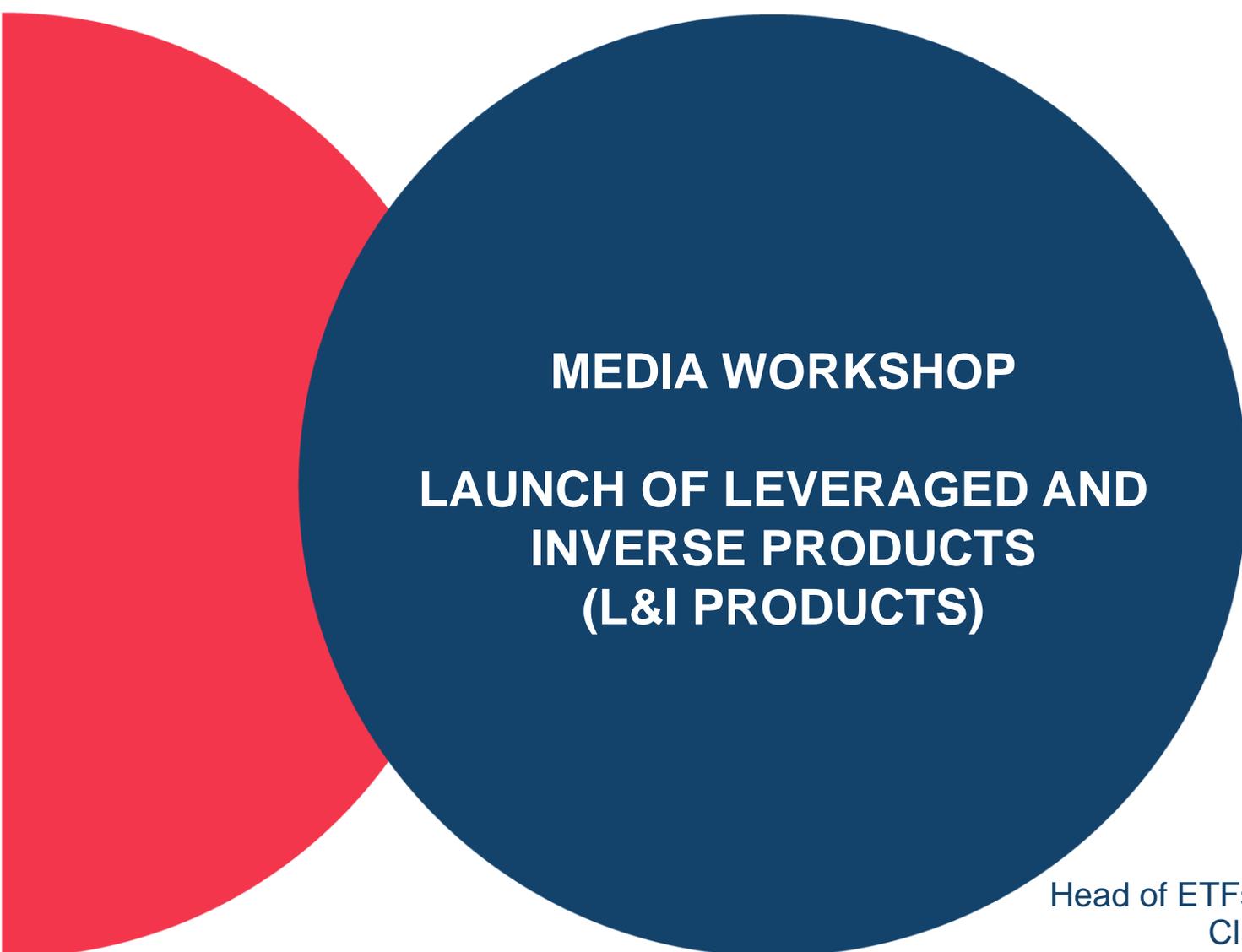


22 June 2016



MEDIA WORKSHOP

**LAUNCH OF LEVERAGED AND
INVERSE PRODUCTS
(L&I PRODUCTS)**

HKEX
香港交易所

Brian Roberts
Head of ETFs and Senior Vice President,
Client and Marketing Services,
Market Development Division

LEVERAGED AND INVERSE PRODUCTS

A new world of opportunities for
active investors who want to pursue
short-term market views



AGENDA

1

What are L&I Products?

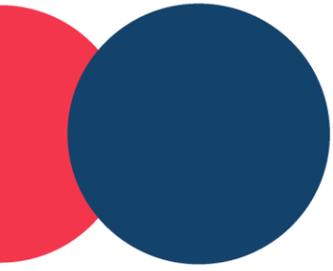
2

Background of Launching L&I Products on HKEX

3

Details of L&I Products





WHAT ARE L&I PRODUCTS?

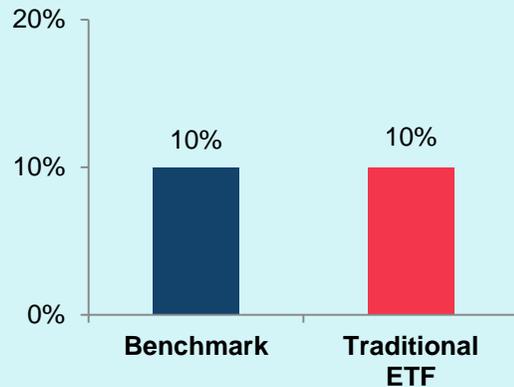
BASICS OF L&I PRODUCTS

Structure

- Exchange Traded Funds (ETFs)

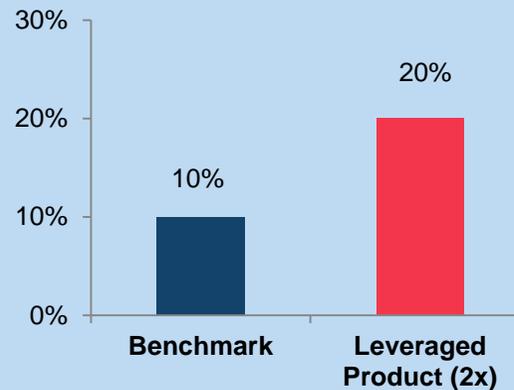
Traditional ETFs

- Seek to track the performance of their benchmark, before fees and expenses.



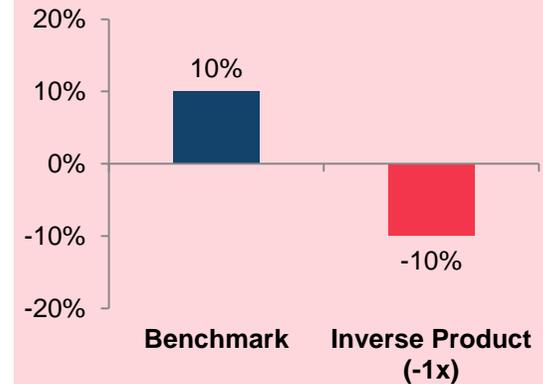
Leveraged Products (2x)

- Seek to provide two times (2x) the daily performance of their benchmark, before fees and expenses.



Inverse Products (-1x)

- Seek to provide the **inverse (-1x)** daily performance of their benchmark, before fees and expenses.



In some overseas markets, L&I Products are commonly known as Leveraged and/or Inverse ETFs



FRAMEWORK OF L&I PRODUCTS

Authorisation

- **Securities and Futures Commission (SFC)**
- **Collective Investment Schemes (CIS)**

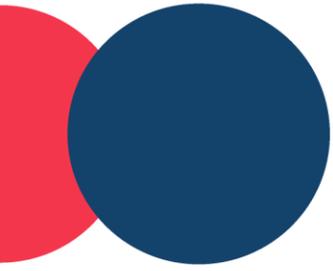
Listing and Trading

- **Securities market of Hong Kong Exchanges and Clearing Limited (HKEX)**

WHAT L&I PRODUCTS ARE ALLOWED BY THE SFC?

Leverage or Inverse Factor		Underlying Indices	
Leveraged Products	Maximum two times (2x)	Foreign equity indices	<ul style="list-style-type: none">At the initial stage: Only liquid and broadly based non-Hong Kong, non-Mainland foreign equity indices
Inverse Products	Maximum one time (-1x)	Hong Kong equity indices	<ul style="list-style-type: none">6 months later: The SFC will conduct a review to consider extending eligible indices including liquid and broadly based Hong Kong equity indices
		Mainland China indices	<ul style="list-style-type: none">The SFC has no plan to accept applications for L&I Products tracking Mainland China indices at this stage

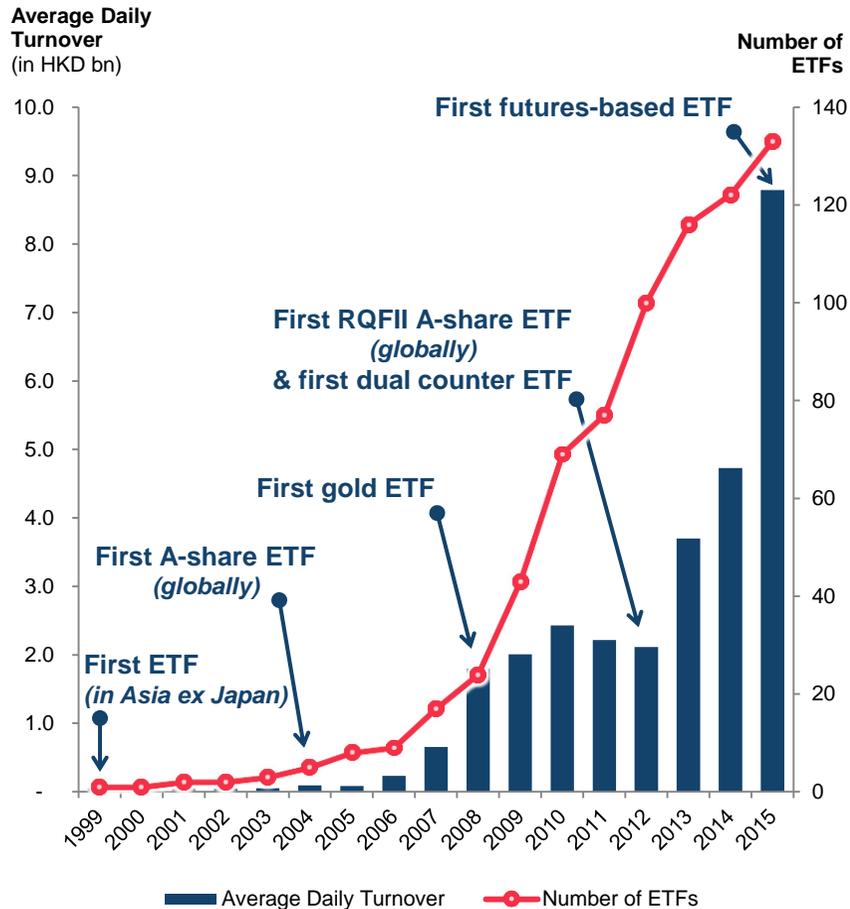




BACKGROUND OF LAUNCHING L&I PRODUCTS ON HKEX

DEVELOPMENT OF HKEX ETF MARKET

Milestones of HKEX ETF Market



HKEX ETF Business Strategy



Product development



Market structure



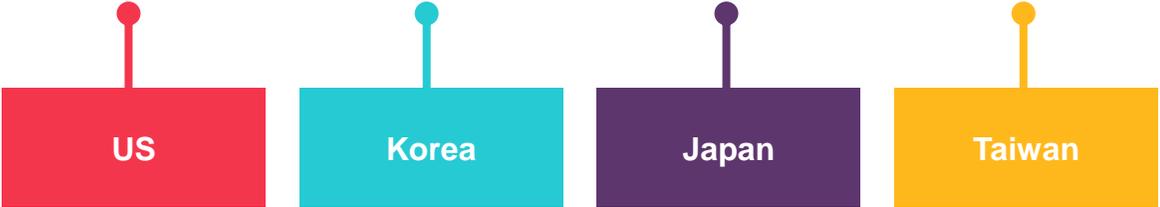
Distribution and marketing



1. Source: HKEX, as of 31 December 2015
 2. "RQFII" refers to RMB Qualified Foreign Institutional Investor

OVERVIEW OF L&I PRODUCTS IN OVERSEAS MARKETS

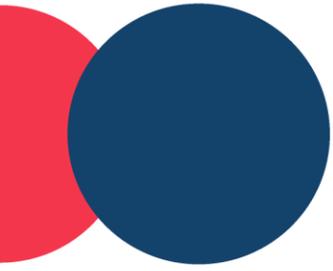
Launch year:



	US	Korea	Japan	Taiwan
Number of products	171 (11%)	29 (15%)	29 (20%)	10 (25%)
Asset under management (in USD bn)	\$28 (1%)	\$3 (14%)	\$9 (7%)	\$2 (31%)
Annual turnover (in USD bn)	\$1,122 (9%)	\$77 (50%)	\$420 (82%)	\$30 (76%)



1. Source: ETFGI, Deutsche Bank and World Federation of Exchanges, as of 31 December 2015
 2. Figures in brackets are the L&I Products' % of the market's ETF total. Overseas ETF markets include traditional ETFs, L&I Products and other ETFs. L&I Products are commonly known as Leveraged and/or Inverse ETFs in some overseas markets.



DETAILS OF L&I PRODUCTS

3 KEY FEATURES OF L&I PRODUCTS

1. Investment Objective

- L&I Products seek to achieve a multiple (2x or -1x) of their benchmark's daily performance, before fees and expenses

2. Compounding Effects of Daily Returns

- If L&I Products are held for longer than one trading day, performance can deviate from the multiple of the benchmark's cumulative return

3. Use of Derivatives

- L&I Products invest a portion or all of their net assets in derivatives, typically futures or swaps



INVESTOR SUITABILITY

✓ Suitable for active investors who:

- understand the nature and risks of L&I Products, as they are designed for daily investment results; and/or
- actively monitor their holdings on a daily basis and can respond when market conditions change.

✗ Not suitable for investors who:

- are unfamiliar with the features and risks of L&I Products, as they are designed for daily investment results; and/or
- are looking for a long-term investment and cannot actively monitor their holdings.

**L&I Products are short-term trading or hedging tools for active investors only,
and are not intended for long-term investment**



COMMON SHORT-TERM USES

Leveraged Products

- Seek to magnify daily returns
- Obtain a target level of exposure using less cash
- Overweight a market segment without committing additional cash

Inverse Products

- Seek profits from a market decline
- Help to hedge against an expected decline
- Underweight exposure to a market segment



HOW TO IDENTIFY L&I PRODUCTS?

Stock short names

L&I Products traded in HKD

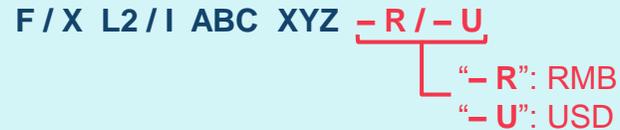
“F”: Futures-based
 “X”: Swap-based

Provider and underlying index’s short name



“L2”: Leveraged (2x)
 “I”: Inverse (-1x)

L&I Products traded in RMB or USD :



Stock code range

	HKD counter	RMB counter	USD counter
Leveraged Products	7200 - 7299	87200 - 87299	9200 - 9299
Inverse Products	7300 - 7399	87300 - 87399	9300 - 9399



INVESTOR EDUCATION

General public

- HKEX website: www.hkex.com.hk/LIProduct
- HKEX L&I Product leaflets
- The Chin Family website (managed by the Investor Education Centre): www.thechinfamily.hk/lipproducts
- L&I Product providers' performance simulators
 - Allow investors to select a historical time period and simulate the performance of the L&I Product during that time period based on historical data

Product distributors (e.g. brokers)

- Educational workshops with L&I Product providers
- ETF University

Retail investors

- Retail seminars
- ETF Investment Expo

L&I PRODUCTS CURRENTLY AVAILABLE ON HKEX

Stock code	L&I Product	Underlying Market and Index	L&I Product Provider
7250	Samsung KOSPI 200 Daily (2x) Leveraged Product	Korea equities: KOSPI 200 Index	Samsung Asset Management (Hong Kong) Limited
7326	Samsung KOSPI 200 Daily (-1x) Inverse Product		
7255	Samsung TOPIX Daily (2x) Leveraged Product	Japan equities: Tokyo Stock Price Index (TOPIX)	
7311	Samsung TOPIX Daily (-1x) Inverse Product		

More are coming...

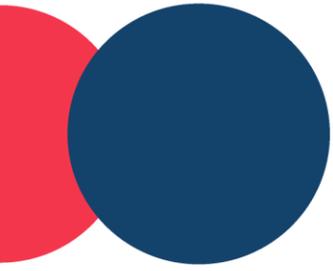


LEVERAGED AND INVERSE PRODUCTS

A new world of opportunities for
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For more details, please visit: www.hkex.com.hk/LIProduct





Q&A

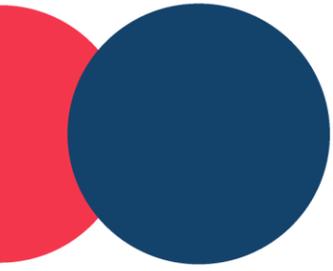
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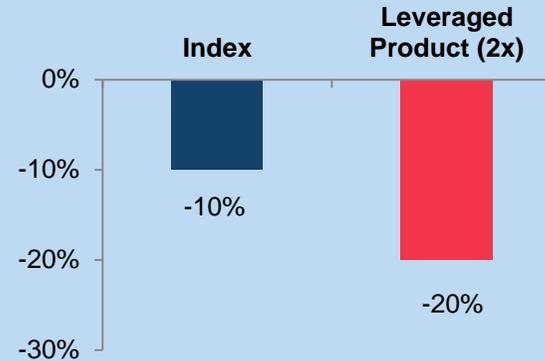
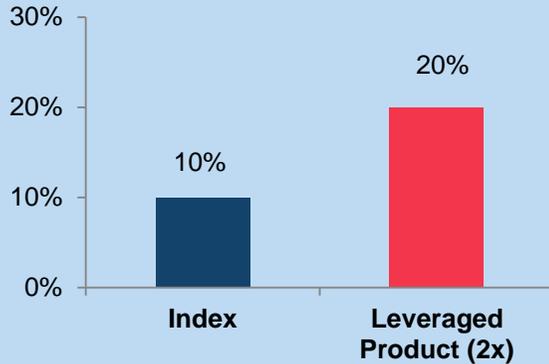


