

DERIVATIVES MARKET TRANSACTION SURVEY 2000/01

(Amended on 16 December 2003)



Hong Kong Exchanges and Clearing Limited

Research & Planning

CONTENTS

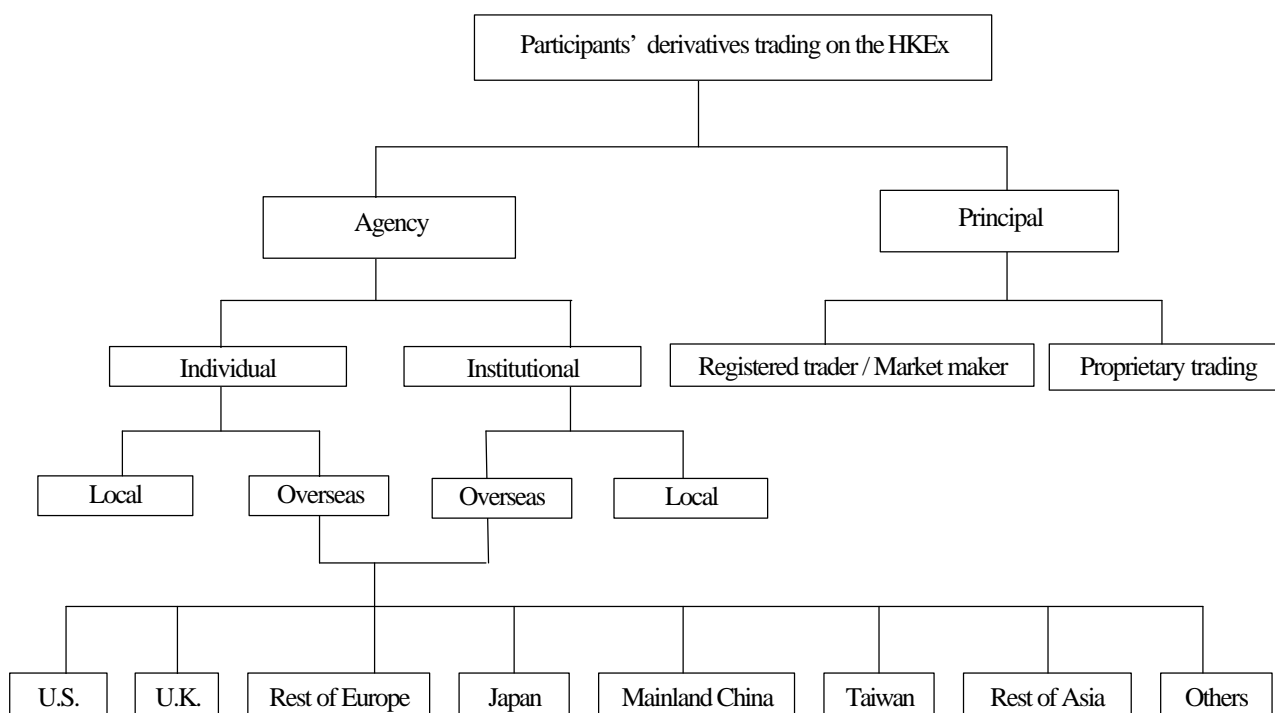
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1. INTRODUCTION

The Derivatives Market Transaction Survey 2000/01, conducted by Hong Kong Exchanges and Clearing Limited (HKEx), is the continuation of the annual Exchange Participants Transaction Survey conducted by Hong Kong Futures Exchange (HKFE) between 1994 and 2000. The purpose of the survey is to track the trading distribution by investor type and by trading purpose in the derivatives market HKEx operates.

The key information obtained from the survey is the relative contribution to overall market turnover of different types of investors — local and overseas, retail and institutional (*see classification chart below*), and their contribution by each major product. The trends are then monitored by comparing the findings¹ with those of the past surveys.

