

The Journey of Building a Quality Market

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Agenda

- ❖ Guiding Principle of HKEx's Strategies
- ❖ Accomplishments of HKEx and its Markets in 2009
- ❖ Our Position after Implementing Two Strategic Plans
- ❖ Ongoing Business and Concluding Remarks
- ❖ Q & A

HKEx Believes that Success of a Securities Market Relies on Supreme Market Quality



Achieved Through

- ❖ Adoption of international standards and best practices in accounting, corporate governance, asset valuation, management discipline, etc.
- ❖ Transparent disclosure and information dissemination regime
- ❖ Efficient market operation
- ❖ Robust risk management system
- ❖ Reliable IT infrastructure
- ❖ Wide range of product and service offerings
- ❖ Reduction of transaction costs in the long run

HKEx Strategic Plans for 2004-06 and 2007-09



Significant progress made; higher level of performance sought

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New Records in 2009

Securities Market

| | 2009 | Pre-2009 Record |
|---|--------------------------------|----------------------|
| Equity funds raised | \$630.7 bil[^] | \$590.8 bil (2007) |
| - Post IPO funds raised | \$386.9 bil[^] | \$361.3 bil (2008) |
| - Most funds raised by a rights issue (HSBC) | \$141.7 bil | \$21.2 bil (2008) |
| Number of trades | 177.6 mil | 151.6 mil (2007) |
| CBBC turnover | \$1,676.1 bil | \$1,039.6 bil (2008) |
| ETF turnover * | \$499.7 bil | \$441.1 bil (2008) |
| Number of newly listed structured products (Derivative Warrants and CBBCs) | 12,302 | 9,053 (2008) |
| - Number of newly listed CBBCs | 8,072 | 4,231 (2008) |

[^] Provisional figure up to 31 December 2009

* Transactions in foreign currency are excluded

New Records in 2009

Derivatives Market

| | Volume (Contracts) | |
|-------------------------------------|------------------------------|-----------------------|
| | 2009 | Pre-2009 Record |
| <u>Trading Turnover</u> | | |
| Mini-Hang Seng Index Futures | 9,279,877 | 7,961,028 (2008) |
| H-shares Index Options | 1,961,131 | 1,727,847 (2007) |
| Mini-Hang Seng Index Options | 286,591 | 156,957 (2008) |
| <u>Open Interest</u> | | |
| Mini-Hang Seng Index Futures | 11,148 (29 Jul 2009) | 10,673 (29 Oct 2008) |
| H-shares Index Options | 344,647 (29 Dec 2009) | 268,769 (25 Sep 2007) |
| Mini-Hang Seng Index Options | 9,893 (26 Jun 2009) | 6,021 (28 Oct 2008) |

Major Achievements in 2009

Primary Market Development

- ❖ Implemented Phase 1 of post-vetting regime, including rollout of written guidance materials, issuers' seminars and market outreach (Jan)
- ❖ Announced possible waiver of profit test requirement for initial listing applicants on the Main Board (Jun)
- ❖ Published consultation conclusions and rule changes on self constructed fixed assets (Jul)
- ❖ Consulted market on accepting Mainland accounting and auditing standards and Mainland audit firms for Mainland incorporated companies listed in Hong Kong (Aug)
- ❖ Expanded the list of acceptable overseas jurisdictions and published related guidance materials (Sep)
- ❖ Reviewed and consulted market on Listing Rules for mineral and exploration companies (Sep)
- ❖ Consulted market on proposed changes to requirements for circulars and listing documents (Sep)

Major Achievements in 2009

Primary Market Development

- ❖ Published consultation conclusions on general mandate (Oct)
- ❖ Consulted market on proposed rule changes on connected transactions (Oct)
- ❖ Streamlined listing process by changing rules on filing and checklist requirements for listing equity securities (Nov)
- ❖ Considered periodic financial reporting (Nov)
- ❖ Published consultation conclusions and rule changes to accelerate rights issues and open offers (Dec)
- ❖ Published enhanced guidance materials on Listing Rules and corporate actions (Dec)
- ❖ Commenced review of Code on Corporate Governance Practices (in progress)
- ❖ Continued to actively promote listing in Hong Kong to Mainland and overseas companies with Mainland business connections (in progress)

Major Achievements in 2009

Secondary Market Development

- ❖ Continued to list ETFs with various underlying assets (in progress; 19 ETF listings in 2009)
- ❖ Continued to expand market for structured products, particularly CBBCs (in progress)
- ❖ Strengthened stock option market (Nov)
- ❖ Published consultation conclusions on Certified Emission Reduction futures and emissions trading (Dec)
- ❖ Prepared for launch of options with flexible features in 1Q 2010
- ❖ Reviewed market making obligations in stock option market (changes effective Feb 2010)
- ❖ Worked with index company to develop a volatility index based on stock index options prices (ongoing)
- ❖ Continued to recruit new Exchange Participants: 19 new EPs joined SEHK and 20 joined HKFE in 2009 (ongoing)

Major Achievements in 2009

Secondary Market Development

- ❖ Signed closer cooperation pacts with Shanghai Stock Exchange (Jan) and Shenzhen Stock Exchange (Apr)
- ❖ Opened CCASS participants to overseas clearing houses and central depositories (Feb)
- ❖ Enhanced technical infrastructure to support RMB products (Oct)
- ❖ Designed and implemented Enterprise Risk Management framework, methodology and processes (Nov and implementation in process)
- ❖ Consulted market on T+2 finality for CCASS money settlement (Nov)
- ❖ Consulted market with SFC and FSR on proposed scripless market operational model (Dec)
- ❖ Expanded clearing business to OTC equity linked instruments (Dec)

Major Achievements in 2009

Service Enhancement

- ❖ Introduced Mainland Market Data Collaboration Programme with Shanghai Stock Exchange (Jan)
- ❖ Introduced free real-time basic market prices on websites under a pilot programme (Oct)
- ❖ Announced elimination of certain minor fees for HKEx's services to participants to improve administrative efficiency and reduce participants' costs (Nov)

