

Getting up to speed – What's Next for the Hong Kong Securities Market

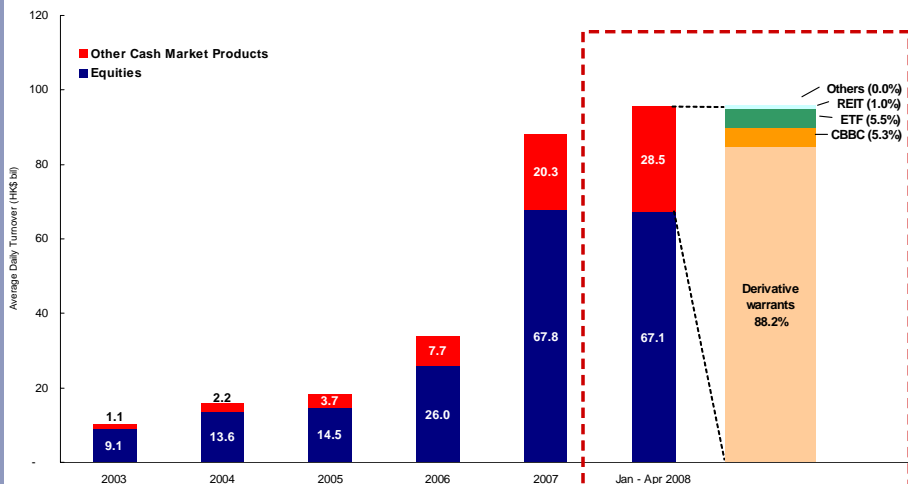
The 6th Asia Pacific Trading Summit – Hong Kong 2008

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3 June 2008

Market turnover has grown substantially

Average Daily Turnover of Equities and Other Cash Market Products (2003 – YTM Apr 2008)



No of Exchange Participants (EP) has increased for the first time in recent years

Place of Origin for Cash EP and Applicants (YTM Apr 2008)

America

Bermuda : 5
 British Virgin Islands : 13 (4)
 British West Indies : 1
 Canada : 4
 US : 16

Europe

Belgium : 3
 France : 6
 Germany : 1
 Netherlands : 5
 Switzerland : 3
 UK : 3 (1)

Asia

Australia : 4
 Bahrain : 1
 Indonesia : 1
 Hong Kong : 305 (3)
 Japan : 11
 Korea : 1
 Mainland China : 27
 Malaysia : 6
 Philippines : 1
 Singapore : 7
 Taiwan : 22 (1)
 Thailand : 1

Africa

South Africa : 1

Year	No of cash EP	Net change
2004	434	-3
2005	429	-5
2006	425	-4
2007	439	+14
2008 YTM	448	+9

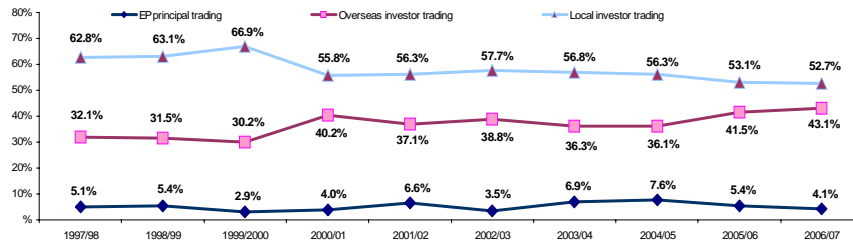
❖ 9 applications in process

- ❖ 31 new cash EPs admitted from Jan 2007 to Apr 2008, now accounting 3.5% of cash market turnover in Jan-Apr 2008
- ❖ 3 new cash EPs ranked in Category B

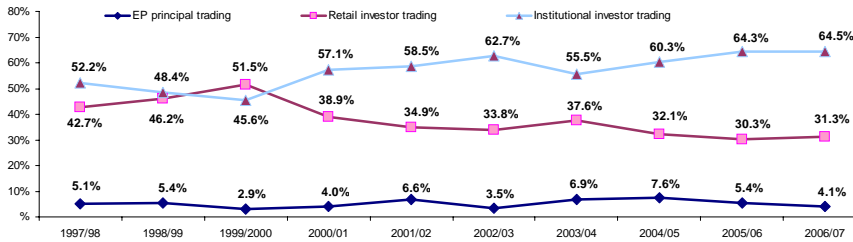
Note: () refers to new applications

Overseas and institutional investor trading have increased over the years

Distribution of cash market trading value by investor type (local vs overseas) (1997/98 – 2006/07)

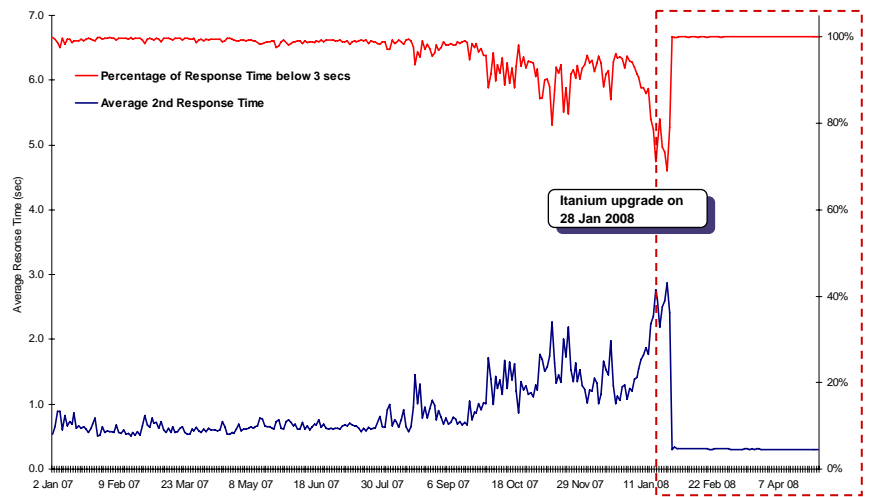


Distribution of cash market trading value by investor type (retail vs institutional) (1997/98 – 2006/07)



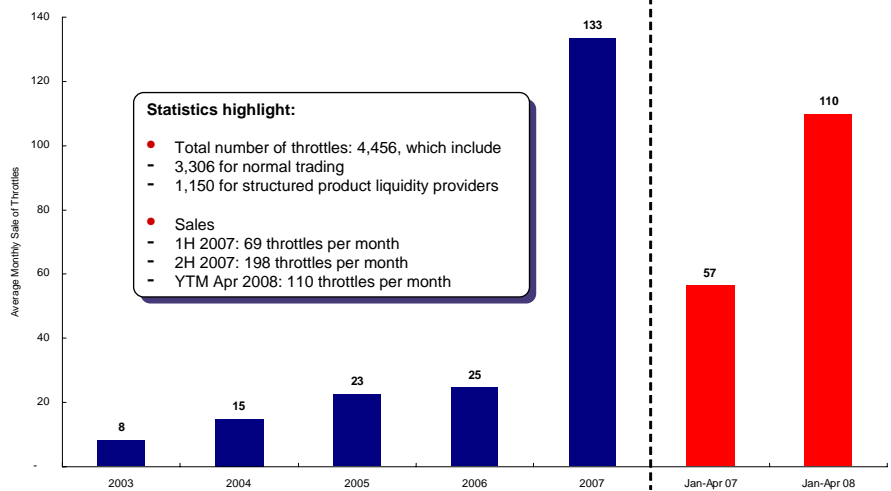
Response time has improved significantly after recent technology upgrade

Average 2nd Response Time before and after Itanium Upgrade (1 Jan 2007 – 30 Apr 2008)



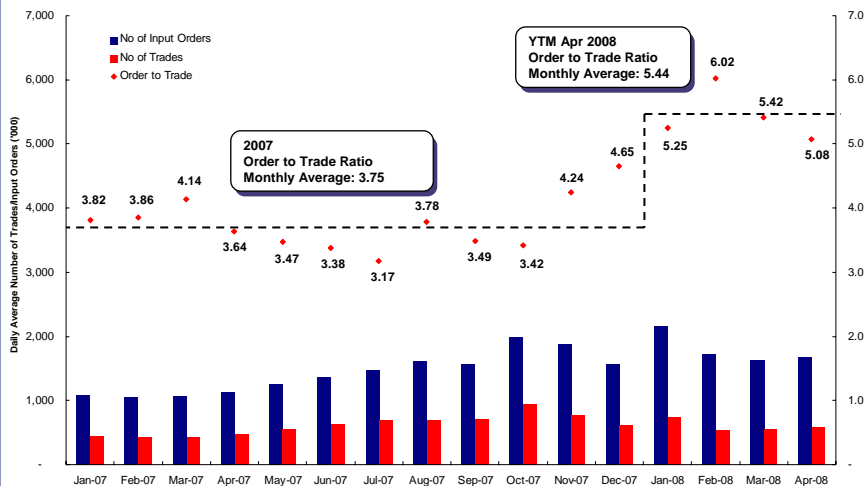
Demand for order throughput has increased substantially

Average Monthly Throttle Sale (2003 – YTM Apr 2008)



Order to trade ratio has increased by 45%

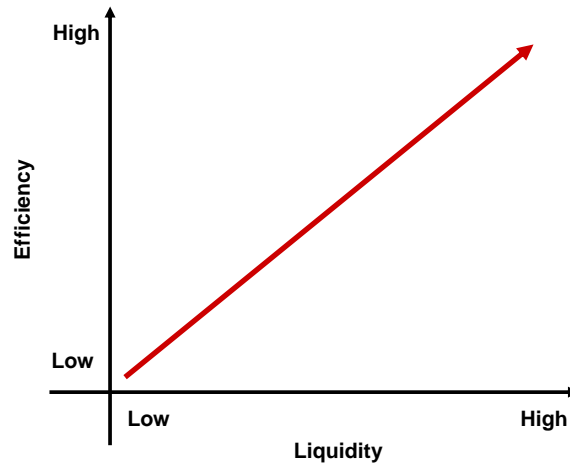
Order to Trade Ratio (1 Jan 2007 – 30 Apr 2008)



Food for thoughts in a growing complex marketplace

	Entity	Venue	Mechanism
Market Dynamics	<u>Who are the players?</u> <ul style="list-style-type: none"> Participant Mix Institutional vs Retail Local vs Overseas Agency vs Market Makers vs Proprietary Buy side vs sell side 	<u>Where are trades taking place?</u> <ul style="list-style-type: none"> Fragmentation of Liquidity Market Impact Minimization Reserve liquidity Regulations (eg MiFID, Reg NMS) Central Clearing Houses 	<u>How trades are conducted?</u> <ul style="list-style-type: none"> Latency Capacity Order to Trade Ratio Atomic - Algo / Program / Electronic / Pinging
Opportunities & Challenges	<ul style="list-style-type: none"> DMA Co-location Third Party Clearing Remote Participantship Connectivity Set-up Cost 	<ul style="list-style-type: none"> Exchange-sponsored platform Agency-owned platform / internalization Buy-side only platform Smart order routing 	<ul style="list-style-type: none"> Technology Order Types Order/trade information & analytic Block Trade Transaction Costs Closing Auction Tick Rule

Conclusion: The crave for efficiency in the midst of inefficiency



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