Classification of Exchange Participants' derivatives trading on the HKEx



Stock options, the product of the Stock Exchange of Hong Kong (now a wholly-owned subsidiary of the HKEx), are included for the first time in this survey. This would provide a more complete picture of the trading composition of the HKEx derivatives market since stock options constitute a significant proportion of the total contract volume of HKEx derivatives (*see Figure 1*). Those derivative products traded on HKFE with negligible contribution in terms of contract volume (less than 0.5% in aggregate) were excluded in this survey. As a result, the products covered in this survey are HSI futures, HSI options, mini-HSI futures, HIBOR futures and stock options.

¹ Certain figures previously published in the 2000/01 survey report have been revised in this amended version to correct a data analysis error in the report. The 2000/01 and 2001/02 reports are accordingly reissued in summary form with the revised data.

The transactions of the Futures and Stock Options Exchange Participants (EPs) from July 2000 to June 2001 (referred to as the year 2000/01 throughout the report) are covered in the survey. Questionnaires were mailed to all participants in the target population.² The respondents were asked to give the percentage breakdown of their contract volume during the study period by the given types of trading. Out of the 155 questionnaires sent out, 142 duly completed questionnaires were received, representing an overall response rate of 92%. The responded sample represented 90% in total contract volume of the target population (*see Appendix 1*).

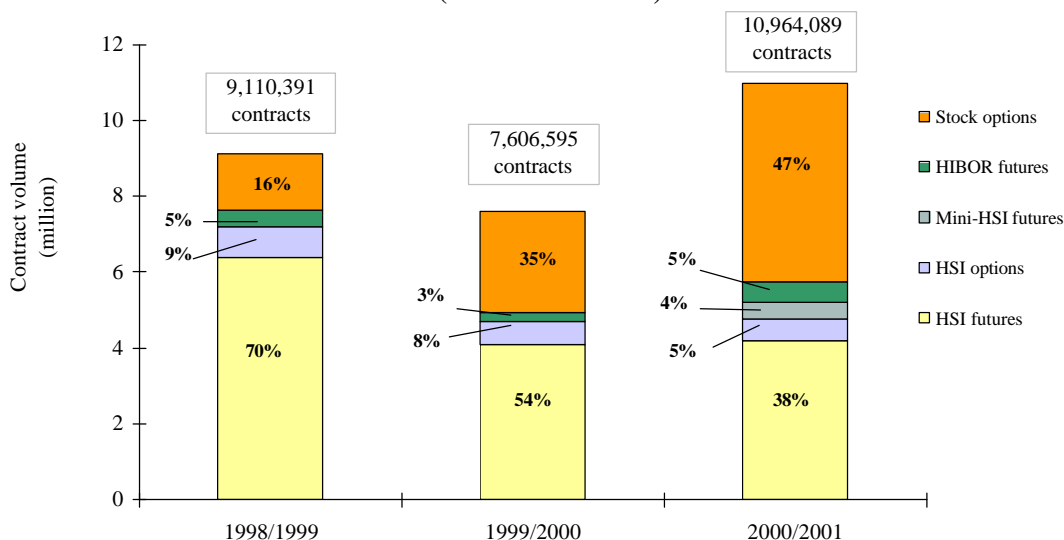
2. KEY FINDINGS

- Pure trading remained the major purpose of transactions among HKFE's products (i.e. futures and options other than stock options). The proportion of HKFE transactions for pure trading was 76%. For all HKEx futures and options transactions, the proportion of pure trading and hedging was 88%. (*Figure 2 & Table 1*)
- Overall, retail investors contributed 30% and institutional investors contributed 25% of total transactions. (*Figure 3 & Table 2*)
- Local retail investors continued to be the major contributor to the transactions of HSI futures and mini-HSI futures, contributing 56% and 88% of the respective totals. (*Figure 4 & Table 2*)
- Overall, overseas agency trading contributed 14% of total transaction volume. But the contribution was much higher for HKFE futures and options (23%) than for stock options (5%). (*Figure 4 & Table 2*)
- Overseas agency trading came mainly from institutional investors for all the products except mini-HSI futures, for which the overseas contribution was very small. (*Figure 4 & Table 2*)
- In contrast with the dominance of agency trading for HKFE products (over 90%), principal trading contributed 83% of stock options transactions. (*Table 3*)
- For overseas agency trading by origin, the UK contributed the largest portion at 39%, followed by the US (25%). (*Figure 5*)

² The target population consists of all the trading participants after screening out those that ceased their operations during the study period.