Major Achievements in 2009

Market Infrastructure Development

- ❖ Continued to maintain 100 per cent operational uptime for systems
- ❖ Upgraded HKATS to increase capacity by 50% to 8,100 orders/sec (Apr)
- ❖ Upgraded PRS to support 2,600 msg/sec and upgraded DCASS (Jul)
- ❖ Implemented CCASS technical revamp to support 7.5m trades daily (Oct)
- ❖ Completed AMS/3 and MDS technical revamp to double capacity to support 3,000 orders and 700 stock page updates per second, or 21.6m orders and 7.5m trades in standard 4-hour trading day (rollout:18 Jan 2010)

| | Capacity | | Latency | |
|----------------|-------------|-----------------|----------|----------|
| | 2003 | 2009 | 2003 | 2009 |
| AMS/3 | 200 OPS | 1,500 OPS | 1 sec | 0.3 sec |
| CCASS/3 | 800,000 TPD | 7.5 million TPD | N/A | N/A |
| MDS | 60 SUPS | 500 SUPS | 0.5 sec | 0.5 sec |
| HKATS | 150 OBC | 8,100 OBC | 0.05 sec | 0.02 sec |
| DCASS | 400,000 TPD | 2 million TPD | N/A | N/A |
| PRS | 100 MPS | 2,600 MPS | 0.04 sec | 0.01 sec |

Note: OPS = order per second; TPD = trade per day; SUPS = stock page update per second; OBC = order book change per second

Major Achievements in 2009

Market Infrastructure Development

- ❖ Modernised and relocated primary derivatives market data centre and related IT offices to Quarry Bay (Jun)
- ❖ Initiated plans for upgrading securities and derivatives market systems (in progress)
 - AMS/3 redevelopment (AMS/3.8) will be commenced in 2Q 2010, to upgrade system capacity to min 15,000 OPS, with latency further reducing from 0.15 sec to 0.03 sec (rollout in 2H2011). Capacity may further be scaled up to 50,000 OPS before launch of AMS/4
- ❖ Established road map for new data centre in Tseung Kwan O (in progress)

OPS: Order per second

Major Achievements in 2009

Corporate

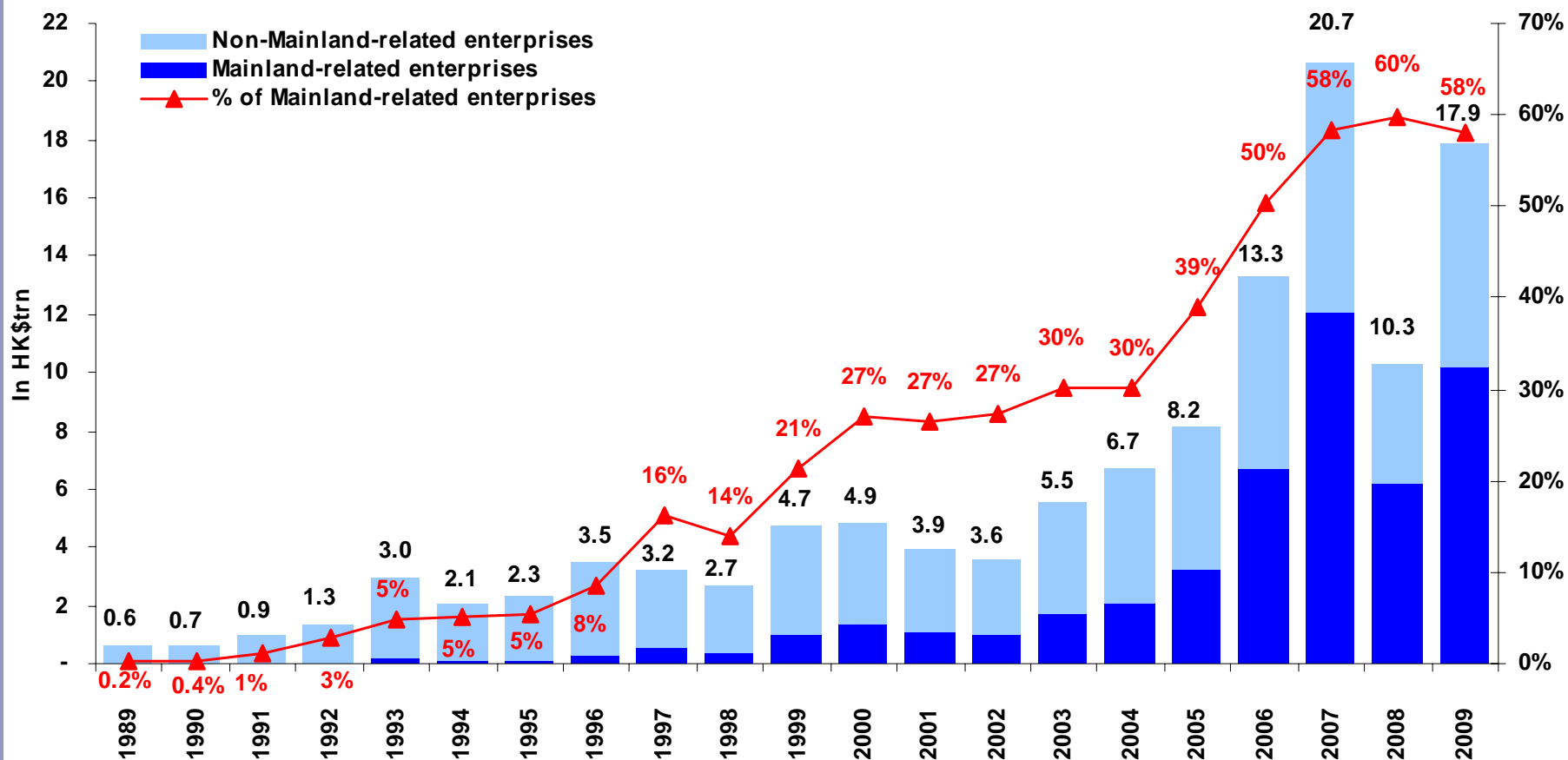
- ❖ Commissioned Business Environment Council to develop CSR and supply chain management systems and conduct lighting system and waste audits (in progress)
- ❖ Continued to be a constituent of the FTSE4Good Index
- ❖ Awarded Best Venue in Asia-Pacific for Algorithmic/Electronic Trading by *Asian Investor* (Sep)
- ❖ Global and Home Market ratings of 8.0 and 10.0 (max = 10) respectively from GovernanceMetrics International (Nov)
- ❖ 2009 HKMA Best Annual Reports Awards: Gold Prize (General Category) (Nov)
- ❖ 2009 HKICPA Best Corporate Governance Disclosure Awards: Platinum Award (Hang Seng Index Category) (Nov)
- ❖ *The Asset's* Triple A Corporate Awards 2009: Platinum Award for All-Round Excellence in Financial Performance, Management, Corporate Governance, Social Responsibility, Environmental Responsibility and Investor Relations (Dec)

