

Trading Activities of Stocks on HKEx and Overseas Exchanges

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March 2004

Summary

For the 119 stocks (including Hang Seng Index (HSI) constituents, H-shares, large cap and actively traded stocks) which were traded locally and overseas, Hong Kong accounted for less than 50% of the turnover in 2003 and its share declined during 2000-2003. This was attributable to the high turnover of HSBC Holdings plc (HSBC) and Standard Chartered plc (SCB) in the UK. Both companies have major profit centres outside Hong Kong and both are constituents of benchmark indices for the UK and European markets. Excluding these two stocks, Hong Kong accounted for more than 80% of the turnover in 2003 and its share remained stable during 2000-2003.

Objective of Study

1. This paper analyses the trading activities of major stocks on HKEx vis-à-vis those on major overseas markets.

Scope of Study

2. Companies listed on HKEx are covered in this study if they fall in any one of the following categories:-
 - HSI constituent stocks as of the end of 2003;
 - H-shares² listed as of the end of 2003;
 - the 50 largest companies by market capitalisation as of the end of 2003; and
 - the 50 most actively traded stocks in 2003.

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² H-share companies refer to companies incorporated in the PRC and approved by the CSRC for a listing in Hong Kong. The par value of the shares of these Chinese enterprises is denominated in RMB, and the shares are subscribed for and traded in HKD or other currencies.

3. In other words, all blue chips and H-shares, 50 largest cap stocks and 50 most actively traded stocks are included in the study. These stocks also cover most of those traded locally and overseas. Based on these criteria, 137 companies are included in the study.
 - Their market cap at the end of 2003 amounted to HK\$4,606.3 bn, accounting for 83.0% of the total market cap (Main Board and GEM combined).
 - Their turnover totalled HK\$1,810.5 bn in 2003, (an average daily turnover of HK\$7.3 bn). This accounted for 78.6% of the total market turnover³ (Main Board and GEM combined).
4. Of the 137 companies, 119 are also traded on at least one of the overseas exchanges (116 companies in the UK, 19 in the US and 91 in Germany) in the form of common stocks or ADRs. These include 33 HSI stocks, 74 H-shares and 12 other large cap or actively traded stocks (Table 1).

	HSI stocks	H-shares	Others	Total
Companies included in the study	33	92	12	137
Companies traded/listed in any one of the overseas exchanges	33	74	12	119
Companies traded/listed in HK, the UK*, the US and Germany	5	13	1	19

* This refers to number of companies with stocks/ADRs traded on LSE during 2000-2003.
Sources: Market Surveillance System (MSS), exchange websites/publications, Bloomberg

5. Overseas exchanges covered in this study include:-
 - US – NYSE and Nasdaq National Market;
 - UK – LSE (including SEAQ International, International Order Book, Hong Kong Order Book (HKOB) and Stock Exchange Electronic Trading Service (SETS)); and
 - Germany – Deutsche Börse and other regional exchanges.
 According to the World Federation of Exchanges, these are the top exchanges by the number of foreign companies listed.
6. In the next section, trading activities of these 119 stocks on HKEx and the mentioned overseas exchanges are compared to give an analysis of the overall situation.
7. Specific comparisons on the trading activities of HSI stocks and H-shares on HKEx and overseas exchanges are carried out in the sections that follow.
8. In addition, shares of 19 companies are traded in all four markets. In the final section, trading activities of these 19 stocks in four markets are compared. Comparisons at individual stock level are also conducted.

³ This does not include the turnover of derivative warrants, exchange-traded funds, equity-linked instruments and listed debt securities.

Data and Methodology

9. Turnover figures sourced from information vendors are counted once (i.e. either buy or sell side) whilst those provided by exchanges may be counted once or counted twice (i.e. both buy and sell sides). For ease of comparison, all turnover figures are adjusted to be counted once in this study.
10. Also, different exchanges may adopt different data compilation methods for turnover. For instance, the SEHK and the NYSE adopt the Trading System View, whilst Nasdaq and LSE adopts the Regulated Environment View. Hence, figures may not be strictly comparable.
11. In addition, turnover reported to the LSE and German exchanges includes trading of ADRs that are listed on the NYSE or Nasdaq. These trading activities are also included in the study.
12. ADRs which are traded over-the-counter are not included in the study, as data is not available.

Trading of the 119 Stocks on HKEx and Overseas Exchanges

Hong Kong accounted for less than 50% of the turnover in 2003

13. Hong Kong accounted for 48.5% of the total turnover of the 119 stocks which were traded locally and overseas in 2003, the UK 44.8%, the US 6.6% and Germany 0.07% (Table 2).

	HK	% of Total	UK	% of Total	Germany	% of Total	US	% of Total	4 Markets Total	% of Total
2000	215,741	62.9%	105,733	30.8%	3,261	0.95%	18,055	5.3%	342,788	100%
2001	187,455	59.0%	119,908	37.8%	530	0.17%	9,713	3.1%	317,606	100%
2002	150,590	48.2%	150,346	48.1%	234	0.07%	11,126	3.6%	312,296	100%
2003	232,408	48.5%	214,575	44.8%	335	0.07%	31,590	6.6%	478,908	100%

Remark: SCB was listed on HKEx in Jul 2002. For comparison purpose, trading of its shares in the UK prior to Jul 2002 was not included.
Sources: MSS, Bloomberg, LSE

Hong Kong's share declined during 2000-2003

14. During 2000-2003, turnover of these 119 stocks in four markets increased 39.7% to US\$478.9 bn. By market, turnover in the UK increased 102.9%, higher than the increases of 75.0% for the US and 7.7% for Hong Kong.
- Hong Kong's share dropped 14.4 percentage points over the period.
 - In contrast, the UK's share increased by 14.0 percentage points.
 - The share of the US was relatively stable (5.3% in 2000 vs. 6.6% in 2003).
 - Germany's share declined and has been less than 1%.

Trading on HKEx and Overseas Exchanges (Excluding HSBC and SCB)

Excluding HSBC and SCB, Hong Kong accounted for more than 80% of the turnover in 2003

15. Trading activities in the UK were accounted for to a large extent by HSBC and to a smaller extent by SCB. In 2003, turnover of HSBC and SCB in the UK amounted to US\$166.1 bn and US\$28.8 bn respectively.
- As percentage of total turnover of HSBC and SCB in four markets, these were 77.8% and 99.7% respectively.
 - As percentage of total turnover of the 119 stocks in the UK, these were 77.4% and 13.4% respectively.
16. Amongst other factors, the high turnover of HSBC and SCB in the UK was attributable to the following factors.
- Both companies have extensive business networks worldwide, although Hong Kong is one of the major profit-generating centres.
 - In financial year 2003, 29% of the pre-tax profit of HSBC originated from Hong Kong and the remaining 71% from other regions. This compared to 38% and 62% of the pre-tax profit coming from Hong Kong and other regions respectively in financial year 2000.
 - Similarly, 28% of the pre-tax profit of SCB came from Hong Kong in financial year 2003 and the remaining 72% from elsewhere. Corresponding figures in financial year 2000 were 57% and 43%.
 - Both companies are constituents of benchmark indices for the UK and European stock markets. Trading and hedging activities of index-tracking funds are likely to give support to the turnover. Some of these indices included the two companies as constituents during 2000-2003 (or some indices were launched over the period). This is believed to be one of the reasons underpinning the growth in turnover of two stocks during 2000-2003. According to information vendors and index compilers,
 - HSBC is a constituent of at least 31 indices or sub-indices such as FTSE100, FTSE Eurotop 100 and MSCI Pan-Euro Index.
 - SCB is a constituent of at least 24 indices or sub-indices. These include FTSE100 and FTSE Eurotop 100 Index.

17. Excluding HSBC and SCB, Hong Kong accounted for 85.9% of the total turnover in four markets in 2003, the UK 8.3%, the US 5.7% and Germany 0.09% (Table 3).

Table 3 – Turnover of 117 Companies (Excluding HSBC and SCB) on HKEx and Overseas Exchanges (US\$ mn)

	HK	% of Total	UK	% of Total	Germany	% of Total	US	% of Total	4 Markets Total	% of Total
2000	188,427	82.9%	19,533	8.6%	2,986	1.31%	16,430	7.2%	227,374	100%
2001	165,414	85.2%	20,782	10.7%	306	0.16%	7,667	3.9%	194,168	100%
2002	126,454	87.1%	15,002	10.3%	108	0.07%	3,551	2.4%	145,116	100%
2003	203,143	85.9%	19,655	8.3%	217	0.09%	13,575	5.7%	236,590	100%

Sources: MSS, Bloomberg, LSE

Excluding HSBC and SCB, Hong Kong's share remained stable during 2000-2003

18. Excluding HSBC and SCB, total turnover in four markets increased 4.1% to US\$236.6 bn. By market, turnover in Hong Kong and the UK increased 7.8% and 0.6% respectively, but that in the US fell 17.4% over the same period.
- Hong Kong's share has been quite stable, ranging from 83% to 87% over the period. From 82.9% in 2000, it increased 3.0 percentage points to 85.9% in 2003.
 - The UK's share shrank to 8.3% in 2003.
 - The share of the US receded to 5.7% in 2003.
 - Germany's share fell to 0.09% in 2003.

