

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
<p>1. 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>This proposal will make a change in calculation of projected loss which will mainly have an impact on Dynamic Guarantee Fund</u></p> <p><u>Please refer to our feedback in below Proposal 2.</u></p>
<p>2. 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>This proposal will make a change in calculation of projected loss which will mainly have an impact on Dynamic Guarantee Fund</u></p> <p><u>Please refer to our feedback in below Proposal 2.</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:

Finance – Based on the clarification between Ops and HKEx, there is no difference in the SFC Financial Resources Rules (FRR) treatment between existing marks and the proposed Margin. The Margin can be classified as liquid asset under the FRR and it will not reduce the liquid capital. No FRR impact.

Operations – We suggest combining the existing “Marks” together with the new proposed margin into one and charging whichever amount is higher to simplify the process and reduce the number of payment transaction. Besides, due to the liquidity of CNY is still limited, we suggest HKEx to adopt the methodology of calculating “Marks” to charge the margin amount in one currency HKD.

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:

Finance – The Guarantee fund is not classified as liquid asset under the FRR and this additional Dynamic Guarantee Fund will reduce the liquid capital for FRR purposes. We suggest to have the SFC confirm allowing the guarantee fund to be treated as liquid assets under the FRR.

Credit Risk – HKEx had proposed HKD 1mm credit to the CP. As a result, on average of 22% of the CP would have been required to contribute to the Dynamic GF. Since most of the smaller CPs in HK do not need to post margin or Dynamic GF therefore may be less incentivised to implement tight controls, we hope that HKEx will continue to reinforce the oversight of risk management and internal controls of brokers community.

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:

It will have some impact on the participants; the impact on HCCB is not significant.

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:

It will have some impact on the participants; the impact on HCCB is not significant.

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?

Support HKEx to allow RF contribution to be counted as liquid capital.

This definitely will help our company in terms of 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:

Front Office – Stock options impact (SEOCH) will be significantly positive (less margin), as relevant offsets are not currently provided.

[REDACTED]

Credit Risk – [REDACTED]
[REDACTED] No issue from Credit Risk

Finance – Based on the calculation provided by the HKEx, the amount of revised SEOCH Reserve Fund does not change much. Though the Reserve Fund is not classified as liquid asset under the FRR, the revised amount will not change much and thus no significant impact on the liquid capital. No FRR concern.

Operations – The proposed practice will be less conservative and it is favourable to most of SEOCH CPs and thus is welcome. [REDACTED]
[REDACTED]

General comments from HCCB on the above proposals

- 1) We support this initiative as a measure to reduce the overall risk profile of activity in the Hong Kong market.
- 2) We note that this initiative will ultimately increase the cost to the investor
- 3) We look forward to supporting HKEX in further risk management and cost reduction initiatives