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Quality Market Attracts Issuers

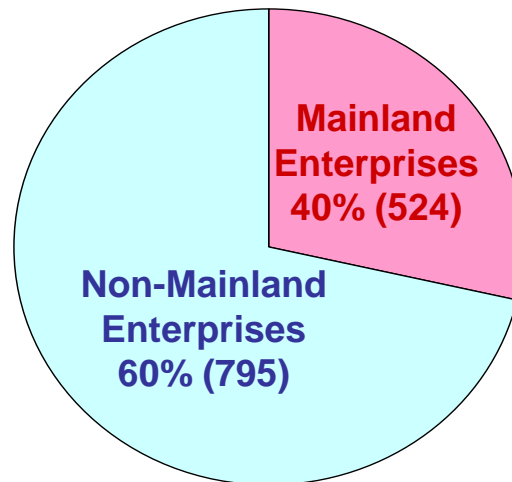
Market capitalisation grew 30-fold in 20 years



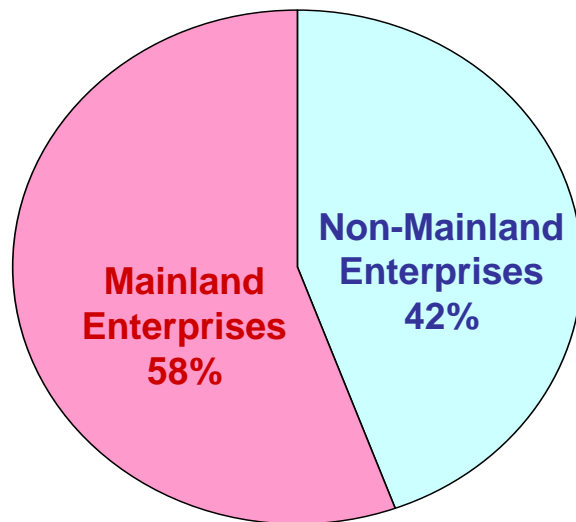
Quality Market Attracts Issuers

China's World Market Raised \$2,499bn for Mainland Enterprises since 1993

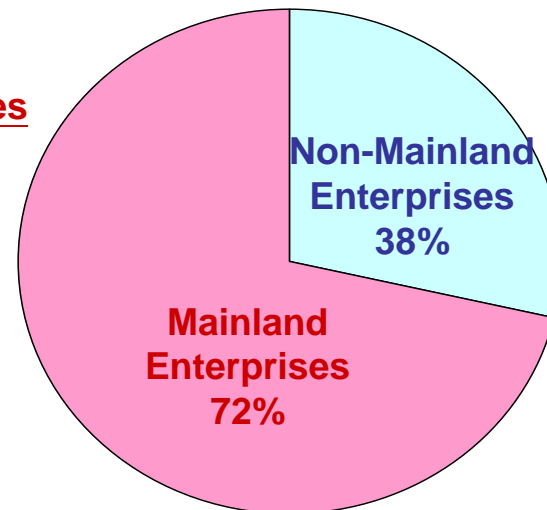
As of 31 Dec 2009



Number of Companies



Market Capitalisation

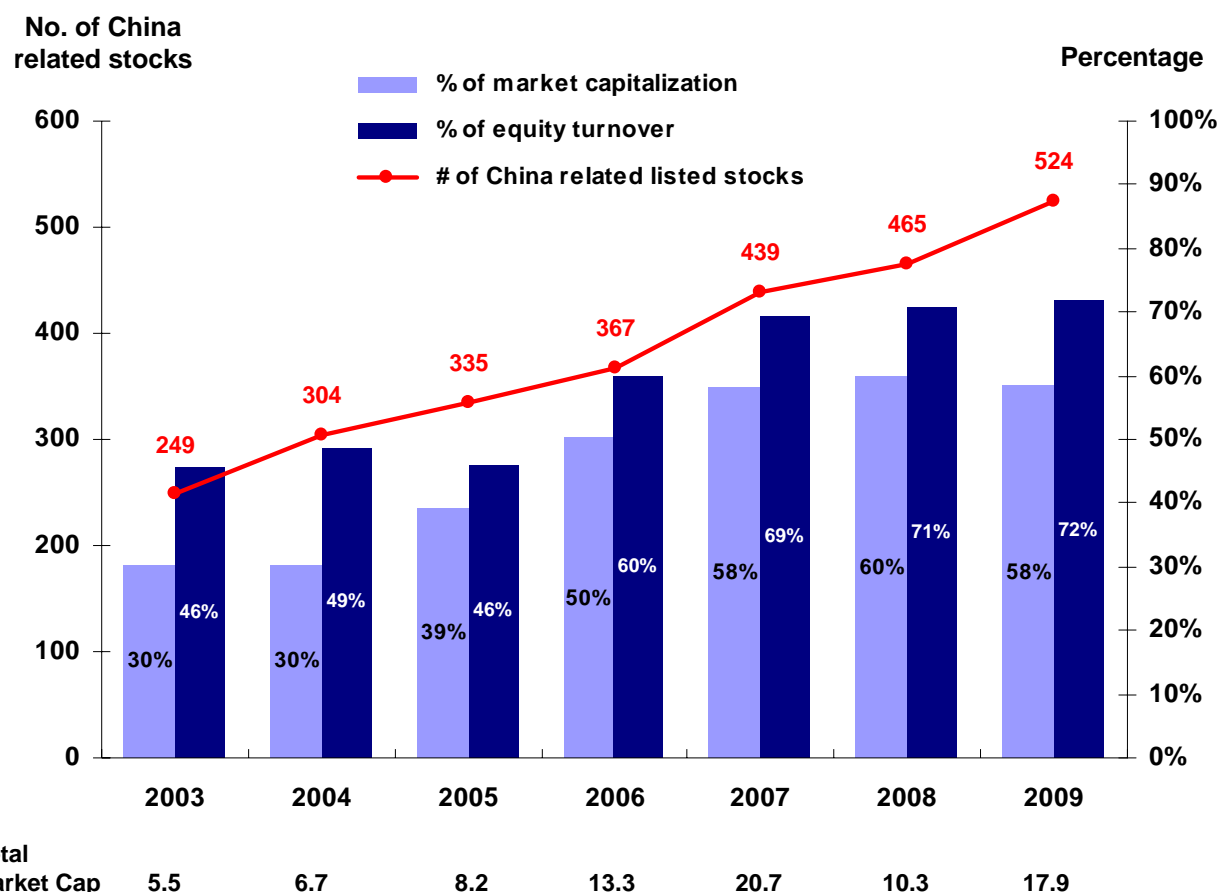


Average Daily Equity Turnover

Source: HKEx 2009 statistics

