

## PART B: DETAILED QUESTIONS FOR RESPONSE

Please indicate your preference by providing comments as appropriate. Where there is insufficient space, please attach additional pages as necessary.

- (1) The first commitment period of the Kyoto Protocol will expire in 2012. The continuity of CERs as recognized carbon emission offsetting credits under the Kyoto Protocol is subject to a new international framework for the second commitment period under negotiation with a target completion in the United Nations Climate Change Conference in Copenhagen in December this year. Meanwhile, the US appears to be committed to develop a US emission trading scheme, but the details of the scheme are subject to further announcement and the relevance of CERs is uncertain. Against this background, do you think CERs should be the core carbon emission product to pursue in Hong Kong now or in a few years' time?

Personally speaking, I believe CDM or a streamlined substitute will continue among developed and developing countries. As far as I know, overwhelming majority of Chinese CDM projects are financed by CERs buyers. It means that the CERs are sold at early development stage in order to get prepayment by the seller of the development costs like validation and registration fee. The cost for the prepayment is the much lower unit CER price compared to the price in the secondary market.

But the CERs generators will gradually realise that their CERs income has the chance to be maximized, that is to develop their projects by themselves and sell the issued CERs through various ways, OTC, auction, ect. As long as the market mechanism exists in the GHG reduction activities, the big players in developing countries will be aware of the value of participation in the secondary market.

I think CERs should be the core carbon product HK should pursue after the Copenhagen conference.

- (2) At this stage, the global CER market is dominated by European participants connected to the EU ETS and the delivery of CERs is based on the EU standard. Mainland China is the major supplier of CERs, which focuses on clean development projects and CER origination. Under Mainland China's policy, CERs are usually engaged by foreign investors based on forward sale agreements before they are issued by the United Nations. As such, the secondary CER trading market is not developed. European participants are using CER markets in Europe to manage their carbon emission trading needs and risk exposure. Under the existing market conditions, in what way can Hong Kong add value to the business process of the CER market and attract carbon emission trading participants to the Hong Kong marketplace? What are the success factors for Hong Kong to develop a commercially viable CER trading platform that can attract trading activities and develop trading liquidity? Do you think Hong Kong possesses the success factors? Please explain your view.

The value of HK lies in its location and potential business coverage, like CCX is mainly for US voluntary carbon products and ECX mainly for EUA products. HK shall explore its characteristic carbon product, as CERs. I'm not an expert but I suppose the trading could be on the basis of ECX, but may be better if develop new elements designed particularly for the CDM market situation. I believe HK possesses the basic professional success factors, as a stage between East and West. But final success is subject to the platform design.

- (3) Do you consider Hong Kong investing communities have sufficient knowledge in carbon emission trading and are they ready to participate in trading CERs products? Please explain your view.

I don't know if Hong Kong investing communities have sufficient knowledge in carbon emission trading and are they ready to participate in trading CERs products? But I think a basic investigation of big Chinese CDM players including project owners are necessary.

- (4) If you are a financial intermediary, please respond to the following questions:

- (i) Do you see any potential in the asset class of carbon emissions and how would you rank the priority of carbon emission trading business among your other business initiatives? (high, medium or low)?

[REDACTED]

- (ii) How would you assess your clients' interest in carbon emission trading? Do you have the know-how and expertise in handling carbon emission trading related operations and providing advisory services to your clients?

[REDACTED]

(iii) Are you located in Hong Kong and if so are you an Exchange Participant of Hong Kong Futures Exchange?

[REDACTED]

(5) Are there any other issues regarding the introduction of CER futures not mentioned in this consultation paper that we ought to consider? Please explain your view.

I think the risks exposed to by the CERs seller and developer may be considered, such as the payment risk, and project risk due to the technical change or social, policy change, etc.

(6) Do you have any other comments in relation to the overall development of emissions or pollutants trading markets in Hong Kong?

Not yet.

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