3. FIGURES AND TABLES

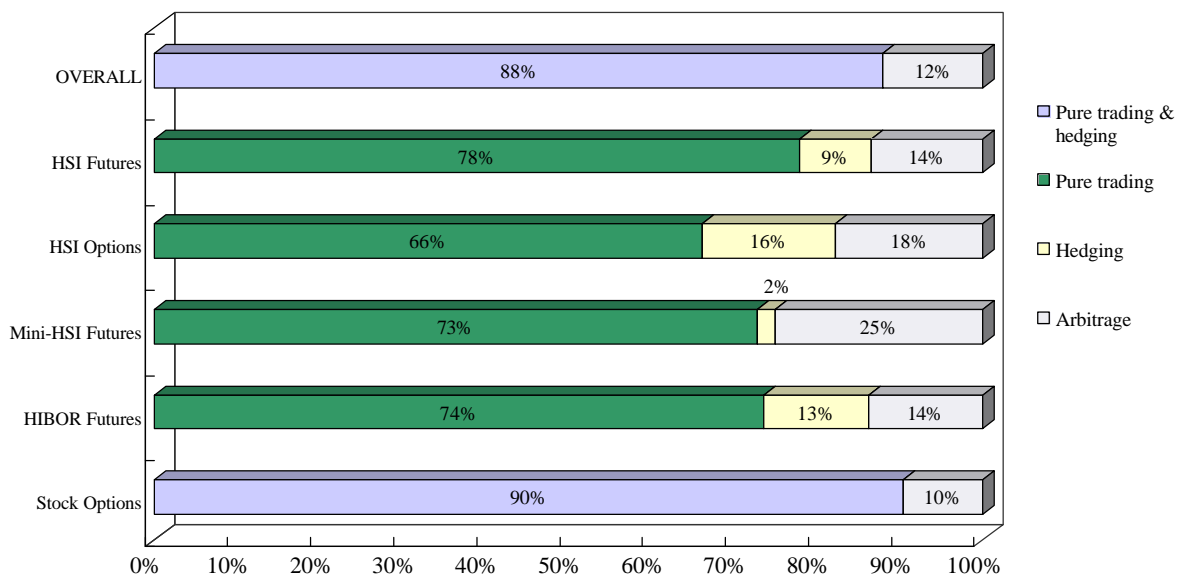
Figure 1. Contract volume and percentage share by product (1998/99 - 2000/01)



Note :

- (1) HKFE products not covered in this survey are excluded.
- (2) Mini-HSI futures were introduced in October 2000.
- (3) Numbers may not add up to 100% due to rounding.

Figure 2. Transaction purposes for each product (Jul 2000 - Jun 2001)



Note:

- (1) Mini-HSI futures were introduced in October 2000.
- (2) Since a major Stock Options Exchange Participant was unable to provide the breakdown by pure trading and hedging, an aggregate figure is presented for "Stock Options" and "Overall".
- (3) Figures for the overall market have been revised.
- (4) Numbers may not add up to 100% due to rounding.

Table 1. Transaction purposes for each product (1999 - 2001)

Product	Purpose	1998/1999	1999/2000	2000/2001 [#]
HSI Futures	Pure trading	74.0	78.0	77.9
	Hedging	17.5	15.4	8.5
	Arbitrage	8.5	6.6	13.5
	Total	100.0	100.0	100.0
HSI Options	Pure trading	57.1	54.7	66.1
	Hedging	19.7	28.4	16.1
	Arbitrage	23.2	16.8	17.8
	Total	100.0	100.0	100.0
Mini-HSI Futures	Pure trading	n.a.	n.a.	72.8
	Hedging	n.a.	n.a.	2.1
	Arbitrage	n.a.	n.a.	25.1
	Total	n.a.	n.a.	100.0
HIBOR Futures	Pure trading	69.4	72.3	73.6
	Hedging	2.9	3.9	12.6
	Arbitrage	27.7	23.7	13.8
	Total	100.0	100.0	100.0
Total HKFE futures & options	Pure trading	72.0	75.0	75.8
	Hedging	18.3	17.4	9.2
	Arbitrage	9.7	7.7	15.0
	Total	100.0	100.0	100.0
Stock Options	Pure trading & hedging*	-	-	90.4
	Arbitrage	-	-	9.6
	Total	-	-	100
Overall total (incl. stock options)	Pure trading & hedging*	n.a.	n.a.	87.6
	Arbitrage	n.a.	n.a.	12.4
	Total	n.a.	n.a.	100.0

