

Members of the Derivatives Market Consultative Panel

Corporate Communications Department  
Hong Kong Exchanges and Clearing Limited  
12th Floor, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

**Re: Consultation Paper on HKEx Clearing House Risk Management Reform Measures**

Dear Sirs:

We, the members of the Derivatives Market Consultative Panel, all have our various opinions on the above mentioned risk management measures that the exchange proposes to put in place. However, we were all in agreement that the measures should allow for the utilization of reserve fund contributions in the liquid capital computations.

Having three separate clearing houses for the cash, commodities and options market without the ability to offset margin and truly measure a firm's risk, is an extremely inefficient use of capital. The large margins required for what collectively can be small risk positions, requires excessive amounts of capital that ultimately hurts the competitiveness of the Hong Kong markets. Firms are constantly under pressure to allocate their capital efficiently and often have to enter into costly sub-loan arrangements further tying up capital that could be utilized elsewhere. The new measures may make the situation much worse and end up unintentionally reducing liquidity in the markets. When the cost of capital is greater than the anticipated return on that capital, firms will choose to do business elsewhere. Unfortunately, with these new measures, Hong Kong is moving in that direction.

To offset this impact, we strongly urge the Exchange and Securities and Futures Commission ("SFC") to allow the use of reserve fund contributions in the liquid capital computation. The funds are held at the exchange and are available in a worst case scenario. The use of these funds in the liquid capital computation is not without precedent. Most major regulators and exchanges recognize all or most of these funds to be used for regulatory capital. This list includes the United States (NYSE, FINRA, CBOE), United Kingdom (LSE), and Switzerland (EUREX).

We urge you to please consider follow global convention and allow us to utilize our capital in ways that can benefit Hong Kong. Sufficient measures are being put in place to protect investors and the exchange. Allowing reserve fund contributions to be counted as liquid capital will not create additional risk and will ultimately benefit the market.

Respectfully submitted,