Quality Market Attracts Issuers

Mainland Companies Have Growing Importance in HKEx Securities Market



Key highlights at end of 2009

- **524 Mainland companies** (156 H shares, 97 red chips and 271 non-H share Mainland private enterprise shares)
- **More than double in number between 2003-2009**
- **Total market capitalisation of Mainland stocks exceeded \$10.4trn**
- **Accounting for 72% of equity turnover and 58% of securities market capitalisation**

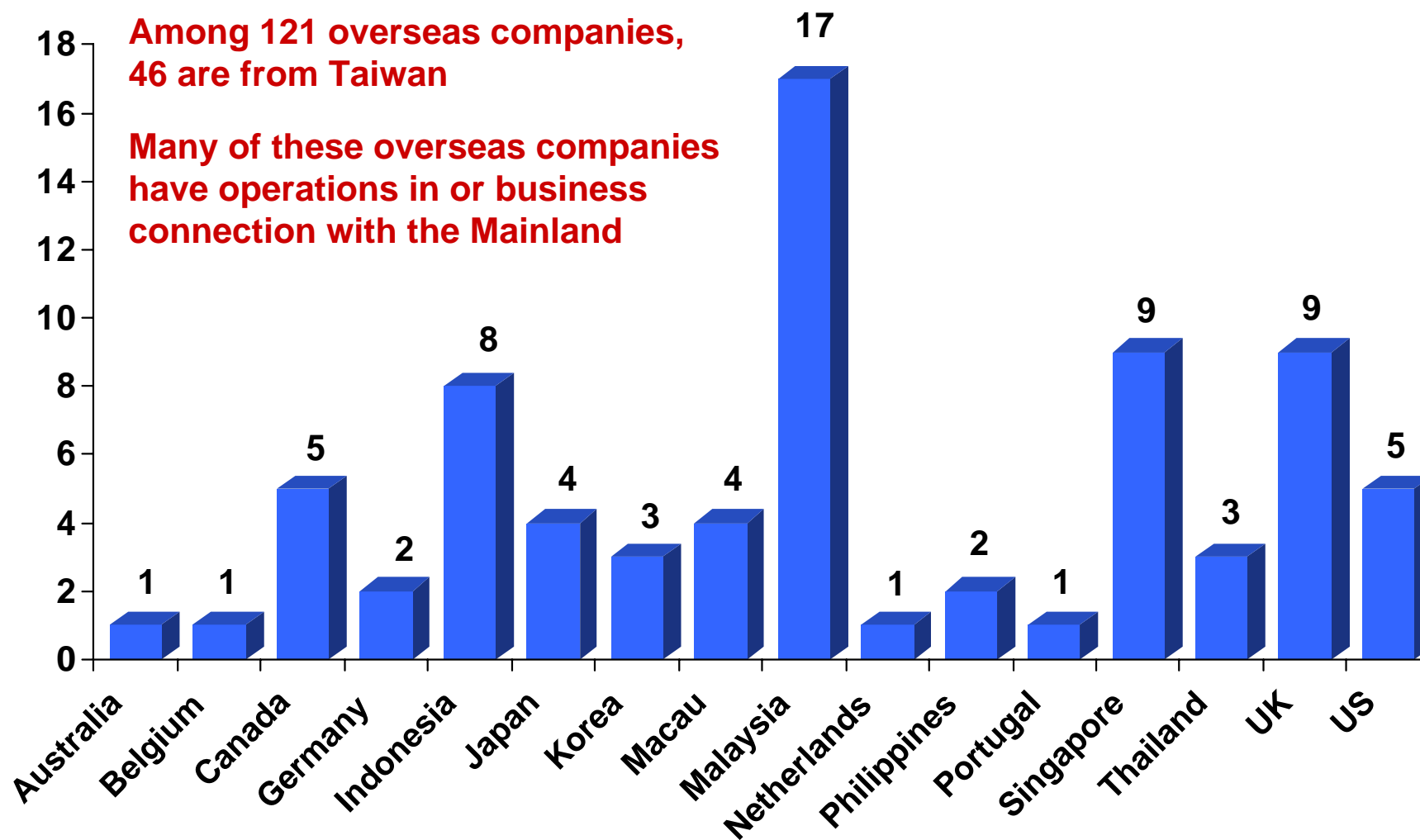
Total Market Cap (HK\$ trn)

Sources:

Listing, turnover and market capitalization statistics up to Dec 2009 from HKEx

Quality Market Attracts Issuers

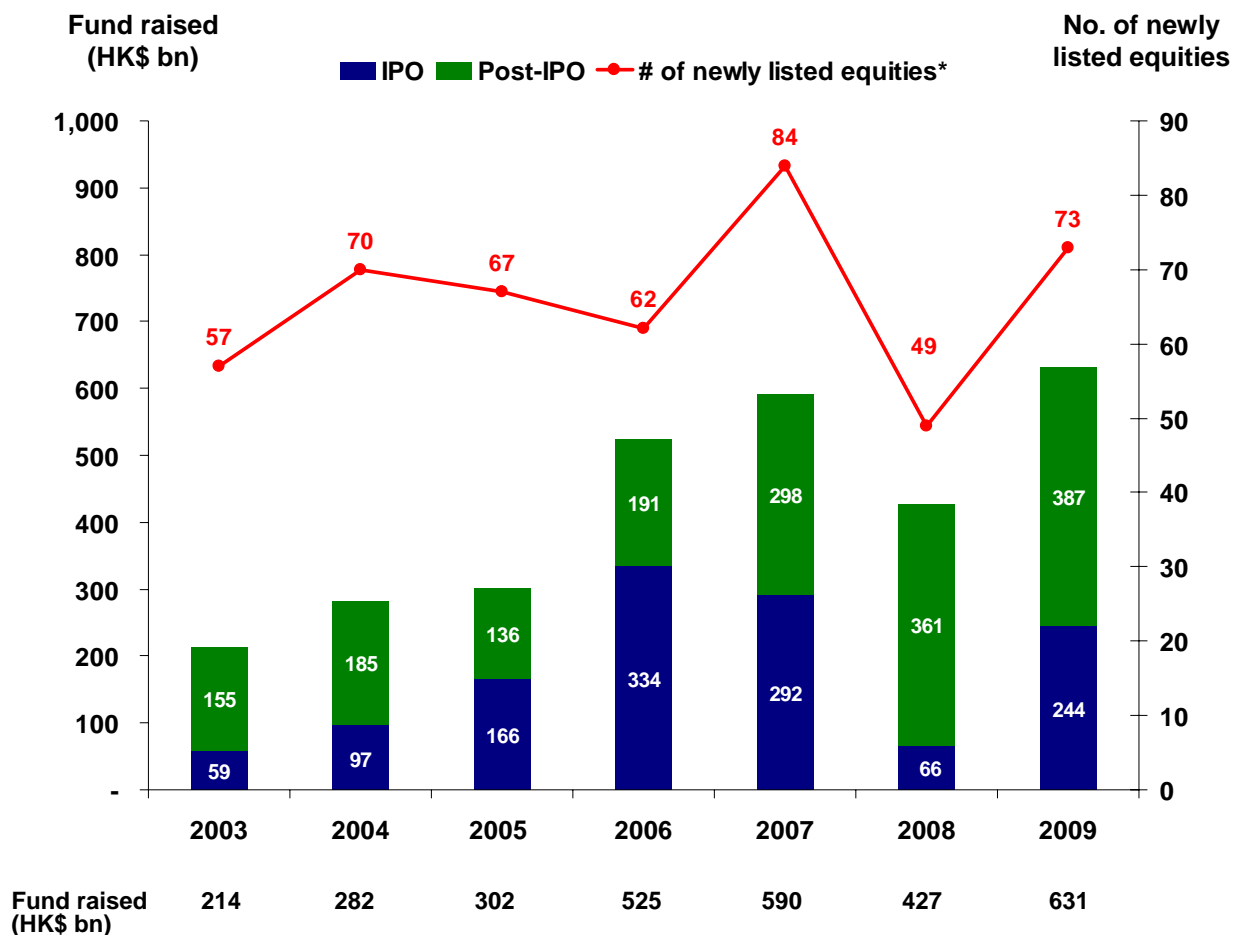
Over 121 Overseas Companies Are Listed on HKEx's Securities Market



Source: HKEx Statistics (as of 31 Dec 2009)

Quality Market Attracts Issuers

Active Market Enables Fund Raising in IPO and Secondary Market



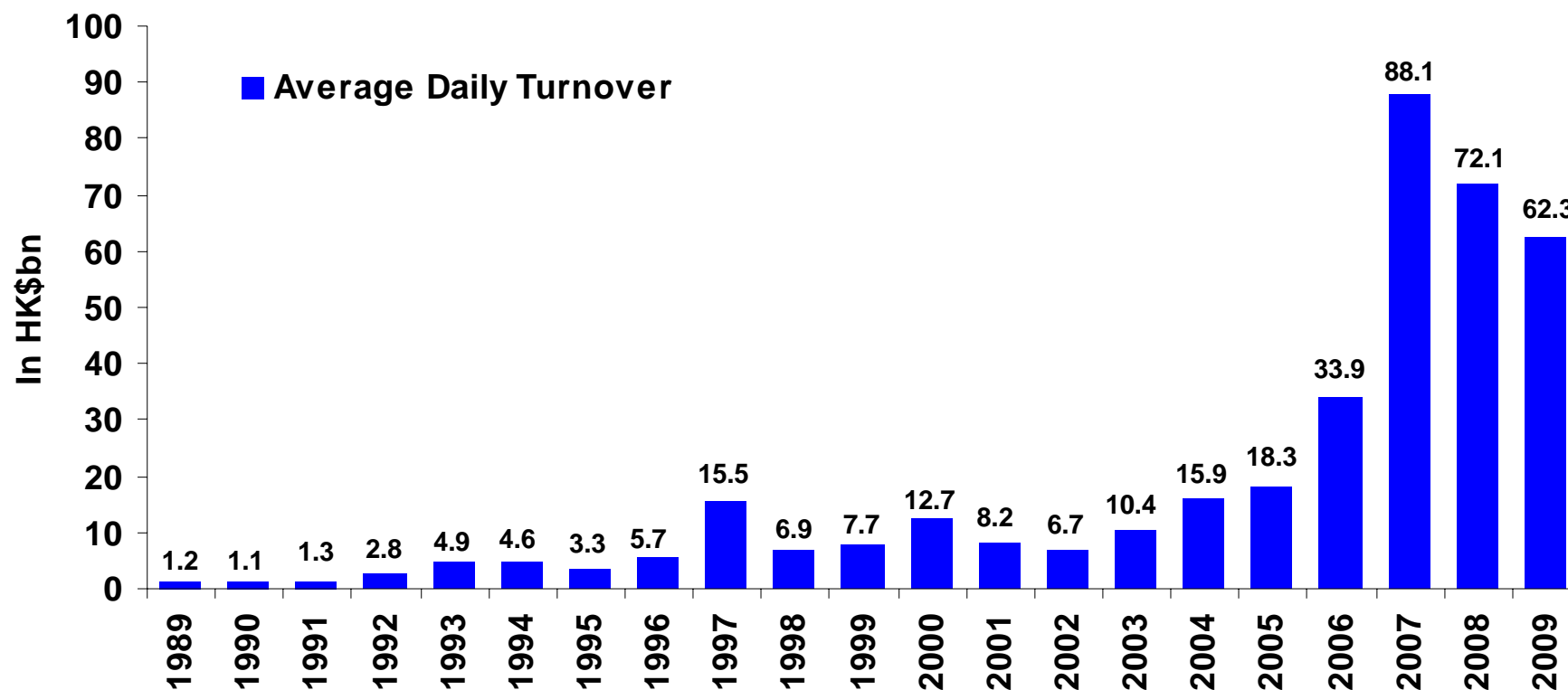
Key highlights

- A total of \$1.3 trn raised through IPOs between 2003 and 2009
- A total of \$1.7 trn raised in secondary market after IPO between 2003 and 2009
- #1 globally for IPO fundraising in 2009
- #4 globally for post-IPO fundraising in 2009
- Some of the world's largest IPOs (eg ICBC) took place in HK during the period

Sources:
 Fundraising and listing statistics up to Dec 2009 from HKEx
 Rankings as of Nov 2009 from World Federation of Exchanges
 Note * : Figures include transfer of listings from GEM to Main Board

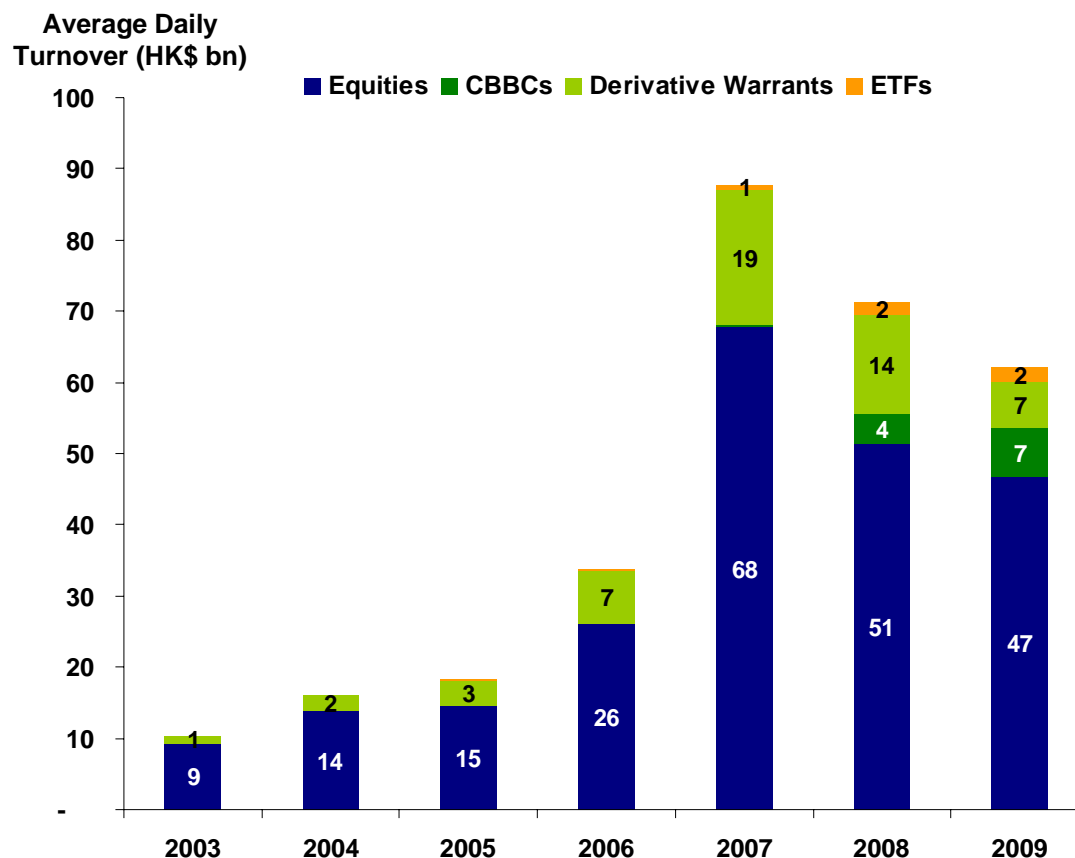
Quality Market Attracts Liquidity

Turnover of HKEx's Securities Market Grew 51-fold in 20 years



Quality Market Attracts Liquidity

Securities Trading Grew 6-fold With Broader Product Diversity



Average Daily Turnover (HK\$ bn)

Sources:

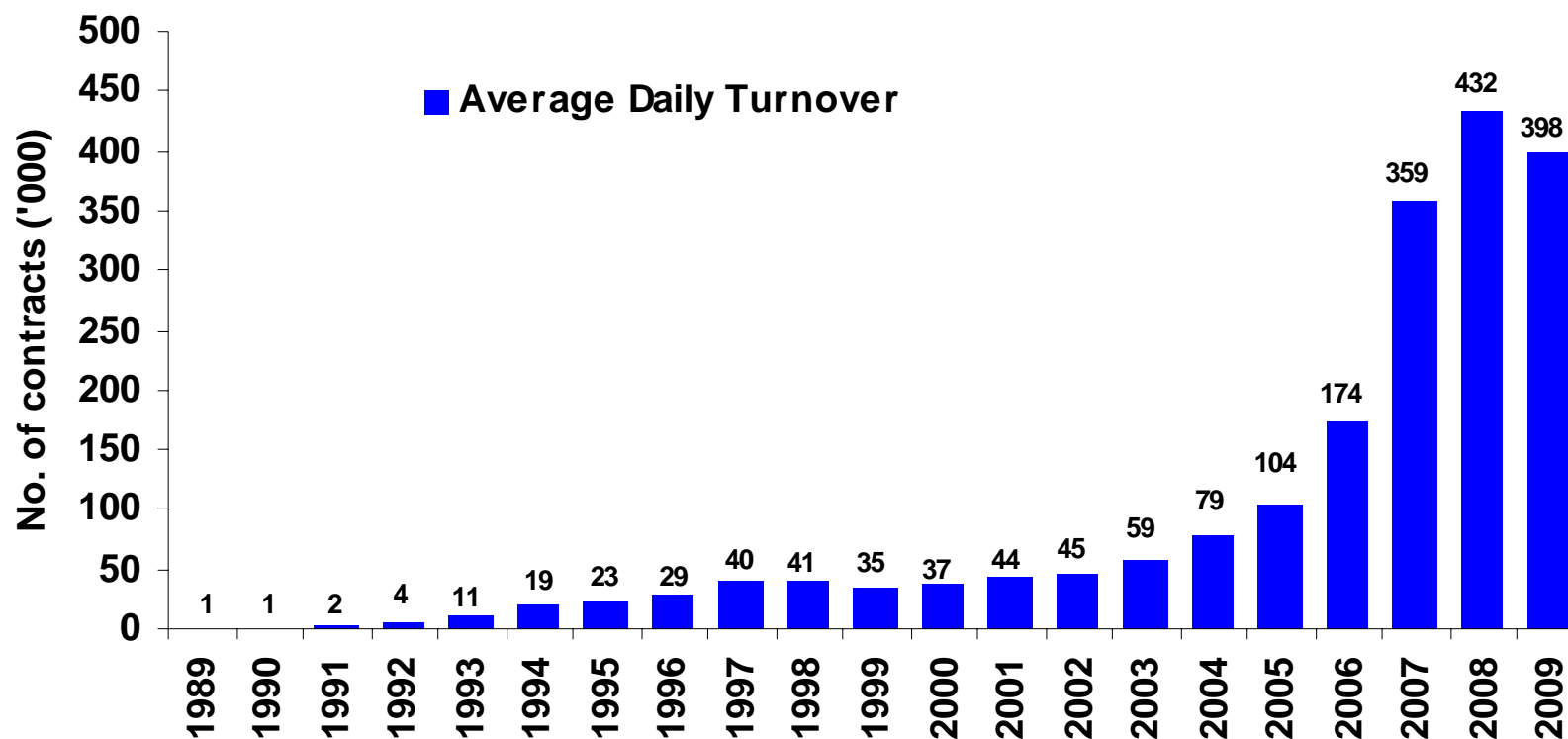
Turnover statistics up to Dec 2009 from HKEx
 Rankings as of Nov 2009 from World Federation of Exchanges

Key highlights at end of 2009

- A total of 6,616 securities (1,145 MB companies; 174 GEM companies; 3,367 DWs; 1,692 CBBCs; 43 ETFs)
- CBBC and DW turnover rose to over 20% of total securities market turnover since 2006
- #1 globally in DW turnover
- #1 globally in CBBC turnover
- #2 in Asia and Australia in ETF turnover
- #5 in Asia and Australia, and #11 globally in total securities turnover

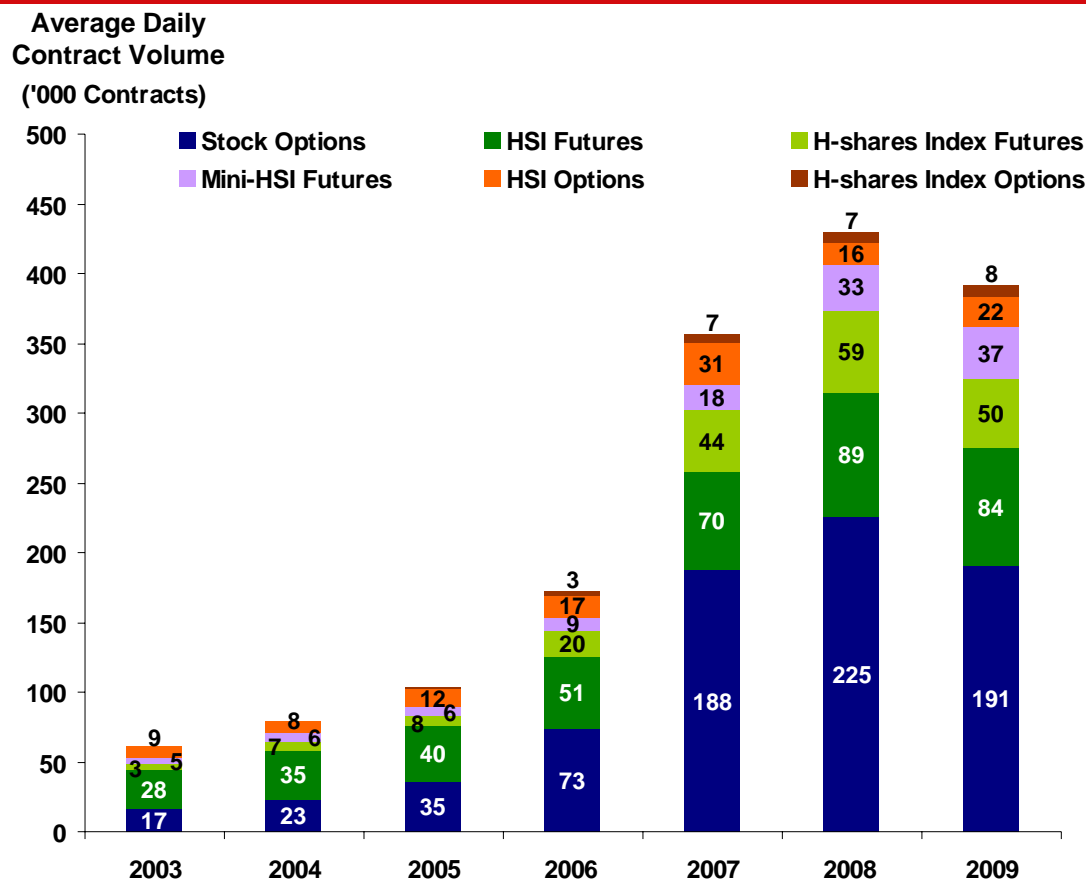
Quality Market Attracts Liquidity

Turnover of HKEx's Derivatives Market Grew 414-fold in 20 years



Quality Market Attracts Liquidity

Derivatives Trading Grew Almost 7-fold with Expanding Product Portfolio



| Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|------|------|------|------|------|------|------|
| Average Daily Contract Volume* ('000 Contracts) | 59 | 79 | 104 | 174 | 359 | 432 | 398 |

*Figures include all futures and options products of the HKEx derivatives market

Sources:

Turnover statistics up to Dec 2009 from HKEx

Rankings as of Nov 2009 from FIA Futures and Options Monthly Volume Results

Key highlights at end of 2009:

- Product portfolio covers: 7 index futures/options, 38 stock futures contracts, 51 stock option classes, gold future, and interest rate and fixed income contracts
- #1 in Asia and Australia in stock options trading volume
- #3 in Asia and Australia in index futures and options notional value turnover

Quality Market Attracts Liquidity

HKEx's Participants Come from a Wide Range of Markets

Place of Origin for Securities and Derivatives Market Exchange Participants (as of 31 Dec 2009)

Americas (Securities/ Derivatives)

Bermuda : 4 / 3
 British West Indies : 1 / 0
 Canada : 4 / 1
 US : 19 / 12

Asia (Securities / Derivatives)

