

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
<p>1. Do you support the proposed revision of the Price Movement assumptions in stress testing?</p> <p><input checked="" type="checkbox"/> Yes</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>Proposed HKSCC price movement assumptions adopted the highest price movements seems reasonable but the HSCEI futures and options proposed price movement assumptions seem over conservative.</u></p>
<p>2. Do you support the proposed revision of the Counterparty Default assumption in stress testing?</p> <p><input checked="" type="checkbox"/> Yes</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>Taking the 5 largest CP instead of the 2 largest in the Counterparty Default Assumptions seems arbitrage.</u></p>

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

Questions

3. Do you agree with the proposed margining arrangements at HKSCC?

☐ Yes

☒ No

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

- (1) Based on the margin calculated under the proposed margining arrangements for the 3 years observation period (2007 – 2010), a significant increase of daily average funding will be required for Margin & Dynamic GF. This would certainly have a great impact in our operational expenses – funding costs.
- (2) The 5 million Margin Credit for alleviating participants' burden in margin seems to be more beneficial to small-size participants than medium and large-size participants. If the Exchange wants to subsidize participants in a more meaningful and efficient manner, the amount of Margin Credit should be given according to the sizes of participants. The Exchange might consider giving different scales of Margin Credit for different sizes of participants.
- (3) The Dynamic GF, which accounts for 25 to 40 percents of the collectible and is a significant portion, is calculated from a statistical model of the Exchange which means participants will have a great degree of uncertainty in estimating the required funding for the Dynamic GF.
- (4) As pointed out in the Questionnaire, the Dynamic GF, unlike Margin, will not be classified as liquid capital under the Financial Resources Rule ("FRR") which means additional funding is required in order to comply with FRR. This is the additional burden for participants.
- (5) Under the new margin arrangements, small and medium-size participants might have difficulty in finding the funding required for the new Margins and Dynamic GF, especially in volatile market environments, which implies that the likelihood of default might increase and this outcome is against the original purpose of the new arrangement.
- (6) Alternatively, small and medium-size participants with problems of funding the margin collectible might give up their clearing function to other large-size participants. If this becomes the market trend, the market will be polarized into one side with a few large-size participants clearing for many small and medium-size brokers and on the other side with a number of small-size brokers which are not

affected by the new arrangement under the subsidy of Margin Credit. Therefore, the systematic risk is getting even bigger.

4. Do you agree with the proposed Dynamic GF model at HKSCC?

☐ Yes

☒ No

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

Please refer to Question 3. _____

HKEx's Proposal 3: Revise HKCC Reserve Fund Calculation

Questions

5. Do you support the proposed revisions to the HKCC Collateral assumption?

☒ Yes

☐ No

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

6. Do you support the use of HKCC Contingent Advance in relieving burden of CPs?

☒ Yes

☐ No

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

7. 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?

RF contribution should be counted as liquid capital as RF accounts for a significant portion of collectible.

It definitely helps the company to relieve the funding burden.

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:
