Comments to the Proposed Guidelines for Securities Margin Financing Activities (in respect of the relevant Paragraph)

Para. 3.1
With a standardized list of "highly correlated securities", brokers can provide more consistent reporting to SFC. It is suggested that the Exchange to publish the list of "highly correlated securities" for brokers to follow.

Para. 3.2
As there is no specific way of calculating the securities loan in the Guidelines, we suppose that brokers can decide their own method on deriving the loan amount, such as margin value pro-rata or market value pro-rata.

Para. 5
For determining collateral's margin ratio, although it is reasonable to refer to lending banks' ratio, there are differences between the lending banks' ratio and the ratio that the lending banks offer to their own clients. To reflect the difference in the ratio, we suggest to increase the buffer from 15%/20% to 30%.

For securities that the lending bank not offering the re-pledging arrangement (eg, A stock, foreign stock, bond and investment fund etc), we suppose the collateral's margin ratio set by brokers is not governed by para. 5.5, 5.6 and 5.7, and brokers can base on the collateral's financial, qualities and other factors listed in para. 5.2 to decide an appropriate margin ratio. Otherwise, even good quality securities (such as US stock: Google and US Treasury Bond), could only be offered at a maximum of 15%/20% margin ratio, under current lending facility offered by bank (i.e. zero margin ratio).

Para. 5.5
If brokers pledge one HK stock collateral to lending bank, we suppose that only that HK stock collateral should be bound by para. 5.5, 5.6 and 5.7.

It is suggested to allow for a grace period for brokers to update their own margin ratio, after receiving lending bank's notices on changes of margin ratio.

Para. 6.5(a)
We suppose that poor history of settling margin calls can be defined by brokers themselves, say, by no.of call or by no. of outstanding day. Also, suppose that partial settlement of margin call can be defined as margin call settlement, after considering the client's portfolio risk and financial strength.

Para. 6.5(b)
For a suspended stock, we suppose that brokers can, at its own discretion, choose to mark the price at the last price before suspension, or at zero price.

Para. 7.3
Should we apply the applicable hypothetical stress scenario (i) on individual margin client and aggregate the impact or (ii) on pool basis for all outstanding margin loans?