

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:

In our point of view, to manage the default risk of CPs, there should be a mechanism to oversee and evaluate CPs' financial resources and internal control instead of assuming that all CPs have the same default probability. The risk management measure should be depending on CPs' possibility of default rather than the net CNS position of CPs. It is likely that this risk management reform has a great impact on all CPs' liquid capital and requires a higher operating cost. If we concern defaults of large CPs will distort the whole market, we suggest charging margin or contribution for category A and the top of category B of exchange participant will be more effective. In addition, we suggest that using T+1 settlement can effectively manage the default risk of CPs as well as relieve burden on all CPs.

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 others suggestions or comments you may have on this question:

We don't know the rationale behind the counterparty default assumption which the largest and the 5th largest CPs default. According to appendix III, none of the CCPs adopt this assumption.

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 margin is not a small amount to our company calculated based on the data provided from this consultation paper. Unlike HKCC and SEOCH, we cannot shift the margin responsibility to our client. In addition, we cannot require our client to pay a certain amount before T+2. It solely relies on our company's resources to cover the margin which is unacceptable.

(If the proposal becomes effective)

We do not agree using a single margin rate is fair enough to CPs which have a sound financial background with good track records. We suggest that the margin rate should be determined based on each CP's financial resources, past track records or internal controls in order to differentiate the default risk for different CPs. The higher of default risk, the larger of margin rate. Also, it is harsh not to allow CPs to get credit facility or bank guarantee from the same group or concentrate on a few financial institutions. CPs' financing ability will be limited. Besides, we suggest that the margin payable in foreign currency can be covered in HKD as it can reduce the exchange rate risk to all CPs. For the margin credit, we believe it is not necessary as the credit could be reduced or withdrawn anytime if requested by HKEx. Thus, CPs should reserve enough liquid capital for the margin requirement without any credit granted.

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:

Refer to question 1 and question 3.

(If the proposal becomes effective)

As SFC do not yet agree to classify the dynamic GF as liquid capital in FRR, we don't think it is appropriate to accept this proposal before the amendment of regulation. Furthermore, we are unsure about the arrangement of ad hoc review. Due to a shorter period of time for collection and refund, ad hoc review will have a great impact on CP's liquidity. For the same situation of margining requirement in terms of

credit, we don't think it is necessary for CPs to get credit because the credit is not permanent and can be adjusted or removed anytime. CPs should pay attention and reserve enough capital to deal with those requirements proposed by HKEx in case of credit withdrawal.

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:

(If the proposal becomes effective)

It will increase the projected loss and hence the contribution of all CPs.

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 proposal becomes effective)

Although the Contingent Advance can temporarily relieve CPs' burden, it is still liable for CPs to cover the loss in case of default. As a result, CPs is responsible for the full amount of dynamic RF and no contingent advance should be granted.

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?

☒ Yes

☐ No

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

It is beneficial to all CPs and reducing 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:

It is irrelevant to our company as we are not a CP of SEOCH.