APPENDIX 1: L&I PRODUCTS' INVESTMENT OBJECTIVES

INVESTMENT OBJECTIVES

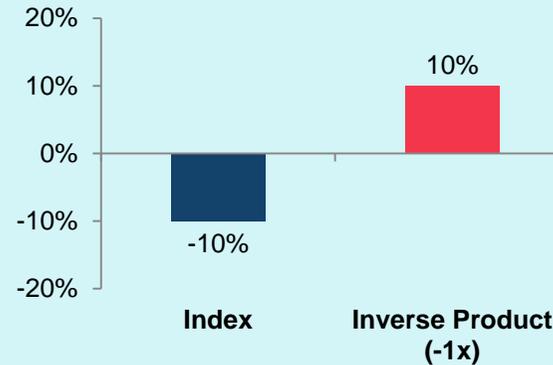
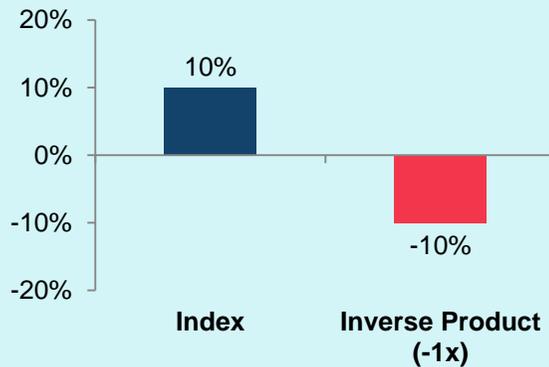
Leveraged Products (2x)

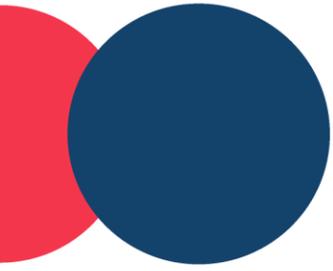
- Seek to provide two times (2x) the daily performance of their benchmark, before fees and expenses.



Inverse Products (-1x)

- Seek to provide the inverse (-1x) daily performance of their benchmark, before fees and expenses.





**APPENDIX 2:
L&I PRODUCTS'
COMPOUNDING EFFECTS OF DAILY RETURN**

COMPOUNDING EFFECTS OF DAILY RETURN

- When held for periods longer than one trading day, L&I Products' performance is likely to deviate from the multiple (2x or -1x) of the benchmark's cumulative performance.
- The deviation depends on the market movements. Generally,

Continuous trending
markets

- L&I Products' performance tends to be better than the multiple of the benchmark's cumulative performance when held for periods longer than one day.

Volatile markets

- L&I Products' performance tends to be worse than the multiple of the benchmark's cumulative performance when held for periods longer than one day.

COMPOUNDING EFFECTS OF DAILY RETURN

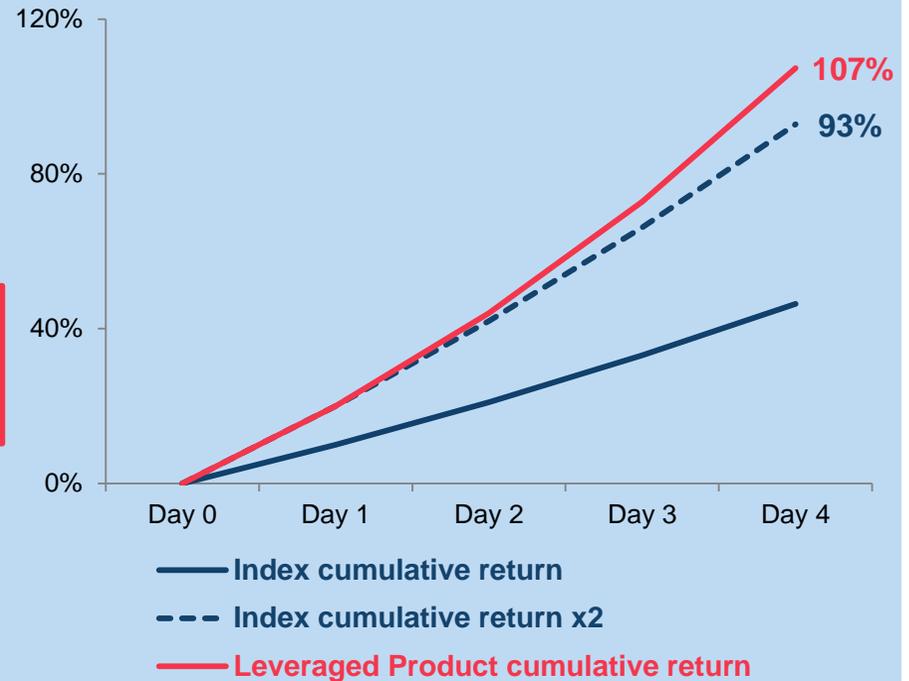
Leveraged Products

Scenario 1: Continuous upward trend

- When held for periods longer than one trading day, a Leveraged Product's performance tends to be better than two times the benchmark's cumulative performance.

- Illustration:

Day	1	2	3	4
Index:				
Daily return	10%	10%	10%	10%
Cumulative return	10%	21%	33%	46%
Cumulative return x2	20%	42%	66%	93%
Leveraged Product (2x):				
Daily return	20%	20%	20%	20%
Cumulative return	20%	44%	73%	107%



COMPOUNDING EFFECTS OF DAILY RETURN

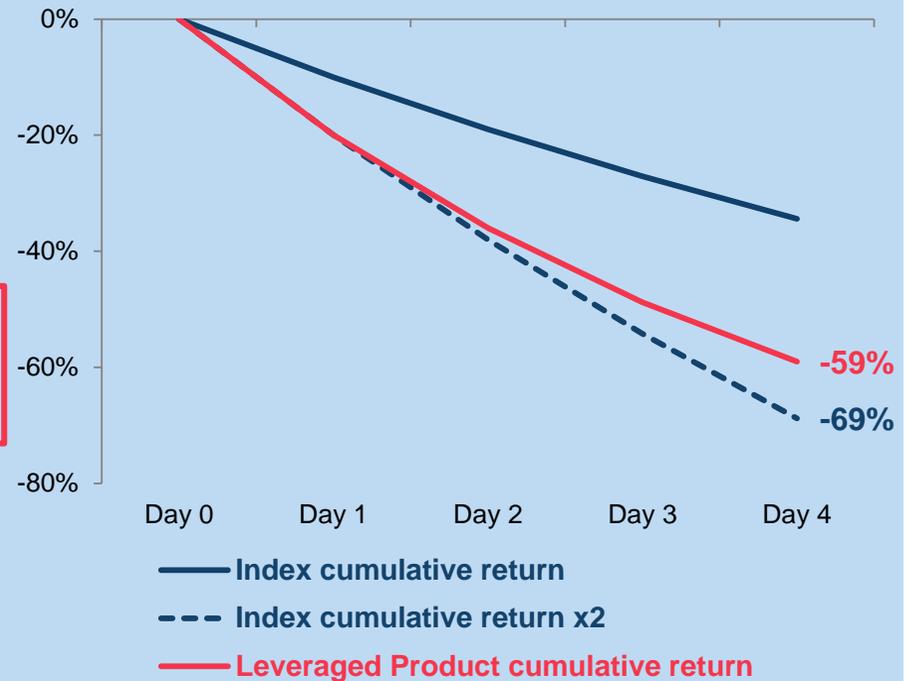
Leveraged Products

Scenario 2: Continuous downward trend

- When held for periods longer than one trading day, a Leveraged Product's performance tends to be better than two times the benchmark's cumulative performance.

- Illustration:

Day	1	2	3	4
Index:				
Daily return	-10%	-10%	-10%	-10%
Cumulative return	-10%	-19%	-27%	-34%
Cumulative return x2	-20%	-38%	-54%	-69%
Leveraged Product (2x):				
Daily return	-20%	-20%	-20%	-20%
Cumulative return	-20%	-36%	-49%	-59%



COMPOUNDING EFFECTS OF DAILY RETURN

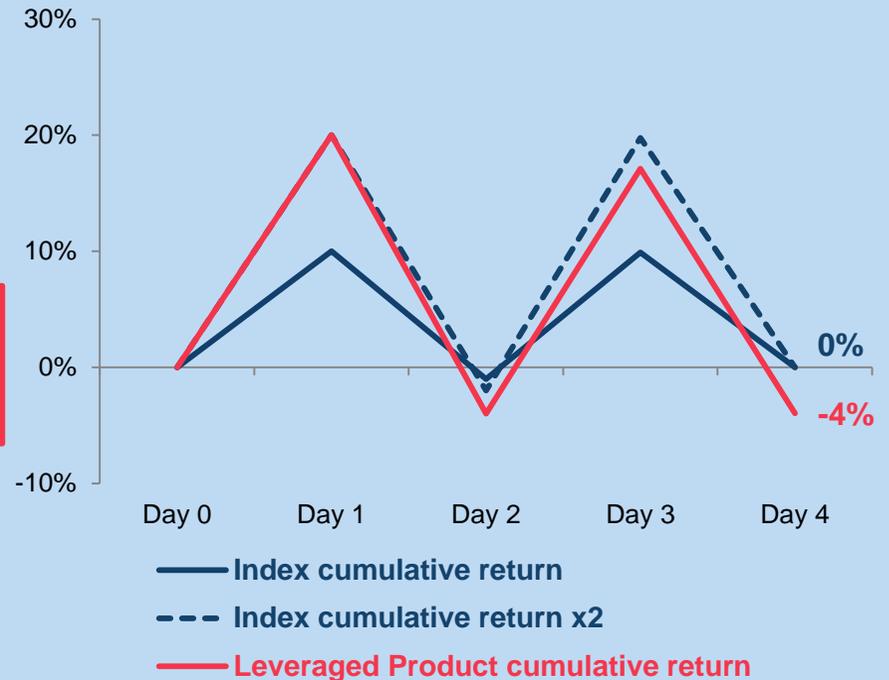
Leveraged Products

Scenario 3: Volatile but flat market

- When held for periods longer than one trading day, a Leveraged Product's performance tends to be worse than two times the benchmark's cumulative performance.

- Illustration:

Day	1	2	3	4
Index:				
Daily return	10%	-10%	11%	-9%
Cumulative return	10%	-1%	10%	0%
Cumulative return x2	20%	-2%	20%	0%
Leveraged Product (2x):				
Daily return	20%	-20%	22%	-18%
Cumulative return	20%	-4%	17%	-4%



COMPOUNDING EFFECTS OF DAILY RETURN

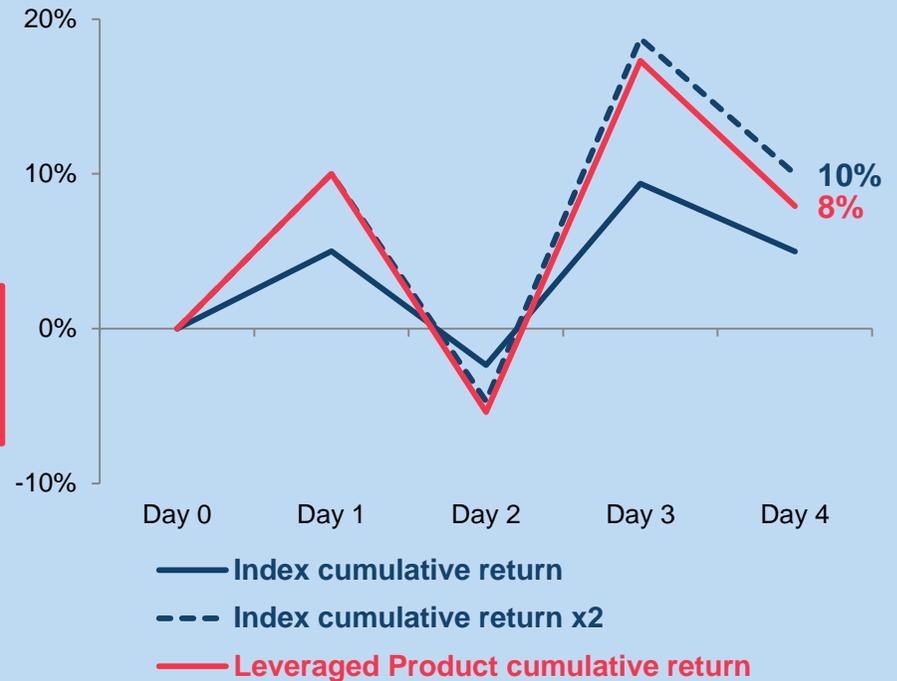
Leveraged Products

Scenario 4: Volatile upward trend

- When held for periods longer than one trading day, a Leveraged Product's performance tends to be worse than two times the benchmark's cumulative performance.

- Illustration:

Day	1	2	3	4
Index:				
Daily return	5%	-7%	12%	-4%
Cumulative return	5%	-2.4%	9%	5%
Cumulative return x2	10%	-4.7%	19%	10%
Leveraged Product (2x):				
Daily return	10%	-14%	24%	-8%
Cumulative return	10%	-5.4%	17%	8%



COMPOUNDING EFFECTS OF DAILY RETURN

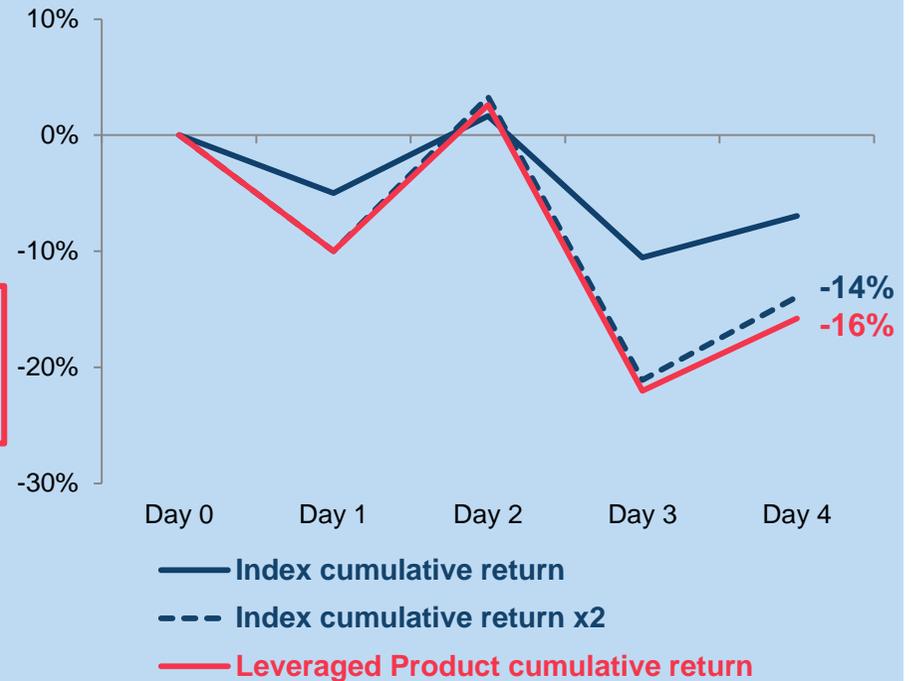
Leveraged Products

Scenario 5: Volatile downward trend

- When held for periods longer than one trading day, a Leveraged Product's performance tends to be worse than two times the benchmark's cumulative performance.

- Illustration:

Day	1	2	3	4
Index:				
Daily return	-5%	7%	-12%	4%
Cumulative return	-5%	1.7%	-11%	-7%
Cumulative return x2	-10%	3.3%	-21%	-14%
Leveraged Product (2x):				
Daily return	-10%	14%	-24%	8%
Cumulative return	-10%	2.6%	-22%	-16%



COMPOUNDING EFFECTS OF DAILY RETURN

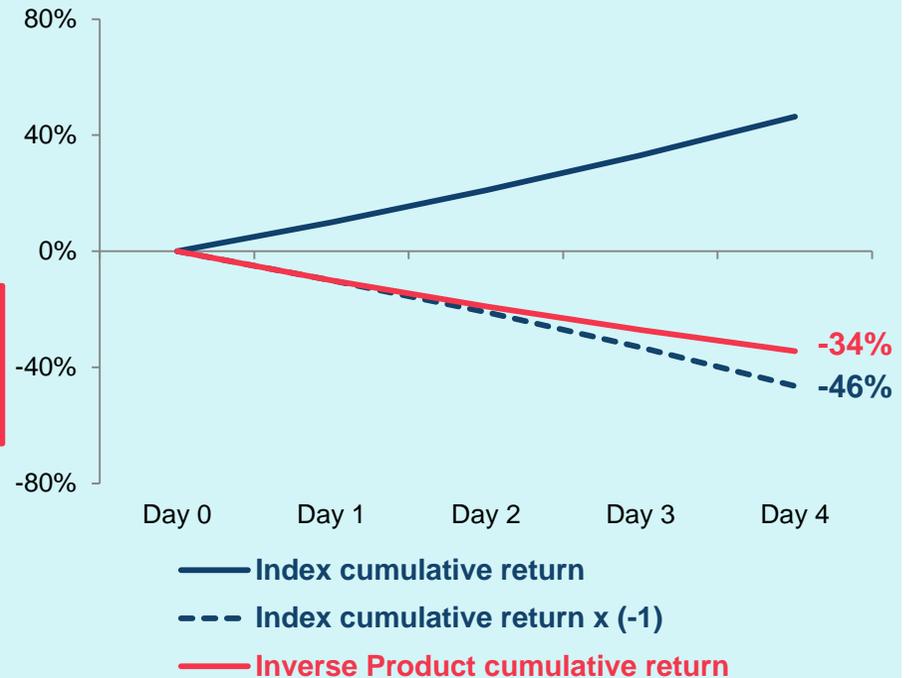
Inverse Products

Scenario 1: Continuous upward trend

- When held for periods longer than one trading day, an Inverse Product's performance tends to be better than the inverse of the benchmark's cumulative performance.

