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: Proposal is in line with many risk management practices – to use recent historical market volatility as a parameter for measurement of current exposures. In addition to allowing risk measurement to be based on more recent volatility, I agree that the parameter can and should be reviewed regularly to ensure that risks are compared against prevailing market conditions but that updates should not be so regular that they introduce too much volatility (some would say "noise") into the risk measurement process. In addition, I agree with the proposal to crease consistent mechanisms for determining the contribution to margin, based on measure of market volatility. Being consistent across all three entities is logical and sensible as market player most probably act across all three market sectors and therefore would appreciate consistent risk measurement.
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: I agree with the proposal to stress counterpart default on the basis of significant, but non-specific counterparties, being 1st and 5th largest. I have no real opinion as to whether these specific choices are best, reasonable or rubbish, but the choice is specific and has a reasonable supporting logic. As credit risk management has a significant basis in art rather than science, I cannot fault those choices.

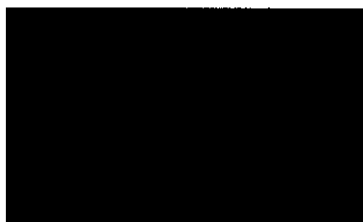| Questions |
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| 3. Do you agree with the proposed margining arrangements at HKSCC?

 ☑ ☑Yes

 ☐ No

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

 I agree with the proposed mechanism. The proposed three tier structure of credit support provides better stratification of buffers against a default. I appreciate the inclusion of a margin credit concept, which is similar to the concept of threshold under an ISDA credit support mechanism, thereby reflecting that members have an acceptable level of counterparty credit worthiness as well as the obvious benefit of reducing capital requirements on members. Also, the dynamic nature of margin calculations is consistent with our internal risk management concepts where exposures are measured against prevailing volatility conditions. |
| 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:

 I agree with the proposal that reflects a more dynamic approach to risk management that evaluated position exposure against normal market conditions as well as extreme but plausible conditions. The stratification structure proposed is comforting as it places all defaulting CP funds as immediate credit support against default – three layers of defaulting counterparty's funds is a significant buffer.

 There is definitely a need to obtain a positive ruling from SFC on these buffers identification 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: I agree with the proposal. The stress assumptions are reasonably consistent across the three CCPs, however the proposal does not explain the use of the additional stress to 25% - there is no indication that this is used in any way to determine margins and credit support; I would appreciate more explanation of the use of this additional stress scenario. I agree that IDM should be excluded on the basis that we cannot assume such calls are settled at time of exposure analysis.
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: I agree with this proposal. The result will be less actual capital usage while still providing appropriate credit support. I also agree that the mechanism is more dynamic such a mechanism therefore will be more reactive in terms of market (volatility) conditions as well as industry-wide and counterparty specific credit health.
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? I agree that RF contributions should be allowed as liquid capital as it reduces capital demands while still ensuring appropriate credit support.

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: This proposal is obviously more palatable as it would appear to provide a reduction in capital requirements. I agree with the stress scenarios as it reflects the aim of consistency across the three CCP entities. The inclusion of RM and surplus funds on hand is a logical approach for daily RF calculations. Given the likely reduction in required funds, I am also in agreement with early adoption of this mechanism.