Trading of HSI Constituents on HKEx and Overseas Exchanges

19. A similar pattern emerges if we concentrate on HSI constituent stocks; i.e. Hong Kong accounts for less than 50% of the total market but more than 80% if HSBC is excluded.
20. In 2003, total turnover of HSI constituents in four markets amounted to US\$353.5 bn (Table 4). Hong Kong accounted for 43.1%, the UK 50.9%, the US 5.9% and Germany 0.07%.

Table 4 – Turnover of HSI Constituents on HKEx and Overseas Exchanges (US\$ mn)

	HK	% of Total	UK	% of Total	Germany	% of Total	US	% of Total	4 Markets Total	% of Total
2000	181,188	59.6%	104,224	34.3%	3,221	1.06%	15,565	5.1%	304,199	100%
2001	143,493	53.2%	116,984	43.4%	508	0.19%	8,580	3.2%	269,564	100%
2002	125,268	45.6%	139,290	50.7%	221	0.08%	9,788	3.6%	274,567	100%
2003	152,257	43.1%	179,940	50.9%	232	0.07%	21,026	5.9%	353,455	100%

Sources: MSS, Bloomberg, LSE

21. In addition, Hong Kong's share fell 16.5 percentage points during 2000-2003, whereas the UK's share rose 16.6 percentage points. The share of the US was relatively stable. Again, turnover of HSBC, which grew 6.8% in Hong Kong and 92.7% in the UK, contributed to this.
22. Excluding HSBC, Hong Kong accounted for 87.9% of the total turnover of HSI constituents in four markets in 2003, the UK 9.9%, the US 2.2% and Germany 0.08% (Table 5).

Table 5 – Turnover of HSI Constituents (Excluding HSBC) on HKEx and Overseas Exchanges (US\$ mn)

	HK	% of Total	UK	% of Total	Germany	% of Total	US	% of Total	4 Markets Total	% of Total
2000	153,874	81.5%	18,024	9.5%	2,946	1.56%	13,940	7.4%	188,785	100%
2001	121,452	83.1%	17,858	12.2%	283	0.19%	6,533	4.5%	146,126	100%
2002	101,220	86.8%	13,077	11.2%	95	0.08%	2,214	1.9%	116,605	100%
2003	123,087	87.9%	13,809	9.9%	114	0.08%	3,011	2.2%	140,021	100%

Sources: MSS, Bloomberg, LSE

23. Excluding HSBC, Hong Kong's share increased 6.4 percentage points during 2000-2003, whilst the UK's share remained stable at around 10%. The share of the US fell 5.2 percentage points over the period.
24. As far as overseas trading activities of the remaining HSI constituents are concerned, the UK still accounts for a significant proportion. Factors underpinning the relatively high turnover in the UK as compared to other overseas markets include:-
 - the fact that 29 of the HSI constituents are in the Hang Seng London Reference Index;
 - the familiarity of investors in the UK with Hong Kong listed companies; and
 - the availability of firm quotes for some stocks provided by the exchange members on SEAQ International.

Trading of H-shares on HKEx and Overseas Exchanges

Hong Kong accounted for 80% of the turnover of H-shares in 2003

25. In 2003, turnover of H-shares in four markets amounted to US\$79.9 bn. 80.8% of the turnover was conducted in Hong Kong, 6.4% in the UK, 12.7% in the US and 0.11% in Germany (Table 6).

Table 6 – Turnover of H-shares on HKEx and Overseas Exchanges (US\$ mn)

	HK	% of Total	UK	% of Total	Germany	% of Total	US	% of Total	4 Markets Total	% of Total
2000	21,875	87.2%	1,015	4.0%	24	0.10%	2,167	8.6%	25,081	100%
2001	32,123	91.0%	2,118	6.0%	19	0.05%	1,023	2.9%	35,282	100%
2002	18,188	86.9%	1,425	6.8%	11	0.05%	1,303	6.2%	20,927	100%
2003	64,586	80.8%	5,105	6.4%	85	0.11%	10,141	12.7%	79,917	100%

Sources: MSS, Bloomberg, LSE

Hong Kong's share declined during 2000-2003

26. During 2000-2003, total turnover of H-shares in four markets surged 218.6%. All exchanges showed remarkable increases in turnover (Hong Kong +195%, UK +403%, US +368% and Germany +249%).
- Hong Kong's share shrank 6.4 percentage points.
 - The UK's share rose 2.4 percentage points.
 - The share of the US rose 4.1 percentage points.
 - Germany's share remained at around 0.1%.
27. The US accounts for a significant proportion of overseas turnover of H-shares. This might be attributable to the fact that ADRs of some large H-shares are also listed in the US and raise funds there⁴.
28. It appears that apart from the Hong Kong market, trading of HSI constituent stocks is concentrated in the UK whilst that of H-shares is mostly conducted in the US.

