

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>We believe that the spirit of the consultation paper proposed by HKEx to tighten the stress testing assumptions and capital adequacy requirements of Clearing Participants ("CP") to withstand extreme market situations will bring the clearing houses at HKEx in line with global recommendations.</p> <p>We support the revised Price Movement assumptions proposal based on the market information provided and the due diligence conducted by HKEx in assessing the most appropriate benchmarks against other major clearing houses.</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>We believe that HKEx has taken a pragmatic approach in producing these new proposals and is looking to implement changes in line with best practice at clearing houses in EMEA and the US, and with planned IOSCO requirements.</p>

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

☒ Yes

We believe that the spirit of the consultation paper proposed by HKEx to tighten the stress testing assumptions and capital adequacy requirements of Clearing Participants ("CP") to withstand extreme market situations will bring the clearing houses at HKEx in line with global recommendations.

We support the revised Price Movement assumptions proposal based on the market information provided and the due diligence conducted by HKEx in assessing the most appropriate benchmarks against other major clearing houses.

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

☒ Yes

We believe that HKEx has taken a pragmatic approach in producing these new proposals and is looking to implement changes in line with best practice at clearing houses in EMEA and the US, and with planned IOSCO requirements.

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

We believe that it is important that margining requirements are calculated on a real-time basis in order to reflect the risk exposure during high market volatility. However, it is equally vital that under the new collateral requirement, such volatility based margin will be ring-fenced for the concerned participant only, and that the contribution to the default fund will be reduced proportionally. We further believe that the grant of margin credit up to \$5 million to each CP will serve to avoid the administrative burden of collecting low amounts of margin from the smaller participants, which is in line with other overseas clearing houses.

Based upon the supplemental information provided by HKEx, we believe that under the proposed margining arrangements, our net contribution to both margin and guarantee funds at HKSCC will be reduced during a relatively stable market environment.

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

☒ Yes

We believe that having a dynamic fund where the contribution calculation mechanism is scalable to changes in risk exposure will ensure that there are sufficient funds available to support defaulter's obligations without severe market disruption

HKEx's Proposal 3: Revise HKCC Reserve Fund Calculation

Questions

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

☒ Yes

We agree with the proposed revisions to the HKCC Collateral assumption because intra-day margins should not be assumed to have been collected since a defaulting CP is unlikely to be able or allowed to pay once a default event has been declared.

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

☒ Yes

We support the use of HKCC Contingent Advance as an interim measure pending the establishment of an appropriate Risk Management Fund ("RMF"). We understand that HKEx is supportive of this RMF establishment and as a result we would appreciate it if HKEx is able to provide a targeted launch date and any interim updates of development.

In addition, we suggest that the portion of the Contingent Advance allocated to a defaulting CP be utilized before exhausting the non-defaulting CPs' Fixed RF and that such portion should not be recoverable from the non-defaulting CPs.

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?

We believe that the RF and GF contributions should be counted as liquid capital. Firms are constantly under pressure to allocate their capital efficiently in light of the increasing cost of capital. The new measures may unintentionally reduce liquidity in the markets. We encourage HKEx to continue lobbying with SFC to change this ruling.

HKEx's Proposal 4: Revise SEOCH Reserve Fund Calculation

Questions

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

☒ Yes

We agree with the proposed revisions to the SEOCH Collateral assumption and appreciate the increased consistency with HKCC in this respect. We believe that it is overly conservative to exclude margins since SEOCH, as we understand it, has the legal right to enforce retention of margins upon occurring of an event of default.