

# The 8th Asia Pacific Trading Summit

## HKEx – Becoming Globally Competitive

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Chief Executive, HKEx

**13 May 2010**

## Strategic Positioning of HKEx

Leveraging on Hong Kong's position, HKEx will become the leading global exchange combining the best characteristics of Chinese and international markets

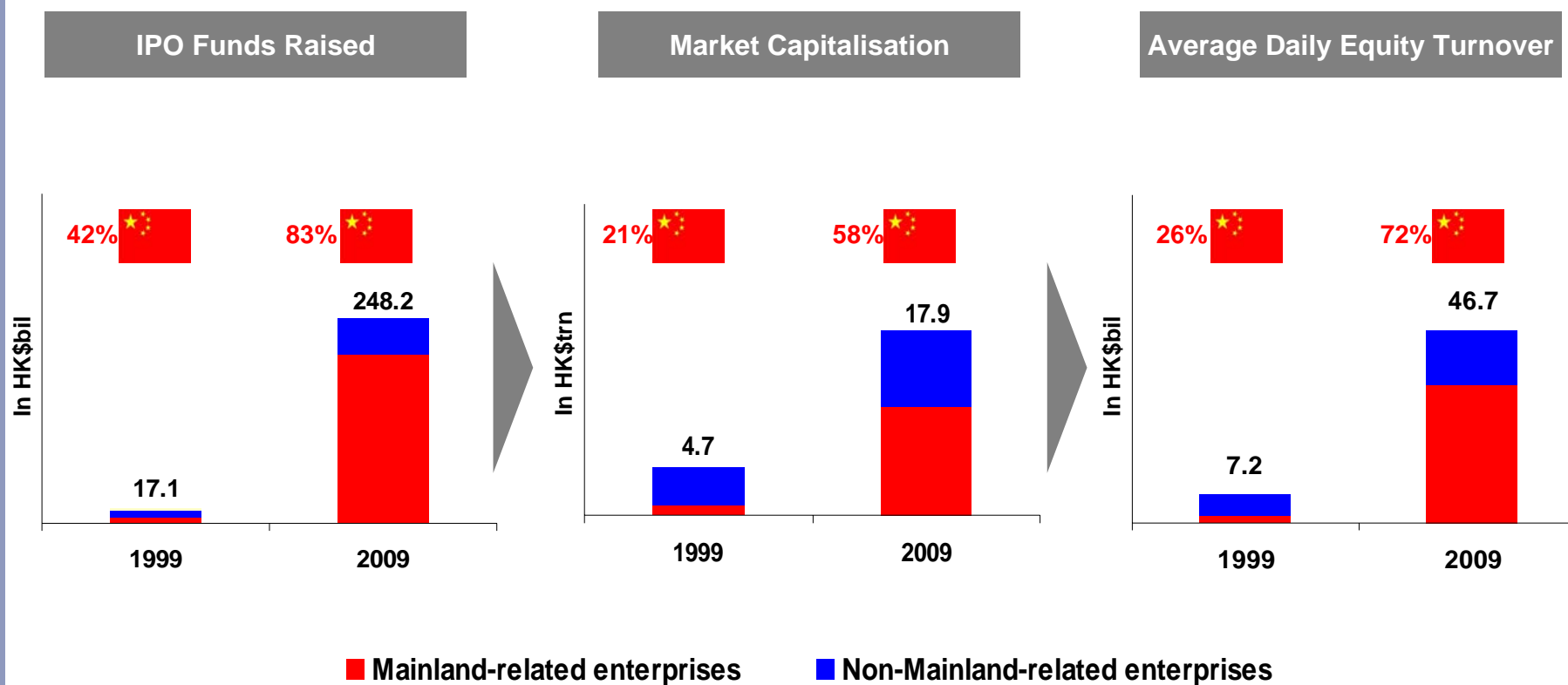
**For our Chinese  
issuers and investors**

**HKEx is the international exchange of choice to access and achieve their global aspirations**

**For our global  
issuers and investors**

**HKEx is the China exchange of choice to access and achieve their China aspirations**

## Historically Primary Market Has Driven Growth – Fuelled by Mainland Listings



Continued IPO flow and growing follow-on pipeline (ICBC, BOC, CCB)

