

Responses to Consultation Paper on the Proposed Guidelines for Securities Margin Financing Activities

1. Do you agree that an SMF broker should control its total margin loans with reference to the amount of its capital?

Yes.

2. Do you agree that the proposed guidelines should provide a benchmark for the total margin loans-to-capital multiple?

Yes.

3. During the soft consultations, some respondents recommended setting the benchmark for total margin loans-to-capital multiple at two to five times. Within the suggested range of two to five times, what do you think is the appropriate quantitative benchmark for total margin loans-to-capital multiple? Please provide the rationale for your comment or suggestion.

We think a multiple of two times is the appropriate quantitative benchmark, depending on the quality of the assets and clients risk profiles.

4. Do you agree that a higher benchmark for total margin loans-to-capital multiple should apply to a broker that does not use approved subordinated loans as regulatory capital than to a broker that does?

Yes.

5. While "group of related margin clients" is defined in section 42(3) of the FRR, do you agree that the coverage of related margin clients should be extended, eg, to include margin accounts which are held by the same beneficial owner for the purposes of monitoring aggregate credit risk exposures?

Yes.

6. Do you agree that exposures to different securities held as collateral which are highly correlated should be aggregated for the purposes of monitoring concentration risk?

Yes.

7. Do you agree with the definition of "highly correlated securities" set out in paragraph 38 above?

Yes.

8. Do you consider that constituent stocks of any other stock indices should also be treated as index stocks for the purposes of paragraph 43 above? Please provide the rationale for your suggestion.

Yes, as long as the assets are liquid.

9. During the soft consultations, some respondents suggested setting X% at between 30% and 50%, and Y% at between 20% and 25%. Within these suggested ranges, what percentages do you consider as appropriate benchmarks? Please provide the rationale for your suggestion.

We think smaller range is appropriate to mitigate potential risk.

10. Do you think that as a quantitative benchmark, margin client concentration should be measured with reference to the broker's shareholders' funds? If not, what is your alternative suggestion? Please provide the rationale for your suggestion.

Yes, since the broker should hold sufficient funds.

11. During the soft consultations, some respondents recommended setting the quantitative benchmark for margin client concentration at between 20% and 40% of a broker's shareholders' funds. Within this suggested range, what percentage do you think is appropriate for benchmarking purpose? Please provide the rationale for your suggestion.

We think 20% is appropriate subject to client's credit.

12. Do you have any comment on the basis for determining whether a margin loan is a significant margin loan?

Significant margin loan would be greater than broker's shareholders fund.

13. What should be the appropriate percentage with reference to the broker's shareholders' funds for determining whether a margin loan is significant? Please provide the rationale for your suggestion.

Margin should be depending on the broker's shareholders' funds and type of assets held

14. During the soft consultations, some respondents commented that X% in paragraph 64(b) above should be set at 15% to 20%. What percentage point within this range do you think is appropriate? Please provide the rationale for your suggestion.

The percentage should be dependent on the quality of the collateral, and as suggested not lower than the haircut assigned by its lending banks.

15. Do you agree that total unsettled margin calls should not exceed the shareholders' funds of an SMF broker? Please provide the reason for your comment.

Yes. We would suggest margin calls to be settled on T+1 basis.

16. During the soft consultations, some respondents indicated that a margin call which has remained outstanding for more than 30 days to 90 days should be treated as a long-outstanding margin call. Within this suggested range, at which point do you think a margin call should be treated as a long-outstanding margin call?

We think a margin call should be settled on T+1 basis.

17. During the soft consultations, some respondents recommended limiting total long-outstanding margin calls to between 20% and 25% of an SMF broker's shareholders' funds. Within this suggested range, what percentage do you think is appropriate? Please provide the rationale for your suggestion. We suggest that margin calls should be much lower due to the potential risk incurred.

We suggest a lower amount to mitigate potential risk.

18. During the soft consultations, some respondents suggested applying a 15% to 30% hypothetical price drop where the collateral pool mainly comprised index stocks, whereas for a collateral pool comprised few index stocks, the hypothetical price drop should be between 30% and 50%. Do you have any suggestions on the hypothetical price drop percentage to be applied in each of the scenarios (ie, X%, Y% and Z%) suggested in paragraph 85 above? Please provide the reason for your suggestion.

We do not have any further comments.

19. As regards the weighting of index stocks in the collateral pool in each of the hypothetical scenarios suggested in paragraph 85 above (ie, 75% and 25%), do you agree with the suggested thresholds as the dividing line for distinguishing a high-quality collateral pool from a low-quality collateral pool? Please provide the reason for your suggestion.

We do not have any further comments.

20. Do you consider that constituent stocks of any other stock indices should be treated as index stocks for the purposes of paragraph 85 above? Please provide the reason for your suggestion.

Yes we recommend taking into account Tier 1 capital under Basel 3 definition

21. Do you agree that 10% is an appropriate threshold for the definition of "significant group of highly correlated securities"? Please provide the reason for your suggestion.

We do not have any further comments.

22. Do you agree that 10% is an appropriate threshold for the definition of "significant re-pledged securities collateral" and "significant group of highly correlated re-pledged securities collateral"? Please provide the reason for your suggestion.

We do not have any further comments.

23. Do you think that a six-month transition period is appropriate? Please provide the reason for your suggestion.

Yes, because systems need enhancements but should already be in place.