- Illustration:

Day	1	2	3	4
Index:				
Daily return	10%	10%	10%	10%
Cumulative return	10%	21%	33%	46%
Cumulative return x (-1)	-10%	-21%	-33%	-46%
Inverse Product (-1x):				
Daily return	-10%	-10%	-10%	-10%
Cumulative return	-10%	-19%	-27%	-34%



COMPOUNDING EFFECTS OF DAILY RETURN

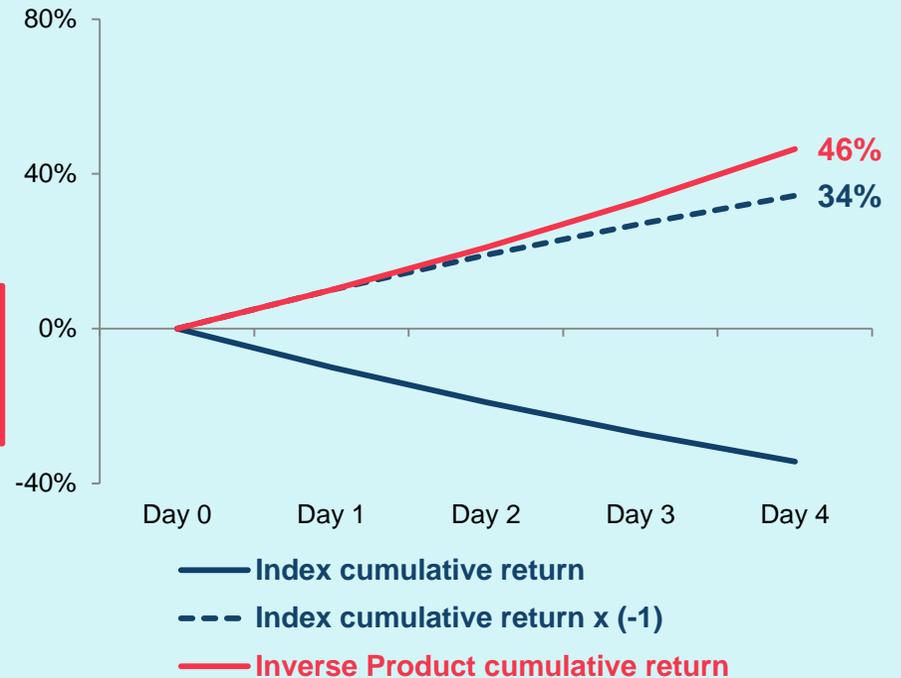
Inverse Products

Scenario 2: Continuous downward trend

- When held for periods longer than one trading day, an Inverse Product's performance tends to be better than the inverse of the benchmark's cumulative performance.

- Illustration:

Day	1	2	3	4
Index:				
Daily return	-10%	-10%	-10%	-10%
Cumulative return	-10%	-19%	-27%	-34%
Cumulative return x (-1)	10%	19%	27%	34%
Inverse Product (-1x):				
Daily return	10%	10%	10%	10%
Cumulative return	10%	21%	33%	46%



COMPOUNDING EFFECTS OF DAILY RETURN

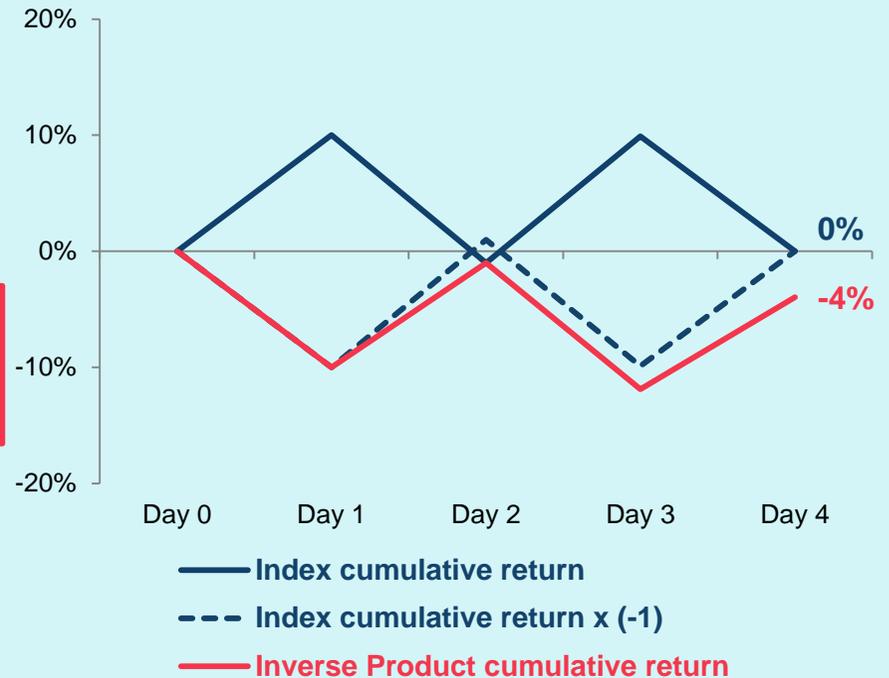
Inverse Products

Scenario 3: Volatile but flat market

- When held for periods longer than one trading day, an Inverse Product's performance tends to be worse than the inverse of the benchmark's cumulative performance.

