

## 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

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:

The proposed Price Movement assumption of +/- 22% for securities and stock options market are stringent because their respective movement percentages in the most volatile period were just 21.75% as shown in the Consultation Paper.

It is suggested that all of the Proposed Price Movement Assumptions are standardized and set at +/- 20% and subjected to a periodical review from time to time.

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:

As per the Consultation Paper, the IOSCO's minimum standard is to consider the potential default of the single largest CP. Though it is understood that HKEx is proposing to use a prudential measures to include the single largest CP plus the fifth largest CP in the stress testing, it will be better to adopt, say, the tenth largest CP, as the additional CP instead of using the fifth largest CP in the stress testing, so as to strike a balance and relieve the burden of CPs as well.

## 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:

The proposed margining arrangements at HKSCC would demand the same amounts of margin from CPs if they have the same net long or net short positions but disregarding the differences in underlying risks, credit and financial strength.

#### Different Risks

Example 1 – Same margin amounts demanded from CP A and CP B if they have the same net long or net short positions but the daily turnover of CP A is, say, many times higher than CP B (which implies churning of stocks of CP A or its clients).

Example 2 – Same margin amounts demanded from CP A and CP B if they have the same net long or net short positions but CP A is acting as pure agents for its clients and CP B's trades are part of high risks proprietary programs.

A more sophisticated Risk Management system of the Reform Measures should be able to define, identify and quantify the different margin requirements.

#### Different credit and financial strength

Example 1 – Same margin amounts demanded from CP A and CP B if they have the same net long or net short positions but CP A has a much stronger financial strength as measured in high ELC (Excess in Liquid Capital). ELC is a regulatory requirement to ensure, inter alia, a CP would have sufficient degree of financial strength to meet its financial obligations and commitment towards the market and its clients. The new margin plan intends to provide similar safeguard. A margin plan that does not consider the different financial strength of CPs is uncommercial and unfair.

Furthermore,

- the proposed Margin and Dynamic GF Credits should not be globally granted to CPs with limits of HKD 5 million and HKD 1 million each respectively, but which should take into consideration of the Participant's financial strength and broker category, say, Participant with stronger financial strength and being classified as broker of Category A, should be granted with higher limits;

- the proposed margin arrangement should be allowed to pay in HKD sum, i.e. no need to require funding in the respective denominated currencies of the net settlement positions (CNS positions) to meet its margin payments;

- HKEx must try its very best efforts to bargain with SFC to allow GF contributions be counted as liquid capital under the FFR Rules.

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 our comments that we have made to the Question 3 above.

### 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:

HKCC should not exclude the assumed credits given to intra-day margin from daily RF calculation. Besides, HKCC must also take into the consideration of the Participants' financial strength, say, to give a higher credit to those Participants with stronger financial strength.

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:

If the Reform has to go as what it is proposed finally, it is a must for HKCC to share 50% of daily Dynamic RF collectible with CPs as suggested in the Consultation Paper at least so as to relieve the burden of 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?

RF contribution should be allowed to be counted as liquid capital. While RF is not as liquid as cash, it is nevertheless part of well-defined and risk-managed scheme operated by reliable institution for the precise purpose to safeguard the markets. It therefore meets the function of liquid capital.

Besides, the RF, daily margins and other risk-mitigating contributions should be linked to the level and surplus ELC of the CPs through some indexing and bench markings. The CPs, market participants and the public should be further invited to make detailed suggestions.

## 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:

If the Reform has to go as what it is proposed finally, it is a must for HKCC to give credit to risk margin deposit and surplus funds in daily RF calculation at least as suggested for the Collateral assumption in the Consultation Paper. However, HKCC should still require to take into the consideration of the Participants' financial strength, say, to give a higher credit to those Participants with stronger financial strength.