

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>Considering the worst case scenarios and the fact that nowadays market becomes more volatile, we support the proposed revision of the Price Movement assumptions in stress testing.</u></p> <p><u>In view of the fact that different Exchange listed instruments have different volatility and price fluctuation ranges, it may worth considering that there will be different level of price movement assumptions for different sectors.</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>We are supportive of HKEx taking the lead to exceed the minimum international standard and take the risk of default of the fifth largest CP in addition to the largest CP for stress testing purposes.</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:

Along line with the user-pay concept we support the proposed margining arrangements with HKSCC. However, whether a single margin rate should apply for all CNS positions may worth further study. It is because right now HK is the number one warrants trading market and as we know the price fluctuation for warrants is huge.

Other than cash, bank guarantee, underlying stock, we would suggest HKSCC to consider other debt securities or government bonds as collateral.

On the other hand, we would suggest HKSCC to consider release of margin to a CP as and when a CNS position is protected by a 'Matched SI' in the CCASS system. As an agency broker is only executing transactions on behalf of end investors who may engage domestic custodians for settlement, the settlement risk is in fact transferred at the time when the custodian is committed to settle the transaction on behalf of the end investor. This practical risk transfer arrangement is already in effect in China market and other Asian markets.

With such arrangement, the agency broker will be relaxed of the capital / liquidity commitment as the settlement risk is already taken up by the custodian.

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:

We are in principle supportive of the proposed Dynamic GF model at HKSCC.

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:

We support the proposed revisions to the HKSS Collateral assumption. As the market capitalization and turnover had significantly increased in past years, it is essential to establish a reasonable size risk fund to cope with market stretched situation.

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:

We support the use of HKCC Contingent Advance in relieving 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 in fact is part of a participant's capital and it is logical and reasonable to treat the contribution as liquid capital.

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:

We support the proposed revisions to the SEOCH Collateral assumption.

We would also suggest HKEx to have an in-depth study and consideration of cross-markets collateral arrangement. As a matter of fact a financial institute may involve in Equity trading, Options trading, Stock Borrowing and Lending, Futures trading and market making activities. These business activities as we know involve cross market hedging and risk management. While a position in cash market may attract margin collateralization and Dynamic RF contribution, the position may have been well hedged by a position in other markets that again attracted margin and risk fund collection. This no doubt will increase the capital and liquidity requirement of market participants.

We support the advancement of HK risk management infrastructure as a major financial centre and urge HKEx to carefully consider capital and liquidity impact to market players.

Cross market collateralization is a key success factor for the future growth of the HK financial infrastructure.