- Illustration:

Day	1	2	3	4
Index:				
Daily return	10%	-10%	11%	-9%
Cumulative return	10%	-1%	10%	0%
Cumulative return x (-1)	-10%	1%	-10%	0%
Inverse Product (-1x):				
Daily return	-10%	10%	-11%	9%
Cumulative return	-10%	-1%	-12%	-4%



COMPOUNDING EFFECTS OF DAILY RETURN

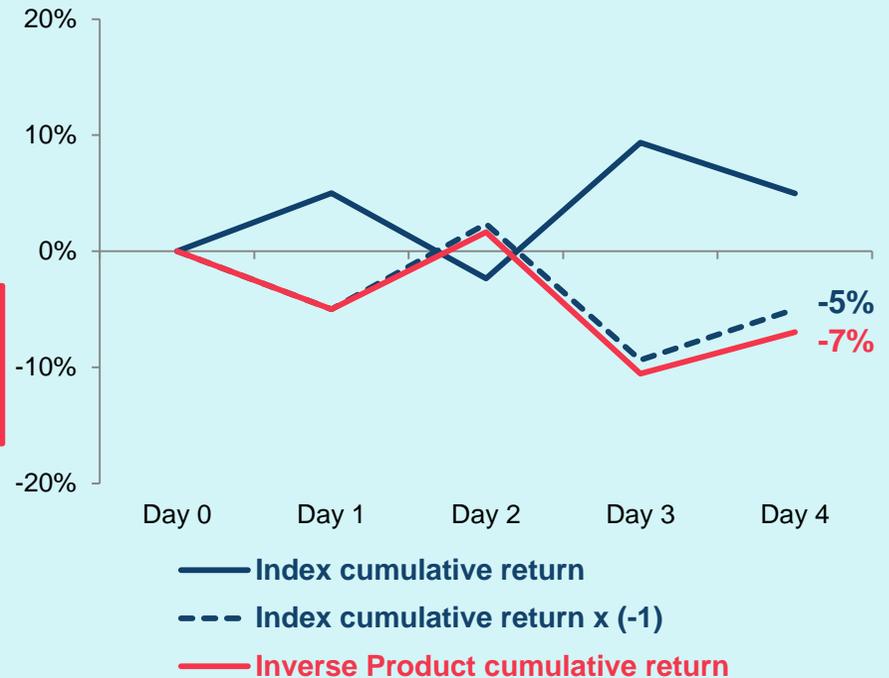
Inverse Products

Scenario 4: Volatile upward trend

- When held for periods longer than one trading day, an Inverse Product's performance tends to be worse than the inverse of the benchmark's cumulative performance.

- Illustration:

Day	1	2	3	4
Index:				
Daily return	5%	-7%	12%	-4%
Cumulative return	5%	-2.4%	9%	5%
Cumulative return x (-1)	-5%	2.4%	-9%	5%
Inverse Product (-1x):				
Daily return	-5%	7%	-12%	4%
Cumulative return	-5%	1.7%	-11%	-7%



COMPOUNDING EFFECTS OF DAILY RETURN

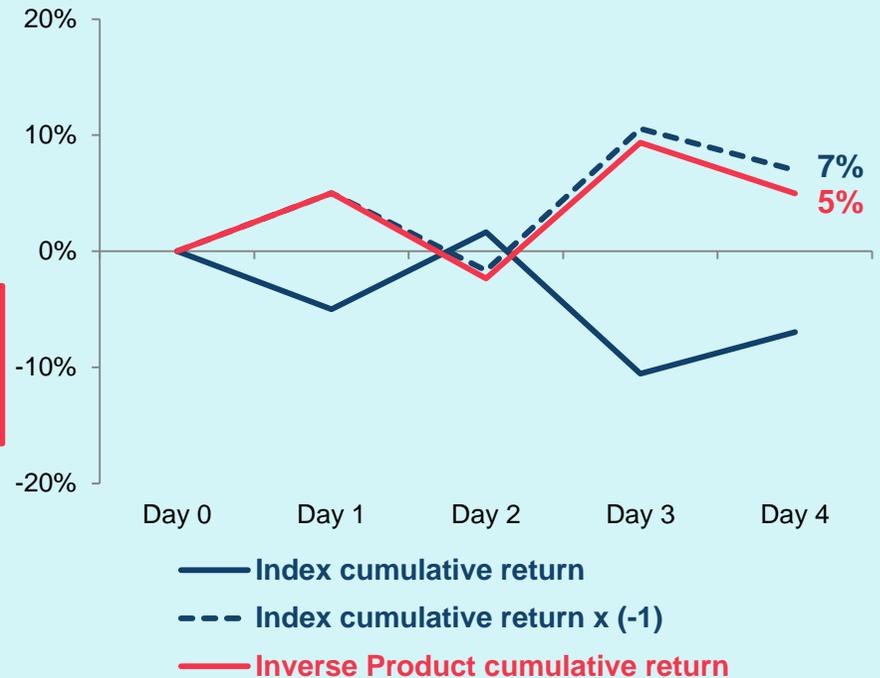
Inverse Products

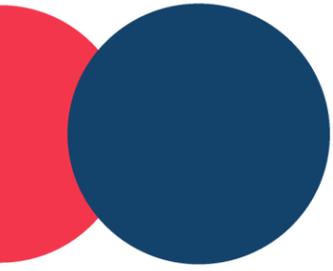
Scenario 5: Volatile downward trend

- When held for periods longer than one trading day, an Inverse Product's performance tends to be worse than the inverse of the benchmark's cumulative performance.

- Illustration:

Day	1	2	3	4
Index:				
Daily return	-5%	7%	-12%	4%
Cumulative return	-5%	1.7%	-11%	-7%
Cumulative return x (-1)	5%	-1.7%	11%	7%
Inverse Product (-1x):				
Daily return	5%	-7%	12%	-4%
Cumulative return	5%	-2.4%	9%	5%





**APPENDIX 3:
COMPARISON OF L&I PRODUCTS AND
3 OTHER PRODUCTS ON SECURITIES MARKET
OF HKEX**

COMPARISON OF L&I PRODUCTS AND 3 OTHER PRODUCTS ON SECURITIES MARKET OF HKEX

	L&I Products	Traditional ETFs	Derivatives Warrants	Callable Bull / Bear Contracts
Leverage or Inverse effects	Low (2x for leveraged; -1x for inverse)	No	High (up to 10-30x)	High (up to 10-30x)
Underlying	Index only	Index only	Index or single stock	Index or single stock
Unlimited life	Yes	Yes	No (6 months - 5 years)	No (3 months - 5 years)
Knock out feature	No	No	No	Yes
Decay of time value	No	No	Yes	No