## International Listings – A New Growth Driver

### Key Drivers

Asia / China Nexus

Becoming a Global Natural Resources Listing Centre

Emerging Industries:  
Gaming / Alternative Energy

Strong Investor Appetite

Transparent and efficient listing regime

### Examples



US\$2.2bil  
Russia



US\$393mil  
Canada



US\$2.5bil  
US



US\$1.9bil  
US

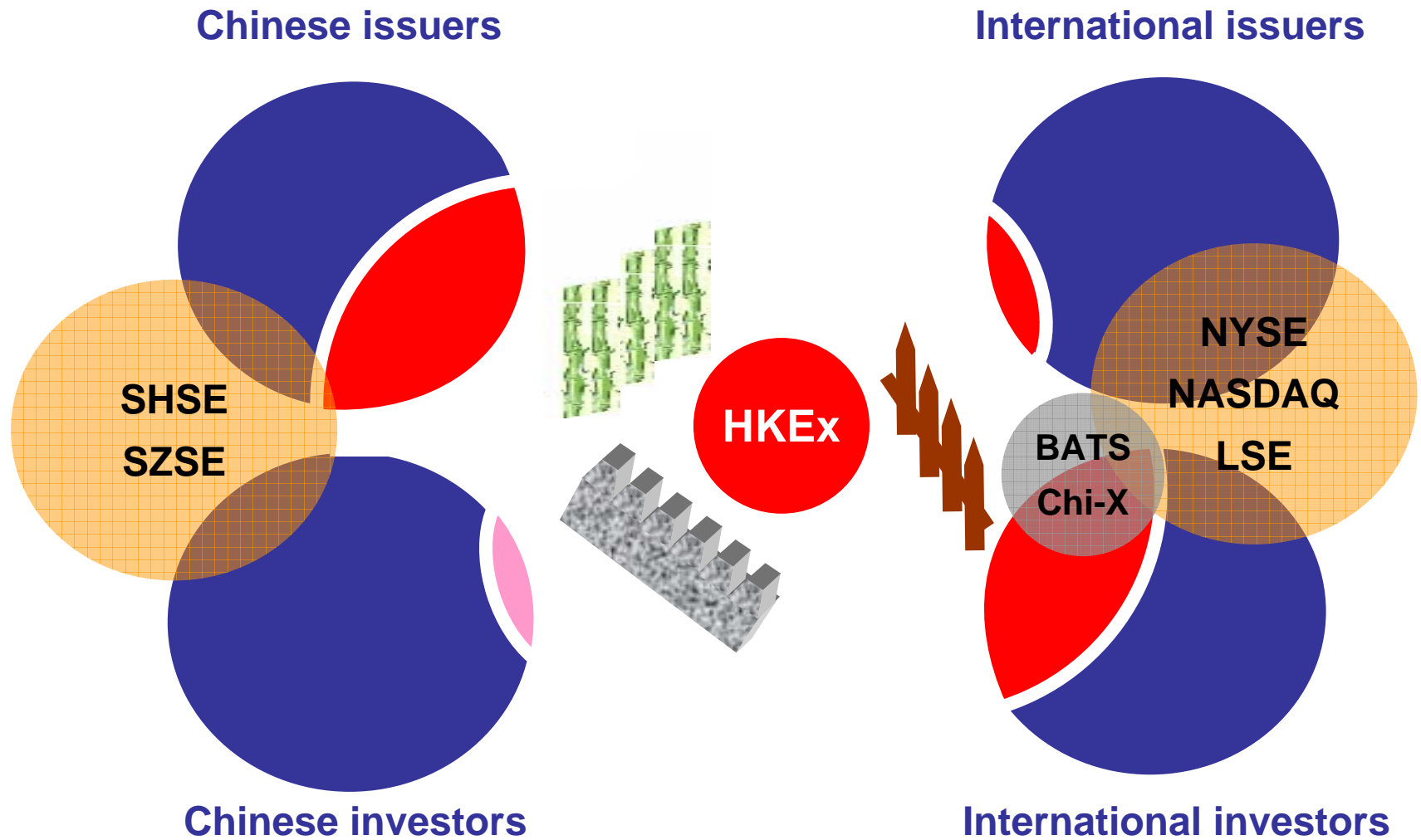


US\$706 mn  
France

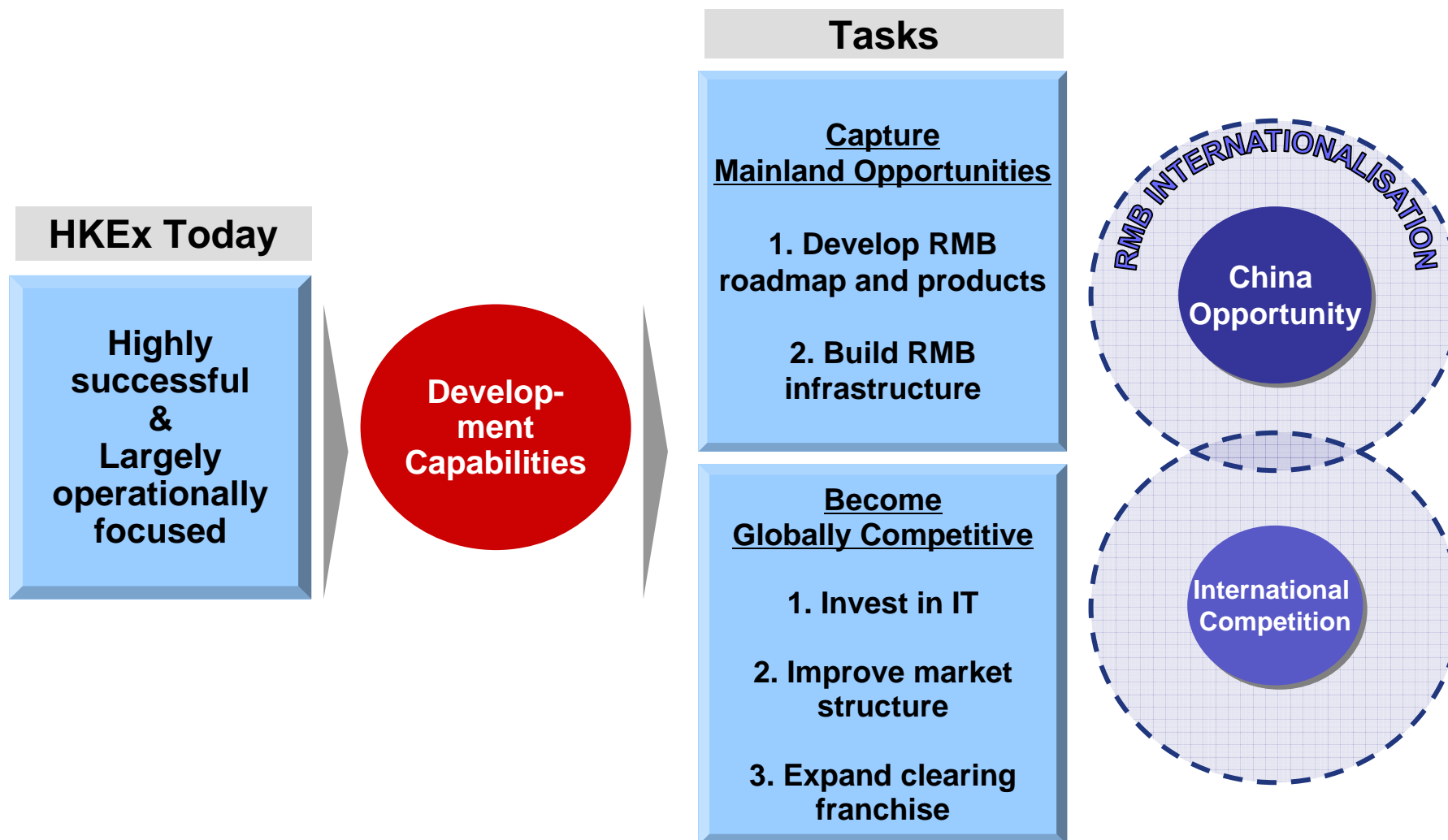


**PRUDENTIAL**  
Upcoming  
UK

## A Long but Assured Path to Global Leadership

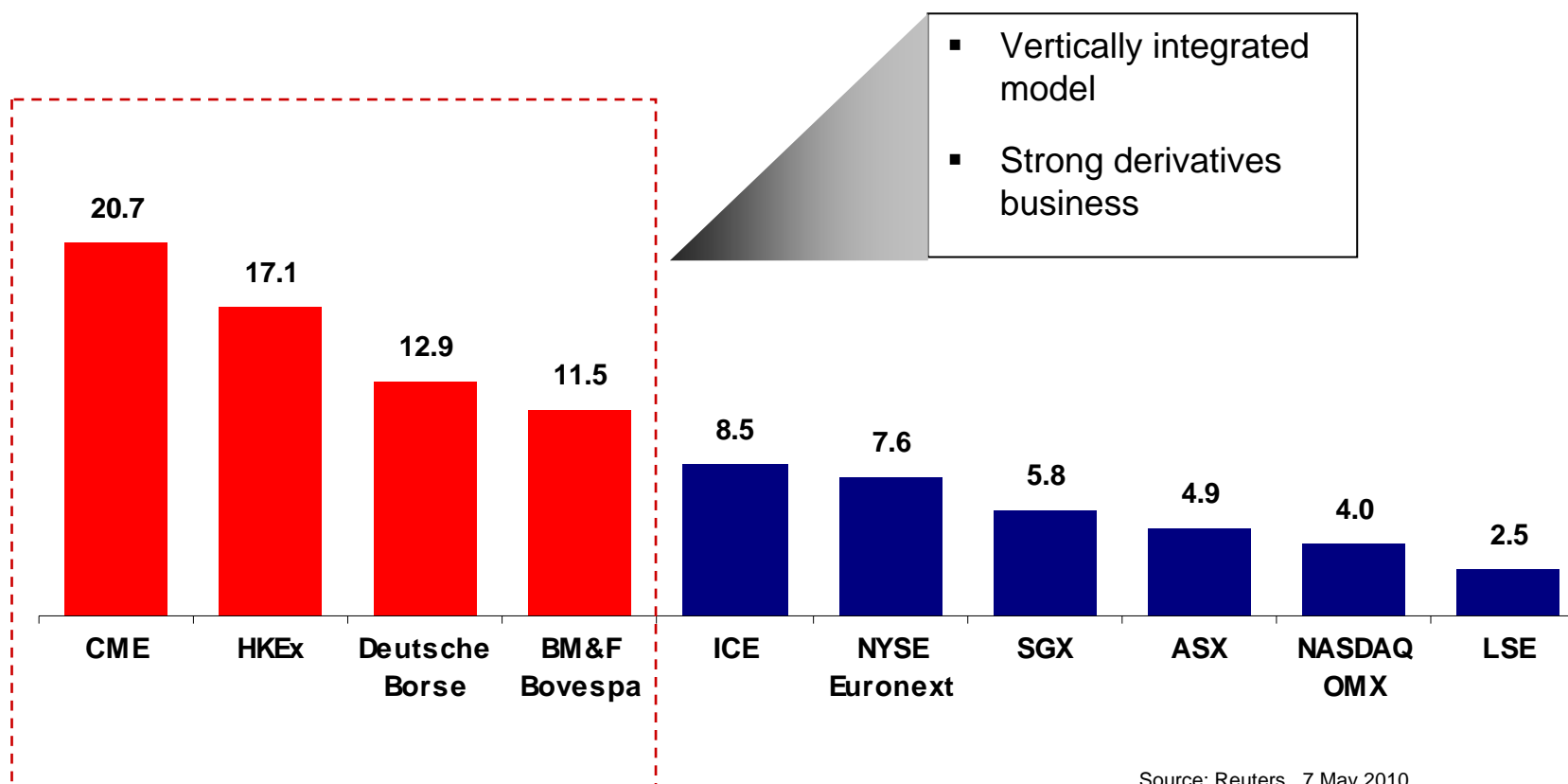


## Twin Forces of Opportunity and Competition



## HKEx is the World's Second Largest Listed Exchange by Market Capitalisation...

Listed Exchange Market Capitalisation (in US\$ bil)



Source: Reuters, 7 May 2010

... but we need to preserve our position by becoming globally competitive

## Why Does HKEx Need to Be Globally Competitive?

	<u>Industry Trend</u>	<u>Implication for HKEx</u>
<b>Challenges</b> <b>M&amp;A</b>	<ul style="list-style-type: none"> <li>▪ M&amp;A – rising trend               <ul style="list-style-type: none"> <li>▪ Scale</li> <li>▪ Core/incremental capabilities</li> </ul> </li> <li>▪ Fewer growth opportunities in home markets</li> </ul>	<ul style="list-style-type: none"> <li>▪ International competitors looking to expand global footprint</li> <li>▪ Race to gain foothold in Asia as China opens up</li> <li>▪ Chance to boost HKEx capabilities through selective partnerships</li> </ul>
<b>ATS</b>	<ul style="list-style-type: none"> <li>▪ Transformed market in US and Europe</li> <li>▪ Threat not imminent in Asia...but               <ul style="list-style-type: none"> <li>▪ Cannot afford complacency</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Learn from the West</li> <li>▪ Ready to compete with new players               <ul style="list-style-type: none"> <li>▪ Invest in IT</li> <li>▪ Improve market structure</li> </ul> </li> </ul>
<b>Opportunities</b> <b>Mainland</b>	<ul style="list-style-type: none"> <li>▪ Great potential</li> <li>▪ Timing/size of business uncertain</li> <li>▪ First mover advantage crucial</li> </ul>	<ul style="list-style-type: none"> <li>▪ Need to be well-prepared               <ul style="list-style-type: none"> <li>▪ Product innovation</li> <li>▪ Best technology</li> <li>▪ Efficient market structure</li> </ul> </li> </ul>



## Mergers and Acquisitions in Exchange Industry

Late 1990's

2010

**1. Regional and global consolidation**

**2. Convergence of asset classes**

**3. Add core capabilities: technology and clearing**

**4. Add incremental capabilities: indices, data, alternative trading platform**

**5. Partnership and alliances**

## Exchange Landscape – ATS

### Regulatory Changes

- NMS in US
- MiFID in Europe
- Not much yet in Asia

### Participant Demand

- New type of investor strategies
- Pricing and cost efficiencies
- Reduced market impact

### Technology

- Evolving buy-side and brokers' requirements
- Latency, capacity and functionality improvements

### RESULT:

- Quest for best execution
- Proliferation of new entrants:
  - ECN, dark pool, MTF, crossing network
  - Market / data fragmentation

### IMPACT:

- Pros:
  - Execution efficiency
  - More liquidity
  - Lower fees
- Cons:
  - Reduced transparency
  - Higher market impact costs (Europe)
  - Inefficient price discovery

## Alternative Trading Venues – Asia

### Key Constraints:

- Regulatory protection
- Less advanced technology
- Relatively smaller market size
- Inconsistent market practices and trading structure

### Impacted Markets:



Japan



Australia

### ATS Market Share: <5%



SIGMA X



TAP



Crossfinder

CREDIT SUISSE

## How Does HKEx Become Globally Competitive?

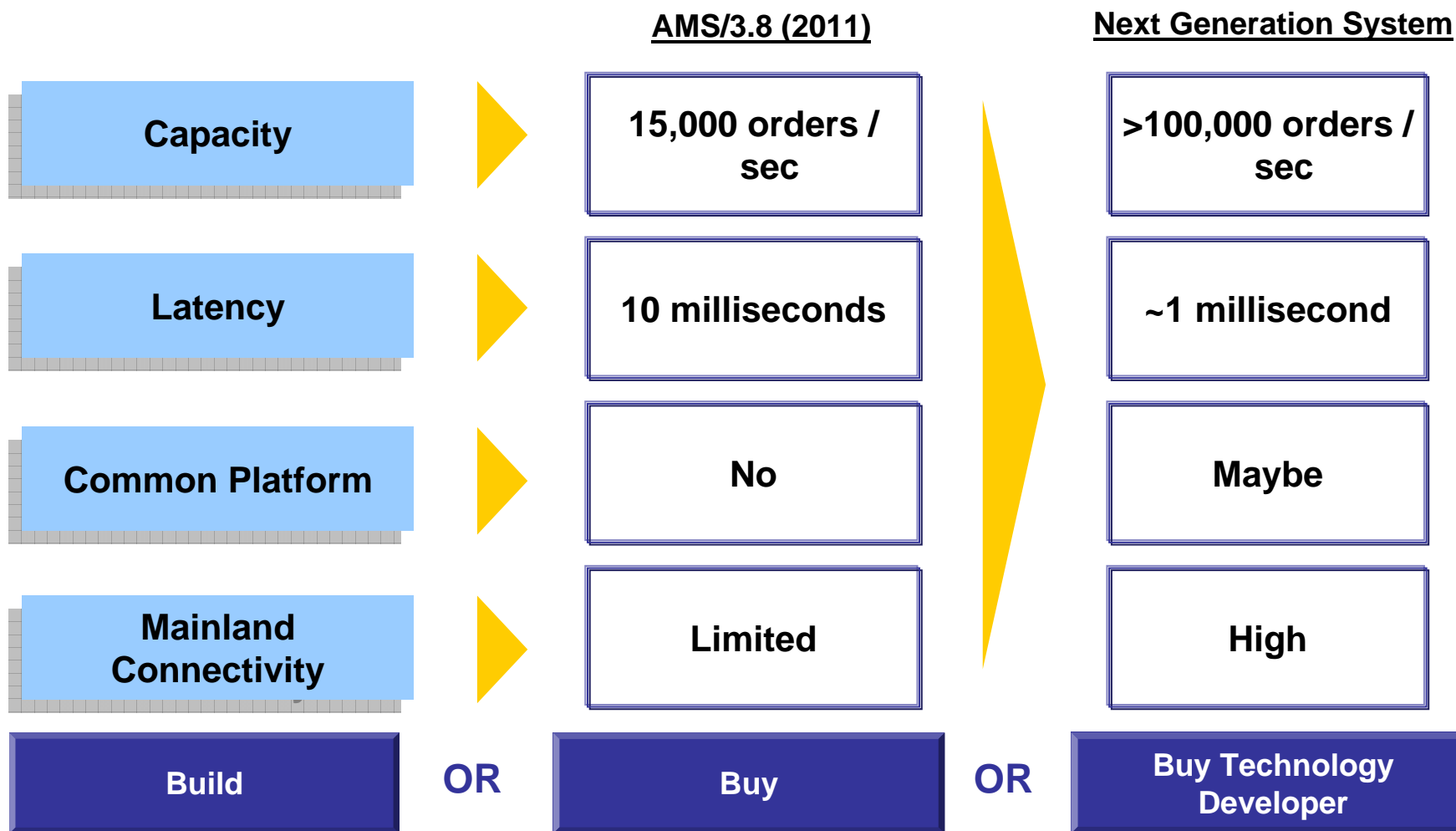
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**1. Invest in IT Infrastructure**

**2. Improve Market Structure**

**3. Strengthen and Extend Clearing Franchise**

# 1. Invest in IT Infrastructure



## 2. Improve Market Structure – Key Considerations

**Government Policy**

**Trade Execution**

**Mainland Compatibility**

**Position limits**

**Anonymity**

**Execution at market close**

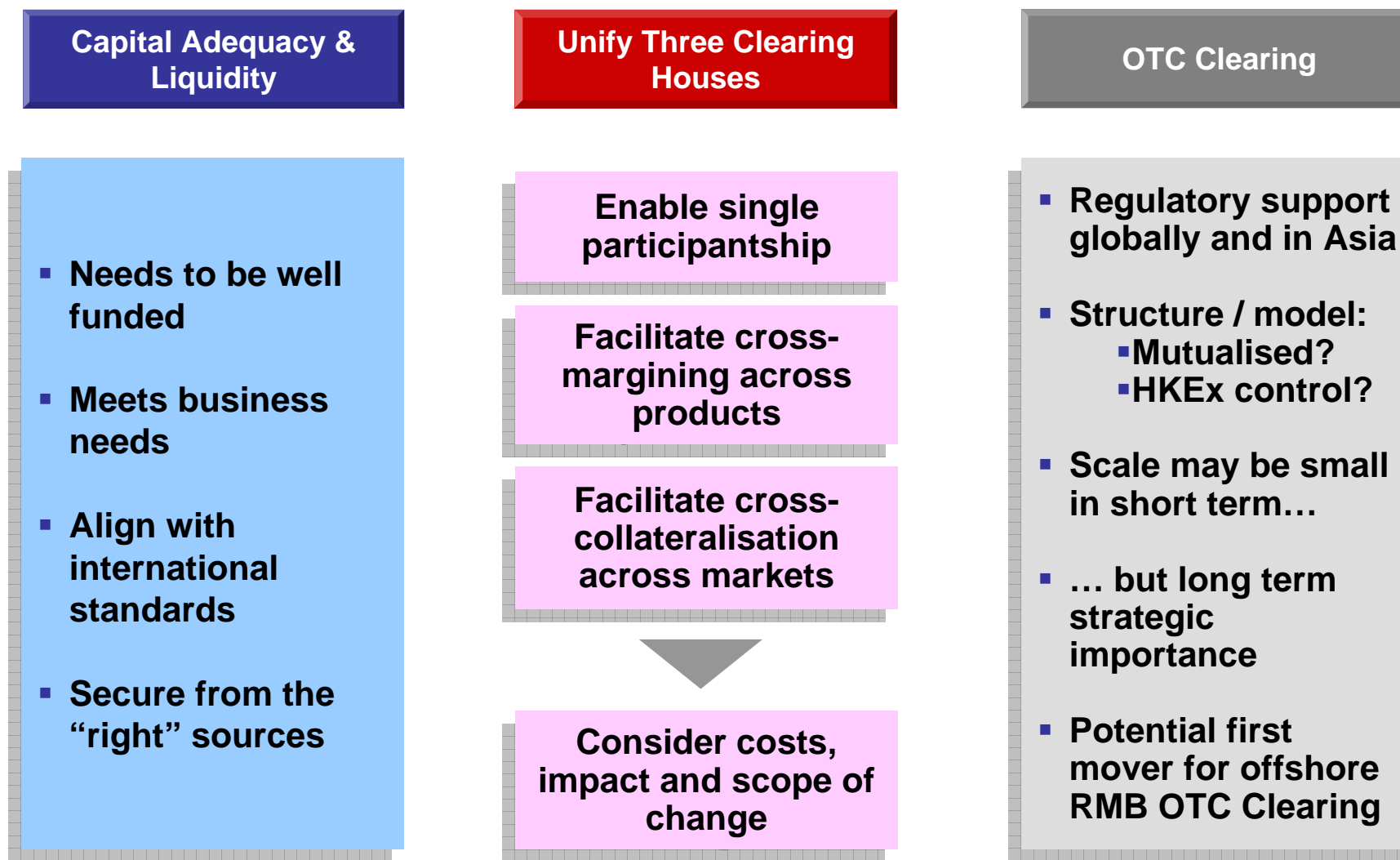
**Spread**

**Transaction costs**

**Trading hours**

**Connectivity & market structure**

### 3. Strengthen and Extend Clearing Franchise



## Selectively Leverage Strategic Alliances

### Rationale for Possible Cooperation

IT

- Develop next generation trading system

OTC  
Clearing

- Build capabilities for clearing of OTC derivatives

Market  
Data

- Offer new products such as issuer data package
- Index business strategy

### Industry Examples





## HKEx Strategic Plan 2010-2012

### Core Strategy

- New listings
- Growth of core markets and products

### Extension Strategy

- Preserve position through IT investments
- Prepare by advocating market changes and introducing new products

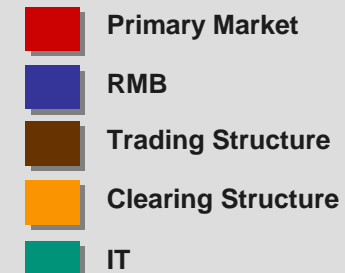
### Expansion Strategy

- Add new asset classes
- Build RMB franchise
- Welcome Mainland investors

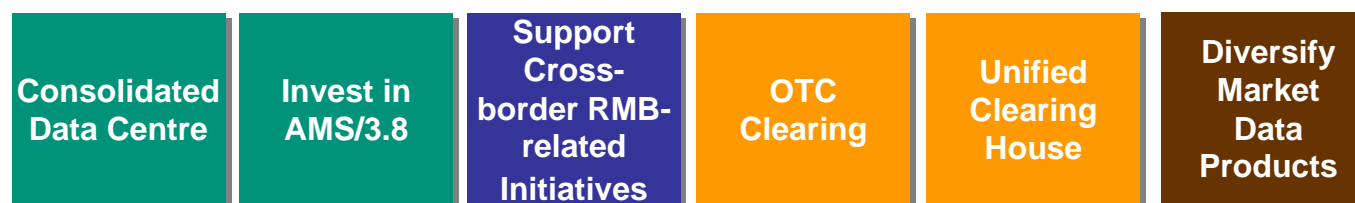
**A Phased but Integrated Strategic Plan**

## Strategic Plan – Key Initiatives

### Core



### Extension



### Expansion



## In Summary: Work Together for an Even Better Tomorrow

### We Must:

**Maintain our operational focus**

**Be patient and prudent**

**Balance divergent interests**

**Build consensus**

**AND WE WILL SUCCEED**