

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?

We believe the product should be launched now as there is already a lot of CER's issued in the market and the product will allow participants to better hedge their exposure. We also believe that in addition to CER's, the HKEX should also consider a EUA contract.

- (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.

Hong Kong is an ideal market for CER futures given its free capital market structure as compared to China which has capital and currency controls. We see key success factors as being the fee and liquidity. Liquidity of the product should improve if there are enough market makers. We believe Hong Kong possesses the success factors as it is a developed financial market with sophisticated market participants.

- (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.

We believe that existing investing communities may not have sufficient knowledge in carbon trading unless they already have colleagues that do so in Europe or US. This is changing rapidly as carbon trading is garnering increasing attention especially with the progress the US is making with regards to their climate bill. Furthermore, existing players such as ourselves can help educate market participants.

- (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)?

High as this is our core business.

- (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?

We deal mostly with compliance buyers throughout Europe therefore our client's interest in emission trading is high. We have the know-how in handling carbon emission trading products as we have been operating in this market for 6 years. We are one of the leading participants on Bluenext and ECX in Europe.

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

Yes we are located in Hong Kong but headquartered in Europe. We are not yet a participant of the Hong Kong Futures Exchange but will be if there is a carbon product launched.

(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.

We are also of the view that the HKEX should consider a EUA contract in conjunction with the CER product. This allows participants to swap their CER portfolio into EUA's. Some participants may choose to do this as EUA's provide more certainty as we approach the third Kyoto trading period. Some participants may also wish to take positions based on their view of the spread between EUA's and CER's.

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

We believe that over time, there will be multi trading schemes operating independent of each other around the world with varying use of CER's as an offset. Hong Kong has a role to play as a market for participants within the region as they are located in the same time zone.

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