

CSDs: HKSCC (Hong Kong)

Date: 11 Jul 2011

SMI Markets: Hong Kong

CMIRR Markets: Hong Kong

## HKEx Consults on Clearing Risk Management Reforms

The Hong Kong Exchanges and Clearing Limited has published a consultation paper on the proposed risk management framework reforms for its three clearing houses. The salient points proposed in the consultation paper are the following:

- Introduce a standard margin system and a dynamic guarantee fund in the cash market at the Hong Kong Securities and Clearing Company;
- Revise counterparty default and price movement assumptions in the stress testing for clearing houses.

In an attempt to reduce the impact of new requirements on clearing participants, HKEx further proposes the following arrangements:

- A Margin Credit of up to HKD 5 million per HKSCC participant will be granted. The margin credit will be supported by the HKEx Risk Management Capital. Participants will only be required to provide margins for amounts in excess of the margin credit. Any losses due to a participant default will be covered by HKSCC up to the margin credit granted.
- A Dynamic Guarantee Fund credit up to HKD 1 million per HKSCC participant will also be granted, backed by HKEx's financial resources. Participants will be required to provide dynamic guarantee fund for the amounts in excess of this credit.
- Additional shareholders funds of HKD 900 million will be set aside by HKEx to support the clearing houses' financial resources.

Comment must be submitted on or before 28 October 2011. For more details, please refer to the consultation paper here: [Risk Management Reform Measures](#).

## CSD Risk Impact

### HKSCC (Hong Kong)

CSD Rating: A+

CSD Flash Impact: Stable

Impacted Risk Type: Counterparty Risk

Current Rating = AA-

Flash Impact = Stable

The proposed risk measures are expected to enhance the efficiency and coverage of the guarantee fund, with the introduction of dynamic margins to better reflect exposures taken on by clearing participants. The default stress testing assumptions will also be revised to include not just the default of the top participant but also the fifth largest. This is expected to improve confidence that the guarantee fund will be able to cover a default greater than the largest exposure. The margin credits and the dynamic guarantee fund credits will help alleviate financial and operational pressures from the participants, if these proposals push through. HKEx will also set aside an additional HKD 900 million of its capital to support the clearing houses, bringing the total HKEx Risk Management Capital to HKD 4 billion. Overall, the proposal presents more robust clearing / guarantee fund and default management arrangements. However, the proposal is in consultation stage and is subject to further modifications; thus, the impact on counterparty risk is set as 'Stable'.

## Market Information Impact

### Hong Kong

This information affects the data contained in the Settlement sections of the Securities Market Information Service.

## Infrastructure Risk Ratings Impact

### Hong Kong

Market Rating: A+  
Market Flash Impact: Stable

Impacted Risk Type: Counterparty Risk  
Current Rating = A+  
Flash Impact = Stable

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#### For further information contact:

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Ana Giraldo - Americas and Eurasia  
Barry Morales - Asia Pacific  
Guillaume Viteau - Western Europe (incl. EU)  
Sinang Chrea - Africa, Middle East

Tel. +44 (0) 20 8600 2300 | Fax. +44 (0) 20 8741 7468  
Email: [cmiqueries@thomasmurray.com](mailto:cmiqueries@thomasmurray.com)

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