Australia : 4 / 3
 India: 1 / 1
 Indonesia : 1 / 0
 Hong Kong : 327 / 89
 Japan : 10 / 4
 Korea : 2 / 0
 Mainland China : 29 / 18
 Malaysia : 6 / 2
 Philippines : 1 / 0
 Singapore : 6 / 4
 Taiwan : 23 / 8
 Others²: 1 / 1

| Year | No. of Securities EP | No. of Derivatives EP |
|------|----------------------|-----------------------|
| 2004 | 434 | 126 |
| 2005 | 429 | 137 |
| 2006 | 425 | 135 |
| 2007 | 439 | 140 |
| 2008 | 449 | 148 |
| 2009 | 463 | 167 |

EMEA (Securities / Derivatives)

Belgium : 2 / 1
 France : 6 / 6
 Germany : 1 / 1
 Netherlands : 5 / 4
 Switzerland : 3 / 2
 UK : 4 / 5
 Bahrain : 1 / 0
 South Africa : 1 / 1
 Others¹: 1 / 1

1: Denotes EP with equal controlling interests from Belgium and the Netherlands

2: Denotes EP with equal controlling interests from China and Indonesia

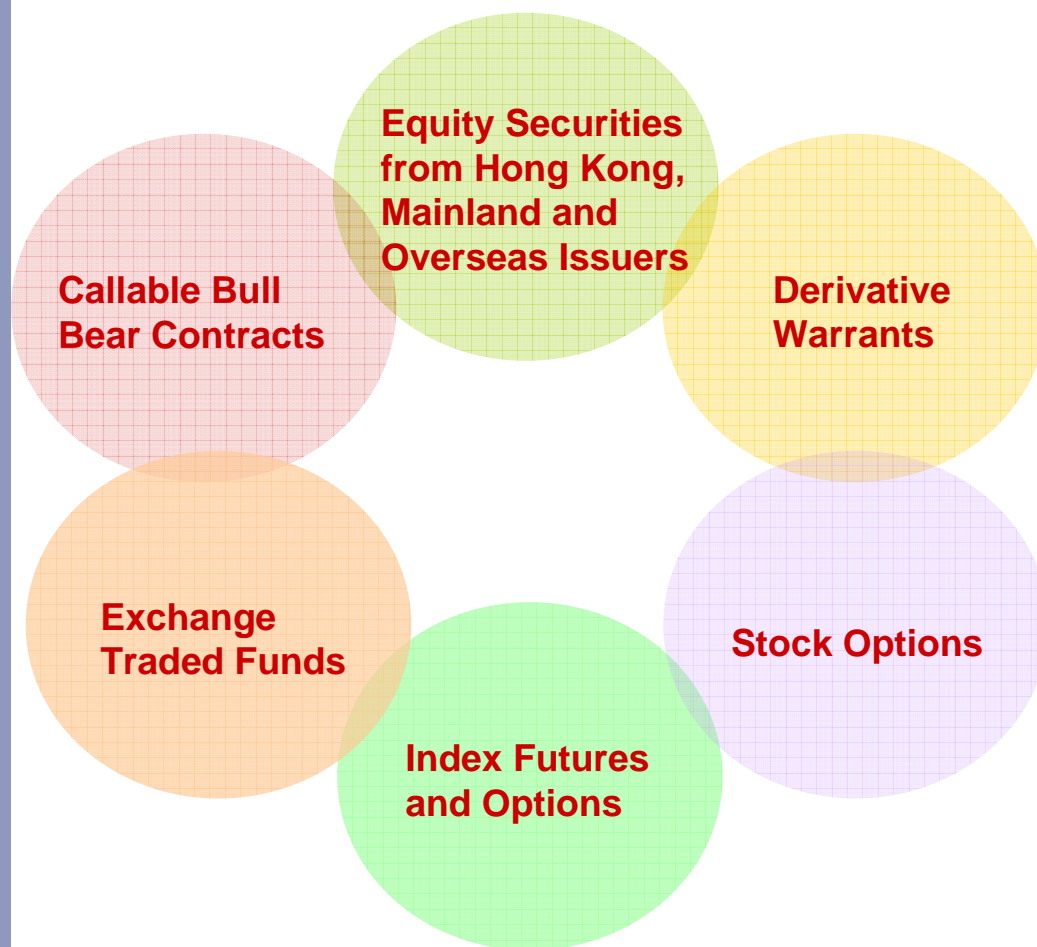
Quality Market Requires Reliable Infrastructure

**100% market system uptime
enables reliable price discovery**

**Electronic submission and
disclosure systems adds to
efficiency and transparency**

**Short-selling and stock borrowing
and lending regime facilitates
risk management, hedging and
price discovery**

Quality Market Has a Wide Range of Investment Choices



Launch date of some new products in recent years

- **H-shares Index Futures** 8 Dec 2003
- **H-shares Index Options** 14 Jun 2004
- **ishare A50 ETF** 18 Nov 2004
- **CBBCs** 12 Jun 2006
- **Mini H-shares Index Futures** 31 Mar 2008
- **Gold ETF** 31 Jul 2008
- **Gold Futures** 20 Oct 2008
- **Mainland A-share Industry Sector ETFs** 18 Nov 2009

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Ongoing Business of Hong Kong Securities and Derivatives Markets

- ❖ Scripless market
- ❖ Electronic prospectuses
- ❖ Electronic submission of disclosure of interests notices
- ❖ Quarterly reporting
- ❖ Statutory backing for disclosure of price-sensitive information
- ❖ Revamp of Companies Ordinance
- ❖ Investor protection
 - ❖ Class action mechanism
 - ❖ Minority shareholders electing their own directors
- ❖ RMB products

Collective accountability and long term vision will drive a better future

Concluding Remarks: Hong Kong's Strengths

- ❖ Part of China
- ❖ Market quality
 - Regulatory assurance
 - Corporate governance
 - System performance
 - Certainty of settlement
 - Transparency
 - Risk management
- ❖ Fundamental strengths
 - Rule of law and open access
 - Freely convertible currency
 - Efficient, predictable and non-corrupt government
 - Respect for property rights

Focusing on our strengths is the best strategy to respond to competition

Concluding Remarks: The Way Forward



Q&A

HKEx Corporate Website: www.hkex.com.hk
HKExnews Website: www.hkexnews.hk