs recording retail online trading in the previous surveys.

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# GLOSSARY

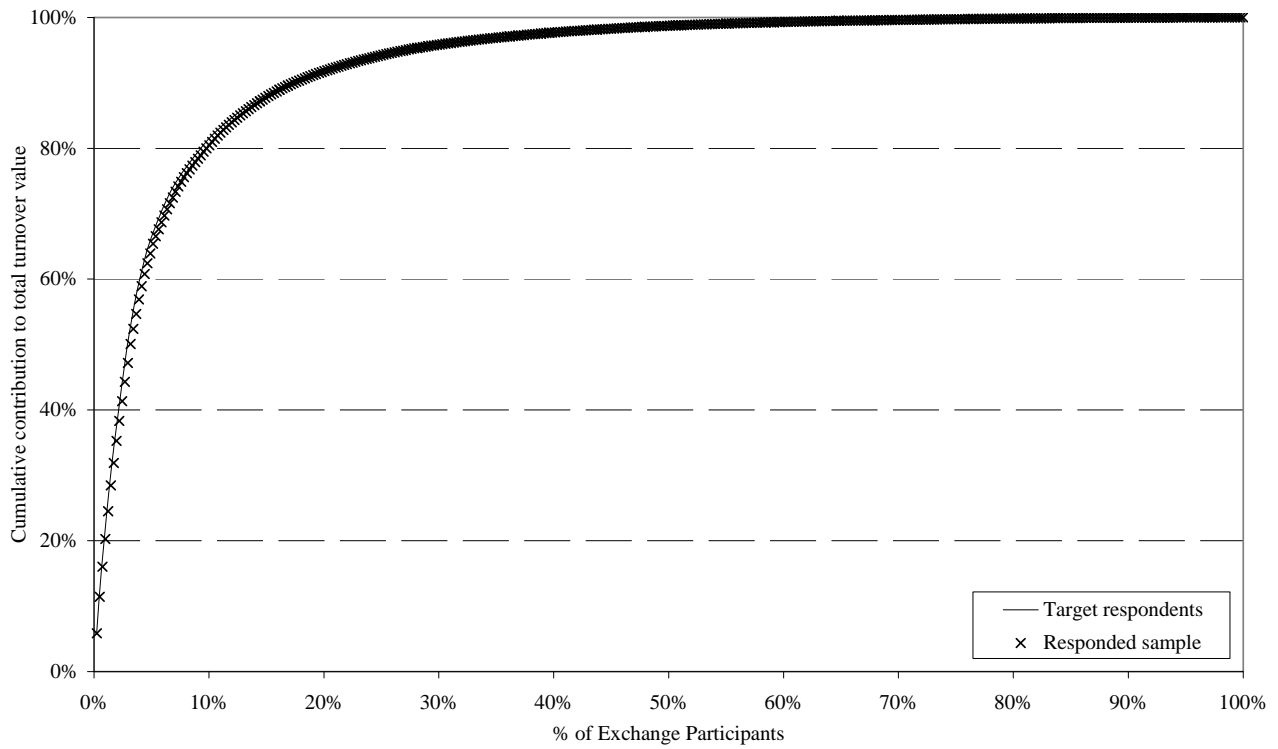
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<b>Agency trading</b>	Trading on behalf of the participant firm's clients, including client trading channelled from the firm's parent or sister companies.
<b>Implied value of trading</b>	<p>The implied value of trading for a particular type of trade is calculated 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.</p> <p>The implied value of trading from a particular overseas origin is calculated by first calculating the implied overseas agency trading value during the study period, and then multiplying it by the percentage contribution to overseas agency trading by that origin as obtained from the survey.</p>
<b>Individual/retail investors</b>	Investors who trade on their personal account.
<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, with Hong Kong as the source of funds.
<b>Online brokers</b>	Stock Exchange Participants who offer online trading service to individual/retail investors.
<b>Overseas investors</b>	Individual/retail investors residing outside Hong Kong or institutional investors operating outside Hong Kong, with the source of funds overseas.
<b>Principal trading</b>	Trading on the participant firm's own account.
<b>Retail online trading</b>	Trading originating from orders entered directly by individual/retail investors and channelled to the brokers via electronic media (e.g. the Internet).

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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 (EPs) of the cash market who became trading participants prior to the end of March 2010 (i.e. who had been in business for over 6 full months during the study period) and remained so before the fieldwork of the survey began. It excluded EPs whose trading was suspended from July 2010 to September 2010 or ceased on or before September 2010 or who traded for less than 6 months during the study period. This is to avoid distortion of the results by participants who were not in the normal course of business.

All EPs are corporations.

### (2) Methodology

The study period is from October 2009 to September 2010.

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 was annualised for the ranking. The actual turnover of the EPs was used in analysing the results. Ranking of EPs by turnover was for the purpose of monitoring the responses and follow-up in the fieldwork as well as generating response rates by turnover size groups as weighting factors in the subsequent analysis.

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. 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 asked to provide their consolidated trading composition including trading channeled through their affiliate or sister companies as far as possible, if applicable. Those who were known to have such situation but who refused to provide details were treated as cases with missing value for which a mean substitution method<sup>3</sup> was adopted.

Each responding EP's answers in percentage terms were weighted by the respondent's total turnover value in the overall market 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 total turnover by that type of trade as obtained from the survey by the actual total turnover in the overall market during the study period for that year of survey.

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<sup>3</sup> The average values obtained from other EPs in the same size group were applied to the missing cases. For this purpose, EPs in the target population were divided into three size groups with equal aggregate contributions to total turnover value of the target population — 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).



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### (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 originating from their associated banks and would treat the banks as their local institutional clients. This would also affect the result of retail online trading since part of the retail investor trading channelled through banks would be online.

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 the types of investor trading which had relatively low contribution to market turnover.

The random sampling method used in the previous surveys in 2001/02 and 2002/03<sup>4</sup> would also have consequences similar to those stated in the above paragraph. Therefore, for the types of investor trading with very small contributions, the relative changes in their contributions and in absolute value terms over the years should be interpreted with caution.

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<sup>4</sup> 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.