

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 assumptions have taken into account of sufficient historical data with the elimination of exceptional cases for three exchanges separately and come up with different percentage specifically for different markets therefore we support the proposed revision in terms of fairness and reasonableness.

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:

Although the adoption of largest + 5th largest CPs & drop 30% for 3 clearing houses in stress testing as claimed by HKEx could be more realistically reflecting the risk for projected lost computation, we believe that the norm is set too tight especially under the situation that no past record of multiple CP default case happened before therefore we see that the adoption of the largest CP in computation should already be prudent enough and fair to CPs.

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 new benchmark rate together with the ad-hoc adjustment and also intra-day margining are believed to be able to effectively deal with settlement risk caused by markets' volatility. However we strongly suggest implementing mechanism to reduce the margin amount by netting the cash pre-payment made in order to relief CPs margining burdens, and also implementing specific cash collateral arrangements and treat such collateral as clients' segregated cash balances.

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:

The proposed Dynamic GF model is fair in sense that contribution to GF by CPs are based on their share of market average net margin. Although 50% of Dynamic GF are supported by HKCC and also default caused by defaulting CPs should be able to be covered by their own margin / collateral or even defaulting CP's fixed GF which in most cases without affecting upper lever Dynamic GF/RF and of course HKEx RM Capital based on the estimation by making reference to historical data and incidences. We also understand that in addition to the 1M credit to every CPs, there is a Monthly recalculation mechanism in place to return excess GF to CPs. However since HKEx is empowered to request for replenishment by CPs in case of outage, we find it necessary to widen the source of fund to sustain the replenishment of the reserve in addition to the contribution by HKEx and Participants in order to avoid unfair subsidise as well as to ensure for sufficiency of the funds. Nonetheless we believe that registrars also have the responsibility to contribute to the GF as they are benefited from the stock market operations as well.

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:

Though we agree that there is a potential risk for not able to collect IDM at the end of the day therefore to remove the assumed credits given to IDM when calculating GF, we suggest to apply only to the IDM in the afternoon session as CPs have already required to fulfil payment within one hour after IDM call and also payment made in the morning should be able to be identified in the afternoon so to decide whether to remove credits. Nonetheless in view of the application of such tightening arrangement to remove credits for IDM in GF calculation, we believe that it is not necessary to apply the extreme counterparty default assumption by adopting largest + 5th largest CP at the same time so we strongly suggest to adopt largest CP default assumption solely.

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:

Although we are supporting the use of HKCC Contingent Advance, we indeed are expecting that it is not just an advance but an obligation of HKEx instead. Accordingly to the proposed model, all the burdens and responsibility to replenish the used Dynamic GF are still on CPs which the injection of 50% to the GF from RMC is merely a relief as financial accommodation but not responsibility, we find it quite unfair to CPs therefore we strongly suggest implementing a better replenishment arrangement such as imposing transaction levy or replenish by using HKEx's reserve fund instead of asking CPs for further contribution or replenishment.

Questions

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 agree that allowing RF contribution to be counted as liquid capital could reduce the 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:

We welcome for the granting of credit to risk margin deposit and surplus funds in daily RF calculation to reduce SEOCH CPs margining burdens.