

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:

Comments:

- 1) Price movement assumption is based on more than 20 years historical data, the length of the observed period seems relatively long. Most recent 15 years historical data has already included the period with extreme market movements, such as the impact of 2008/09 Global Financial Crisis and the 1997 Asian Financial Crisis.
- 2) Usually the futures market is more fluctuated than cash market, however, the proposed 22% assumption for cash market is higher than 20% of HSI futures assumption based on the new measure. Therefore, we suggest applying the original 20% price movement for cash, which is the same as HSI futures.

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:

No comments.

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:

Comments:

- 1) From HKEx point of view, we understand the importance and urgency of the proposed margining arrangements. However, the new margin requirement will have a significant impact to our cash flow. In addition to the existing Marks, we will be required to contribute a minimum of 5% margin. The required amount will increase our firm's burden dramatically in order to fulfil a large amount contribution in some extreme cases. No matter drawn down of Bank loan or utilisation of banking facilities will reduce our business capacity.
- 2) The impact will not only affect CPs. Due to cash flow and FRR concerns, the stock market turnover may also reduce as many CPs might have forgone business opportunities to avoid shortage of cash flow, as a matter of fact it may also affect HKEx's income.
- 3) The proposed margining position will first be segregated by securities, and positions of individual securities are then netted across. Many of our high net worth and Institutional clients may purchase non blue chip stock in a significant amount and there are generally not many offset positions on that securities from other clients, as a result the margining position will be substantially large. The proposed calculation seems to discourage CPs to trade on small cap and non-liquid stock. We would suggest that the calculation should not be based on individual securities but the overall net positions which reflects the actual exposure of CPs.
- 4) We highly recommend HKEx to implement the new measures gradually in a reasonable and practicable manner. To allow firms, such as our firm, with healthy financial background and good settlement record to have flexibility on the new margin contribution in an exceptional case. For instance, reduce margin rate or collect only 50% Marks from our firm during some extreme cases that we are unable to contribute the full amount within a given period of time.

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:

Comments:

Comparing to the new margin requirement, the impact of the proposed Dynamic GF is relatively less. However, GF contribution is not counted as liquid capital under SFC that we strongly recommend SFC to consider GF contribution to be counted as liquid capital.

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:

Comments:

50% of the intra-day margin call credit is recommended to be included in the calculation.

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:

No comments.

Questions

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?

Absolutely agreed. It should be counted as liquid capital and will definitely lighten our liquid capital 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:

No comments.