

SECTION 2: QUESTIONS FOR RESPONSE

Please indicate your views by providing comments as appropriate. Where there is insufficient space, please use additional sheets of paper as necessary.

HKEx's Proposal 1: Revise HKEx Stress Testing Assumptions

Questions

1. Do you support the proposed revision of the Price Movement assumptions in stress testing?

Yes

No

Please provide reasons for your response and include any other suggestions or comments you may have on this question:

It is reasonable to propose a percentage which is close to worst case price movement during the most volatile periods. However, the assumptions should be reviewed when there is a new high point in the future,

2. Do you support the proposed revision of the Counterparty Default assumption in stress testing?

Yes

No

Please provide reasons for your response and include any other suggestions or comments you may have on this question:

It makes sense to apply similar approach to international practices. However, we are not entirely sure whether the 5th largest CPs properly Reflects the market since the top five firms disproportionately represent the market

HKEx's Proposal 2: Introduce Margining and Dynamic Guarantee Fund in HKSCC

Questions	
3.	<p>Do you agree with the proposed margining arrangements at HKSCC?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/></p> <p><input type="checkbox"/> No</p> <p>Please provide reasons for your response and include any other suggestions or comments you may have on this question:</p> <p><u>This will help safeguard against exposures to future market movement.</u></p> <p><u>We agreed that the margin credit is a necessary measure to relief the Operational burden on margin payments. Please consider to grant more than HKD5mn margin credit to CPs with sound financial resources.</u></p> <hr/> <hr/>
4.	<p>Do you agree with the proposed Dynamic GF model at HKSCC?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/></p> <p><input type="checkbox"/> No</p> <p>Please provide reasons for your response and include any other suggestions or comments you may have on this question:</p> <p><u>It is good to know that HKSCC will increase the level of Dynamic GF Credit for CPs with sound financial resources. Please seek SFC approval to allow GF contributions to be counted as liquid capital.</u></p> <hr/> <hr/> <hr/> <hr/>

HKEx's Proposal 3: Revise HKCC Reserve Fund Calculation

Questions	
5.	<p>Do you support the proposed revisions to the HKCC Collateral assumption?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>Please provide reasons for your response and include any other suggestions or comments you may have on this question:</p> <p><u>We agreed that IDM Call may not be collected on time. It makes sense to exclude it from the assumption.</u></p> <p>_____</p> <p>_____</p> <p>_____</p>
6.	<p>Do you support the use of HKCC Contingent Advance in relieving burden of CPs?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>Please provide reasons for your response and include any other suggestions or comments you may have on this question:</p> <p><u>This contingent support will greatly help CPs to relief the burden upon default situation. The contribution by each non-defaulting CP is expected to be low in case of default, and less than their current amount of RF.</u></p> <p>_____</p> <p>_____</p>
7.	<p>What is your view on allowing RF contribution to be counted as liquid capital? Will this help your company in terms of reducing liquid capital funding burden?</p> <p><u>We strongly agree to allow RF contribution to be counted as liquid capital. This will help our company in liquid capital funding burden. Please seek SFC approval before the implementation. Please see attached letter which our firm supports.</u></p> <p>_____</p> <p>_____</p> <p>_____</p>

HKEx's Proposal 4: Revise SEOCH Reserve Fund Calculation

Questions

8. Do you support the proposed revisions to the SEOCH Collateral assumption?

Yes

No

Please provide reasons for your response and include any other suggestions or comments you may have on this question:

We agree to align the assumption with the practice of HKCC.

The credit given to risk margin deposit will help our company's financial resources burden.

Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Re: Consultation Paper on HKEx Clearing House Risk Management Reform Measures

Dear Sirs:

We, the members of the [REDACTED] all have our various opinions on the above mentioned risk management measures that the exchange proposes to put in place. However, we were all in agreement that the measures should allow for the utilization of reserve fund contributions in the liquid capital computations.

Having three separate clearing houses for the cash, commodities and options market without the ability to offset margin and truly measure a firm's risk, is an extremely inefficient use of capital. The large margins required for what collectively can be small risk positions, requires excessive amounts of capital that ultimately hurts the competitiveness of the Hong Kong markets. Firms are constantly under pressure to allocate their capital efficiently and often have to enter into costly sub-loan arrangements further tying up capital that could be utilized elsewhere. The new measures may make the situation much worse and end up unintentionally reducing liquidity in the markets. When the cost of capital is greater than the anticipated return on that capital, firms will choose to do business elsewhere. Unfortunately, with these new measures, Hong Kong is moving in that direction.

To offset this impact, we strongly urge the Exchange and Securities and Futures Commission ("SFC") to allow the use of reserve fund contributions in the liquid capital computation. The funds are held at the exchange and are available in a worst case scenario. The use of these funds in the liquid capital computation is not without precedent. Most major regulators and exchanges recognize all or most of these funds to be used for regulatory capital. This list includes the United States (NYSE, FINRA, CBOE), United Kingdom (LSE), and Switzerland (EUREX).

We urge you to please consider follow global convention and allow us to utilize our capital in ways that can benefit Hong Kong. Sufficient measures are being put in place to protect investors and the exchange. Allowing reserve fund contributions to be counted as liquid capital will not create additional risk and will ultimately benefit the market.