

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.	<p>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>Refer to a set of assumptions based on the most volatile historical price movements, we agree that HKEx should keep the price movement assumption for HSI futures and options at the current 20% level whilst also evaluating the stress testing at the highest historical price movement of 25% as specified by the IOSCO standards. In addition, it is appropriate for HKEx to conduct a review three years after implementation to evaluate the new IOSCO standards which apply.</u></p>
2.	<p>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 agree that the 30% counterparty default assumption to be obsolete and agree that it be removed.</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:

We agree with the proposed margining arrangements at HKSCC as a volatility based margin is generally more desirable than measures of a static nature, due to its self-adjusting capability to changes in market volatility. This provides the CCP with the required protection in a similar way as the derivatives market best practices.

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 agree with the proposed Dynamic GF model at HKSCC as it enables the GF scalable to changes in risk exposures. However, other than the dynamic GF model at HKSCC, we suggest HKSCC can impose a levy on individual investor similar to Investor Compensation Levy which is imposed by SFC or Travel Industry Compensation Levy imposed by the Travel Industry Compensation Fund Management Board, that is to say, the larger the amount of investment by individual, the more the individual investor should contribute to the funds. We believe this approach would be fairer to the clearing participants and relieving the burden of clearing participants.

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 do support the proposed revisions to the HKCC Collateral assumption as it is difficult to predict reliably whether collateral after an IDM call could be collected ahead of an assumed CP default.

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 CP as it almost shares half of the total Dynamic RF, the HKCC Contingent Advance would in effect shoulder more than half of the incremental Dynamic RF which CPs would otherwise be liable to contribute.

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 are so glad to see if SFC allows RF contribution to be counted as liquid capital. This will help the participants a lot to reduce their 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:

As for the collateral assumption, we agree that SEOCH should align with the practice of HKCC and give credit to risk margin deposit and surplus funds in daily RF calculation. We believe the proposed change is expected to benefit the market with an overall reduction in SEOCH CPs' RF collectible.