n.a.: Not applicable

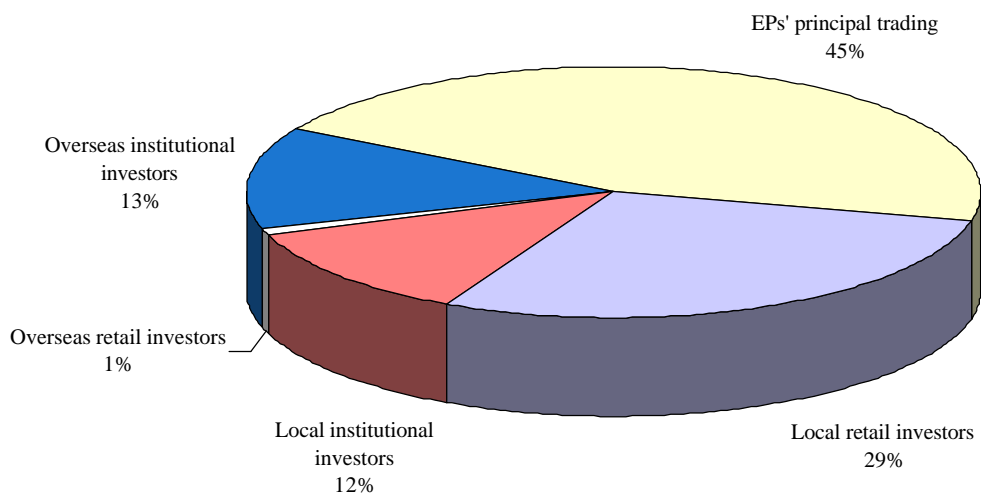
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* Since a major Stock Options Exchange Participant was unable to provide the breakdown by pure trading and hedging, an aggregate figure is presented. When that Participant is excluded, percentage shares of pure trading, hedging and arbitrage for stock options are 45%, 34% and 21% respectively; and for overall total are 70%, 14% and 16% respectively.

Figures for the overall market have been revised.

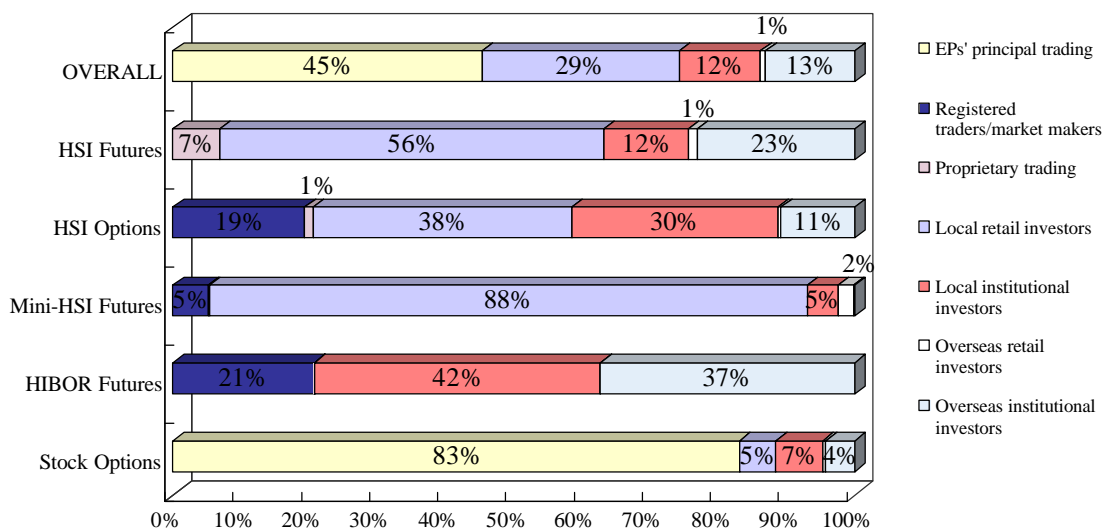
Note: Numbers may not add up to 100% due to rounding.

**Figure 3. Distribution of trading by type of investors (%)
(Jul 2000 - Jun 2001)**



Note: (1) Figures have been revised.
(2) Number may not add up to 100% due to rounding.

**Figure 4. Distribution of trading by type of investors (%)
(Jul 2000 - Jun 2001)**



Note:
(1) Principal trading comprises trading of registered traders/market makers and proprietary trading.
(2) Since a major Stock Options Exchange Participant was unable to provide the distribution of trading by market making and proprietary trading, an aggregate figure of principal trading is provided for "Stock Options" and "Overall".
(3) Figures for the overall market have been revised.
(4) Numbers may not add up to 100% due to rounding.

Table 2. Distribution of trading by type of investor (%) (1999 - 2001)

Product	Type of investors	1998/1999	1999/2000	2000/2001**
HSI Futures	Registered traders	n.a.	n.a.	n.a.
	Proprietary trading	5.9	6.0	6.8
	Local investors	66.2	70.1	68.8
	Retail	47.1	46.6	56.4
	Institutional	19.1	23.5	12.4
	Overseas investors	27.9	24.0	24.4
	Retail	1.6	1.4	1.3
	Institutional	26.3	22.5	23.1
	Total		100.0	100.0
HSI Options	Registered traders	10.7	28.9	19.3
	Proprietary trading	9.8	1.4	1.3
	Local investors	48.6	38.0	68.2
	Retail	21.5	21.8	38.0
	Institutional	27.1	16.1	30.2
	Overseas investors	30.9	31.7	11.2
	Retail	0.5	0.7	0.5
	Institutional	30.4	31.1	10.8
	Total		100.0	100.0
Mini-HSI Futures#	Registered traders	n.a.	n.a.	n.a.
	Proprietary trading	n.a.	n.a.	5.4
	Local investors	n.a.	n.a.	92.2
	Retail	n.a.	n.a.	87.6
	Institutional	n.a.	n.a.	4.5
	Overseas investors	n.a.	n.a.	2.4
	Retail	n.a.	n.a.	2.2
	Institutional	n.a.	n.a.	0.2
	Total			100.0
HIBOR Futures	Registered traders	24.7	30.9	20.7
	Proprietary trading	0.3	0.0	0.1
	Local investors	35.9	29.9	42.0
	Retail	0.2	0.1	0.0
	Institutional	35.6	29.8	41.9
	Overseas investors	39.1	39.2	37.3
	Retail	0.0	0.0	0.0
	Institutional	39.1	39.2	37.3
	Total		100.0	100.0
Total HKFE futures & options	Registered traders	2.5	5.0	4.2
	Proprietary trading	6.0	5.1	5.4
	Local investors	62.6	64.2	67.8
	Retail	41.7	41.3	51.1
	Institutional	20.9	23.0	16.7
	Overseas investors	28.9	25.7	22.5
	Retail	1.4	1.3	1.2
	Institutional	27.4	24.4	21.4
	Total		100.0	100.0
Stock Options	Principal trading*	-	-	83.1
	Local investors	-	-	12.2
	Retail	-	-	5.3
	Institutional	-	-	6.8
	Overseas investors	-	-	4.7
	Retail investors	-	-	0.5
	Institutional investors	-	-	4.2
	Total			100.0
Overall Total (incl. stock options)	Principal trading*	n.a.	n.a.	45.4
	Local investors	n.a.	n.a.	40.8
	Retail investors	n.a.	n.a.	28.9
	Institutional investors	n.a.	n.a.	11.9
	Overseas investors	n.a.	n.a.	13.8
	Retail investors	n.a.	n.a.	0.8
	Institutional investors	n.a.	n.a.	13.0
	Total			100.0

n.a.: Not applicable '-': Data not available

* Principal trading comprises trading of registered traders/market makers and proprietary trading. Since a major Stock Options Exchange Participants was unable to provide the distribution of trading by market making and proprietary trading, an aggregate figure of principal trading is presented.

