

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

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:

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:

HKEx's Proposal 2: Introduce Margining and Dynamic Guarantee Fund in HKSCC

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:

Basically we agree with the concept of the proposed margining arrangement but would like to have the following comments :

Overlapping with Cash Prepayment mechanism

We understand that the logic and operations of the proposed margining requirement and Cash Prepayment arrangement are totally different. We would consider that the timing of the respective cash flow requirement has certain overlap. For a CP which wishes to get release of its stocks from HKSCC at the settlement date, it has to pay 100% cash prepayment in the morning of T+2 day. On the other hand, the CP normally needs to pay the margining requirement of its transactions of T day and T+1 day not later than in the morning of T+2 day. Although the overpaid amount shall be refunded to the CP at the day end of T+2 day through a direct credit instruction, extra cash flow impact is imposed to CP during that day.

Interactive effect between different products and policies

Due to the rapid developments conducted by HKEx, different products and policies are under explorations at the same time. Because the operations and effect of different products and policies may be interactive and result certain unexpected consequence after "new things" are launched subsequently.

For example, we preliminary understand that the CNS position for proposed "Dual Tranche, Dual Counter" model for CNY quoted stocks shall be calculated in separate counter basis. As we cannot assume that the "trading size" of CNY quoted stocks shall remain immaterial before any necessary fine-tuning of the margining arrangement rules to be made, we would feel uncertainty on the potential gross up impact to the margining requirement amount that may result.

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

HKEx's Proposal 3: Revise HKCC Reserve Fund Calculation

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:

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:

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?

The Reserve Fund contributions in the proposal, especially the dynamic reserve fund which shall be calculated in proportional to the CP's sharing CNS positions, are affected by the scale of the CP's operations. The funds are neither pledged and shall be released as if the scale of the CP's operations reduced. Moreover, due to the creditability of the Clearing Houses, the default risk of the contributions shall not be expected. Therefore, the amounts contributed just form a part of the operational funding of the CPs and are counted as its liquid capital. Otherwise, additional funding is required to set aside for the Funds without concrete ground.

For the same reason, we do hope SFC can also revise the FRR rules correspondingly. Otherwise, the CP cannot avoid unnecessary lock up in capital requirement.

To minimize the effect to the market as well as the investors, the cost per transaction should remain the same. Can swap some % from exiting levy items to the new levy item. Therefore,

HKEx's Proposal 4: Revise SEOCH Reserve Fund Calculation

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:
