Feedback on Consultation Paper on the Proposed Guidelines for Securities Margin Financing Activities

1-4. We agree that an SMF broker should control its total margin loans with reference to the amount of its capital (included the subordinated loans) with a multiple at five times; however brokers should have flexibility to increase the limit with senior management's approval in order to compete in the market.

5. Should extend the coverage of related margin clients as defined in section 42(3) of the FRR in more details or specific for the purpose of monitoring aggregate credit risk exposures.

6-7. Ideally speaking, exposures to different securities held as collateral which are highly correlated is good to be aggregated for the purposes of monitoring concentration risk; however given to the difficulty and inconsistency in sorting out the lists of different groups of highly correlated securities by brokers, official list from authorities such as HKEX is recommended to be provided to brokers.

8-9. It is difficult for broker's to calculate the hypothetical stress scenario with different % for Hang Seng Index and other securities as practically margin clients will hold more than one securities it's difficult to spirit the loan balances for each securities. Hence suggest to perform the ELC impact with a benchmarks for an overall market drop by 20% - 25% for all securities.

10. With reasonable assessment by the senior management, certain level of margin client concentration could be accepted.

11. Subject to brokers' decisions.

12-13. 10%

14. Brokers should have discretion to assess the risk of clients' portfolio in order to have benchmark to be set to 25%, however, the haircut percentage prescribed in the FRR should be a guideline only. As the haircut percentage prescribed in the FRR will be changed on daily basis for illiquid collateral securities, it's difficult for brokers to review all their securities on daily basis without significant market fluctuations of the collateral.

15-17. The situation constituting a margin call varies; the called amounts might not be exactly the same as the difference between the loan balance and marginable values. Therefore it seems impractical to measure the "total unsettled margin calls" against the shareholders' funds. Some clients might repay loan by instalments, their called amount might not be appropriate to be defined as long-outstanding margin call.

18-20. Brokers have their own stress testing policy for regular monitoring.

21-22. Hard to define "significant group of highly correlated securities".

23. 18-month transition period is more reasonable for system upgraded if needed.