Trading of 19 Stocks on HKEx and Overseas Exchanges

29. The analysis so far focuses on market-to-market comparison. To allow comparisons across markets at individual stock level, stocks that are traded in all four markets are included in this section. As mentioned, 19 stocks were traded in all four markets during 2000-2003 (including five HSI constituents, 13 H-shares and one other stock).

⁴ The role of Hong Kong as a fund-raising centre for Mainland enterprises has been discussed in a previous research paper entitled "IPO Activities in Hong Kong". The paper is downloadable from the SFC website <http://www.hksfc.org.hk/eng/statistics/html/index/index0.html>.

Hong Kong accounted for less than one-third of the turnover in 2003 and its share declined during 2000-2003

30. In 2003, Hong Kong accounted for 31.2% of the total turnover of the 19 stocks in four markets, the UK 58.2%, the US 10.5% and Germany 0.09% (Table 7). During 2000-2003, Hong Kong's share decreased 11.7 percentage points, whilst the UK's share increased by 11.5 percentage points. The share of the US also gained 1.6 percentage points.

Excluding HSBC, Hong Kong accounted for 74% of the turnover in 2003 and its share increased during 2000-2003

31. Excluding HSBC, a large proportion of the turnover of the remaining 18 stocks is still conducted in Hong Kong. Besides, Hong Kong's share increased slightly during 2000-2003.
- Excluding HSBC, Hong Kong accounted for 74.0% of the turnover in 2003. Contributions from the UK, the US and Germany were 10.3%, 15.5% and 0.17% respectively.
 - Excluding HSBC, Hong Kong's share increased 5.6 percentage points during 2000-2003. The UK's share remained relatively stable, whilst that for the US and Germany dropped by about 3 percentage points each.

At individual stock level, Hong Kong accounted for over half of the turnover of most stocks in 2003

32. It has been mentioned that trading of HSBC is concentrated in the UK, with a share of 77.8% in 2003. Excluding HSBC, all the 18 stocks had over half of the turnover conducted in Hong Kong in 2003. Of these, 11 stocks had over 75% of the turnover conducted in Hong Kong.

At individual stock level, turnover of 14 stocks in Hong Kong increased during 2000-2003

33. Comparing the figures in 2003 with those in 2000 (or earliest available year), 14 stocks recorded increases in their turnover in Hong Kong, whilst the other four stocks recorded decreases (one stock was listed in 2003 – no comparison is made). This compared to
- 14 stocks had their turnover increase in the UK;
 - 13 stocks had their turnover increase in the US; and
 - 11 stocks had their turnover increase in Germany over the same period.

At individual stock level, Hong Kong's share in 10 stocks increased during 2000-2003

34. Comparing the share in 2003 with that in 2000 (or earliest available year), Hong Kong's share increased in 10 stocks, whilst in the other eight stocks it decreased (one stock was listed in 2003 – no comparison is made).
- The UK's share increased in 13 stocks and decreased in the remaining five stocks;
 - The share of the US increased in six stocks and declined in 11 stocks (one remained unchanged).
 - Germany's share increased in six stocks and declined in the remaining 12 stocks.

Table 7 - Turnover of the 19 Stocks on HKEx and Overseas Exchanges (US\$ mn)

Stock Code	2003					2002					2001					2000				
	4 Markets Total	% of Total				4 Markets Total	% of Total				4 Markets Total	% of Total				4 Markets Total	% of Total			
		HK	UK	Germany	US		HK	UK	Germany	US		HK	UK	Germany	US		HK	UK	Germany	US
5	213,433.7	13.7%	77.8%	0.06%	8.4%	157,961.8	15.2%	79.9%	0.08%	4.8%	123,438.4	17.9%	80.3%	0.18%	1.7%	115,414.0	23.7%	74.7%	0.24%	1.4%
8	5,372.6	92.2%	7.3%	0.10%	0.4%	3,558.1	90.3%	8.3%	0.17%	1.2%	7,174.6	83.2%	14.3%	0.58%	1.9%	12,864.8	63.2%	17.4%	11.80%	7.7%
325	1,222.1	91.4%	1.4%	0.05%	7.1%	282.9	94.4%	4.2%	0.05%	1.3%	541.0	97.2%	0.9%	0.04%	1.9%	446.9	94.9%	0.9%	0.08%	4.1%
338	1,612.0	83.3%	5.0%	0.14%	11.5%	641.9	93.1%	3.0%	0.08%	3.8%	999.1	95.1%	1.7%	0.09%	3.1%	1,201.4	92.4%	2.4%	0.22%	4.9%
368	1,095.6	96.1%	0.3%	0.05%	3.6%	160.4	97.8%	0.3%	0.09%	1.7%	617.4	96.9%	0.8%	0.06%	2.2%	195.0	92.1%	1.3%	0.15%	6.4%
386	6,601.6	63.4%	18.1%	0.05%	18.4%	1,457.4	86.0%	8.9%	0.01%	5.1%	3,717.7	83.0%	11.6%	0.01%	5.4%	1,493.5	68.3%	3.8%	0.02%	27.9%
525	648.8	79.6%	3.7%	0.04%	16.7%	264.0	92.7%	3.1%	0.02%	4.3%	665.2	90.9%	5.9%	0.02%	3.2%	366.5	79.7%	5.4%	0.05%	14.9%
670	860.7	94.5%	2.6%	0.09%	2.8%	549.7	96.4%	1.8%	0.02%	1.8%	823.1	96.6%	1.7%	0.03%	1.7%	1,105.1	95.9%	0.9%	0.09%	3.0%
728	6,846.1	73.5%	12.6%	0.06%	13.8%	1,103.3	45.8%	9.5%	0.00%	44.8%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
762	5,105.7	68.9%	12.2%	0.10%	18.8%	4,977.4	75.9%	15.0%	0.03%	9.1%	11,441.3	71.8%	13.5%	0.07%	14.6%	14,307.5	56.7%	12.2%	0.17%	30.9%
857	12,027.0	67.6%	10.7%	0.25%	21.5%	3,093.4	78.8%	12.7%	0.04%	8.5%	5,468.6	80.3%	15.1%	0.02%	4.5%	7,238.6	79.5%	6.6%	0.02%	13.8%
883	5,694.3	83.5%	7.1%	0.04%	9.4%	4,020.6	74.7%	18.8%	0.01%	6.5%	4,319.3	69.9%	13.0%	0.01%	17.1%	n.a.	n.a.	n.a.	n.a.	n.a.
902	4,110.9	72.0%	7.0%	0.08%	21.0%	2,194.4	75.2%	12.1%	0.05%	12.6%	1,833.4	67.9%	14.7%	0.11%	17.3%	1,301.3	44.7%	16.6%	0.15%	38.6%
941	20,190.6	76.3%	16.0%	0.34%	7.4%	19,172.9	79.3%	12.7%	0.31%	7.6%	30,440.1	69.4%	17.0%	0.49%	13.1%	44,608.2	70.1%	8.5%	2.34%	19.1%
1055	1,208.3	92.0%	3.8%	0.04%	4.1%	700.7	92.7%	4.8%	0.08%	2.4%	899.9	92.4%	3.9%	0.08%	3.6%	1,007.3	89.9%	3.7%	0.19%	6.2%
1114	3,294.7	83.3%	3.5%	0.40%	12.9%	721.4	90.6%	4.5%	0.08%	4.8%	1,402.1	87.2%	4.7%	0.13%	7.9%	896.1	60.9%	2.8%	0.27%	36.0%
1171	1,474.8	87.4%	5.8%	0.03%	6.8%	675.8	92.3%	6.9%	0.01%	0.8%	1,138.7	94.3%	4.4%	0.05%	1.2%	588.7	98.1%	0.7%	0.04%	1.1%
2600	3,709.0	67.0%	8.9%	0.05%	24.0%	1,166.7	80.6%	9.0%	0.00%	10.3%	241.9	50.1%	0.9%	0.00%	49.0%	n.a.	n.a.	n.a.	n.a.	n.a.
2628	6,565.8	52.7%	0.7%	0.14%	46.4%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	301,074.4	31.2%	58.2%	0.09%	10.5%	202,702.9	29.5%	64.9%	0.10%	5.5%	195,161.9	38.8%	56.0%	0.22%	5.0%	203,034.8	43.0%	46.7%	1.42%	8.9%
Total ex HSBC	87,640.6	74.0%	10.3%	0.17%	15.5%	44,741.1	79.8%	12.1%	0.16%	7.9%	71,723.5	75.0%	14.0%	0.29%	10.7%	87,620.8	68.4%	9.9%	2.97%	18.8%