

## 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:

Support! The 20% current price movement assumptions cannot cope with historically extreme market conditions. Lower standard may cause the stress test result cannot reflect the worst conditions and may cause clearing house to face unexpected risk exposure in future.

To reflect the complicated world economic conditions, program trading (程式交易) & Dark Pool Trading (黑池交易) may magnify the effect and make the market more volatile. A higher standard for stress test is therefore essential.

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:

Support! Under extreme market conditions, Include single largest CP in stress test assumption may not reflect the worst market conditions. Adding one more CP seems more realistic.

Besides, the world trend is also increasing the standard of stress test. To maintain our standard of compliance, adding one more CP in stress test model is therefore essential.

## **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 are neutral on this issue. P.13 Note 10 of the document shown loss due to Lehman in 2008 was HK\$154.6M. Although the market will become more volatile, we have confident the main countries of the World would have adequate financial reform to prevent another Lehman happen again. Besides, the size of existing GF still has \$245M. Conditions are therefore still under control even though there would be another Lehman. Therefore, additional margining may not be required.

However, the captioned margin may be more desirable than existing measure which is more static in nature. It may facilitate CCP to have a better protection mechanism.

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:

Agreed! Fixed GF may not cope with requirement in existing marketing conditions. Dynamic GF may be more appropriate.

Looking into the possible operation, we have question on how to verify individual CP's share daily market GF position. Besides, we have also fear on the shortened period in raising fund to cope with the dynamic GF requirement (from 7 days to 3 days). Therefore, we suggest to have 5 days for raising fund may be more appropriate.

### **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 agreed the price movement assumption! The 20% current price movement assumptions cannot cope with historically extreme market conditions. Lower standard may cause the stress test result cannot reflect the worst conditions and may cause clearing house to face unexpected risk exposure in future.

We are neutral on this issue. Include top 1 and 5 CP default may be appropriate for stress test. (Point 89 on P.21: increase from \$409M to \$1,378M in normal trading days and from \$1,827M to \$6,364M in exceptional volatile trading days).

We agreed to completely remove the assumed credits. This may be more realistic as prediction on 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:

Support! This can definitely reduce the impact to CP and therefore much easier to comply with the Dynamic RF requirement.

## 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 agreed to accept RF contribution counted as liquid capital. It can definitely avoid CP to arrange for additional financial resources as a result of an increase in Dynamic RF requirement.

#### **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:

Support! As margin deposit and surplus fund are liquid capital in nature, credit should be given to both in RF calculation. This can help to improve CP liquid cash and easier to comply with liquid capital requirement.