** Figures for the overall market have been revised.

Figures originally included in the 2000/01 and 2001/02 reports have been adjusted. In these two surveys, a certain proportion of transactions in mini-HSI futures were reported erroneously by survey respondents as transactions by "registered traders" and classified as such in the original survey reports. In the present report, those transactions have been correctly classified as "proprietary trading".

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

Table 3. Business composition of Exchange Participants by type of trade (%)

	1998/1999*	1999/2000*	2000/2001**	2000/2001				
				HSI Futures	HSI Options	Mini-HSI Futures	HIBOR Futures	Stock Options
<i>All Trading</i>								
Principal[#]	8.5	10.1	45.4	6.8	20.6	5.4	20.8	83.1
Agency	91.5	89.9	54.6	93.2	79.4	94.6	79.2	16.9
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Agency Trading</i>								
Local	68.5	71.4	74.7	73.8	85.9	97.4	52.9	72.3
Overseas	31.5	28.6	25.3	26.2	14.1	2.6	47.1	27.7
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Agency Trading</i>								
Retail	47.2	47.3	54.3	61.9	48.4	95.0	0.1	34.4
Institutional	52.8	52.7	45.7	38.1	51.6	5.0	99.9	65.6
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Retail Investor Trading</i>								
Local	96.7	97.0	97.2	97.7	98.8	97.6	100.0	92.0
Overseas	3.3	3.0	2.8	2.3	1.2	2.4	0.0	8.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Institutional Investor Trading</i>								
Local	43.2	48.5	47.8	34.9	73.8	95.1	52.9	61.9
Overseas	56.8	51.5	52.2	65.1	26.2	4.9	47.1	38.1
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Local Investor Trading</i>								
Retail	66.6	64.2	70.8	82.0	55.7	95.1	0.1	43.8
Institutional	33.4	35.8	29.2	18.0	44.3	4.9	99.9	56.2
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Overseas Investor Trading</i>								
Retail	5.0	5.0	5.9	5.3	4.2	90.3	0.0	9.9
Institutional	95.0	95.0	94.1	94.7	95.8	9.7	100.0	90.1
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

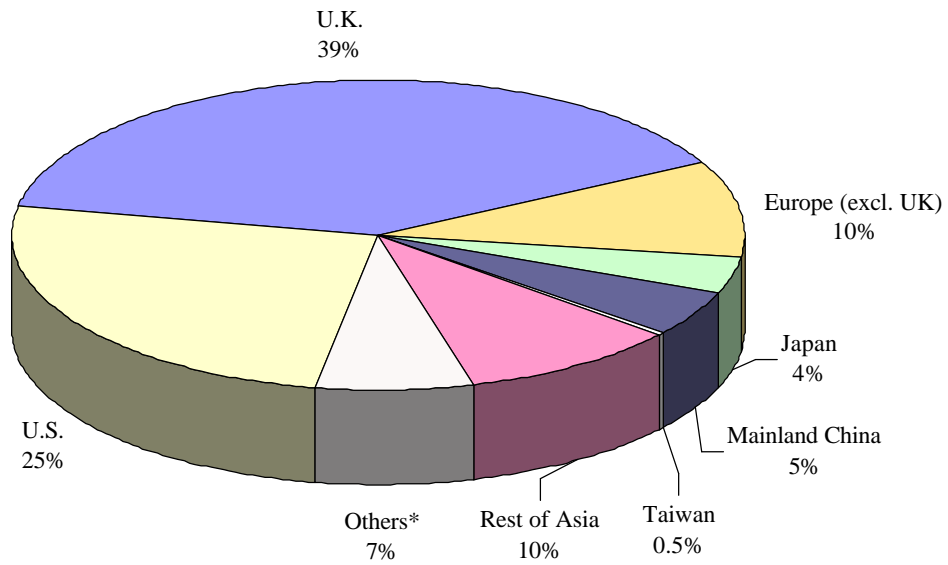
* Excluding stock options.

** Figures for the overall market have been revised.

Comprising registered traders' trading (for HKFE futures and options) or market making (for stock options) and proprietary trading.

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

**Figure 5. Distribution of overseas agency trading by origin
(Jul 2000 - Jun 2001)**



* Other origins include Australia, Bahamas, Belgium, Bermuda, British Virgin Islands, Canada and Cayman Islands.

Note: (1) Figures have been revised.

(2) Number may not add up to 100% due to rounding.

GLOSSARY

Hedging

Utilisation of futures/options to reduce or eliminate the market risk of a portfolio by compensating for the effect of price fluctuations of an underlying asset.

Pure trading

Trading for potential profit in anticipation of a price movement in either the short or long term, but not for hedging or arbitrage purpose.

Arbitrage

Trading to take riskless or near riskless profit from price differentials in related markets.

Principal trading

Trading on the participant firm's own account, whether as a market maker or not.

Agency trading

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

Principal trading in registered trader's account/as market maker

Trading on the participant firm's own account as a market maker.

Principal trading in proprietary account

Trading on the participant firm's own account but not as a market maker.

Retail clients

Clients who trade on their personal accounts.

Institutional clients

Clients who are not retail clients.

Local clients

Retail clients residing in Hong Kong or institutional clients operating in Hong Kong.

Overseas clients

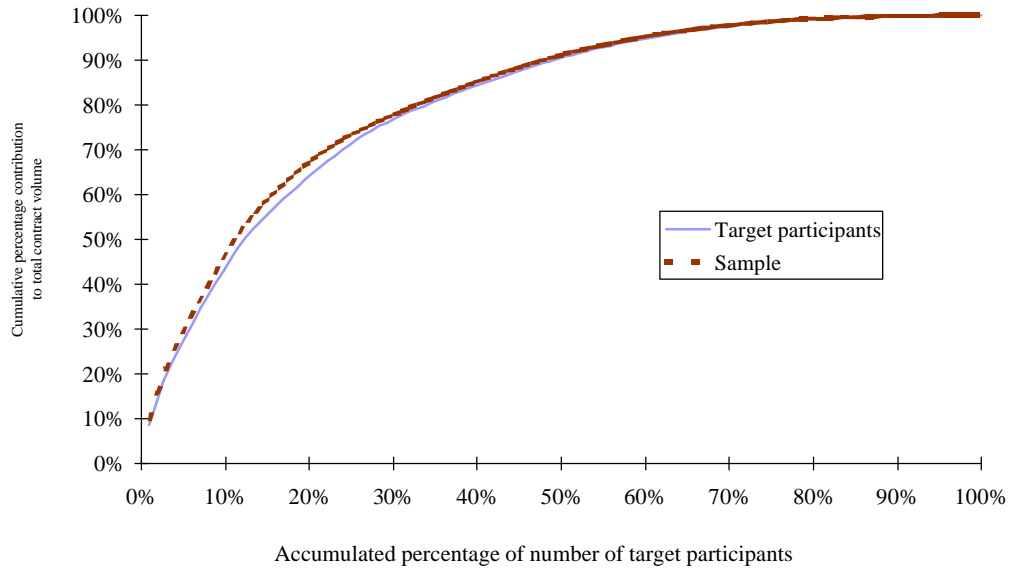
Retail clients residing outside Hong Kong or institutional clients operating outside Hong Kong.

APPENDIX 1. RESPONSE RATE

Exchange Participants	Target population	Responded participants	Response rate	% share of turnover in target population
Futures & Options	113	105	92.92%	88.60%
Stock Options	42	37	88.10%	92.83%
All Exchange Participants	155	142	91.61%	89.91%

APPENDIX 2. REPRESENTATIVENESS OF SAMPLE RELATIVE TO TARGET PARTICIPANTS

(a) Futures Exchange Participants (Jul 2000 - Jun 2001)



(b) Stock Options Exchange Participants (Jul 2000-Jun 2001)

