



16 October 2023

To: Singapore Exchange Regulation
11 North Buona Vista Drive
#06-07, The Metropolis Tower 2
Singapore 138589
(Attention: Regulatory Development and Policy)

Email: rules@sgx.com

Dear Sirs/Madams

Consultation Paper on Proposed Changes to the Futures Trading Rules and Other Rulebooks

FIA¹ appreciates the opportunity to provide comments to the proposals set in the “Proposed Changes to the Futures Trading Rules and Other Rulebooks” consultation paper issued by SGX on 21 September 2023.

Please find our comments below. These follow SGX's format for gathering feedback. Unless otherwise defined, capitalised terms used in this letter will bear the same meanings ascribed to them in the consultation paper.

QUESTION 1

SGX seeks your views and comments on the proposed changes to the policies and rules relating to trading practices and conduct. In particular, do you agree with:

- a. **allowing members the discretion to accept certain types of collateral from customers which**

¹ FIA is the leading global trade organization for the futures, options and centrally cleared derivatives markets, with offices in London, Singapore and Washington, D.C. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from more than 48 countries as well as technology vendors, lawyers and other professionals serving the industry. FIA's mission is to support open, transparent and competitive markets, protect and enhance the integrity of the financial system, and promote high standards of professional conduct. As the principal members of derivatives clearinghouses worldwide, FIA's member firms play a critical role in the reduction of systemic risk in global financial markets. Further information is available at www.fia.org.



are currently prohibited?

We commend SGX for proposing to grant members the discretion to accept certain types of collateral from customers that are currently prohibited. This is a positive step that will increase flexibility for potential market entrants and optimize funding for members.

However, we recommend excluding instruments and associated currencies subject to restrictions from the list of eligible collateral. These currencies are often subject to exchange and capital controls, which add complexity and uncertainty to margin funding. Additionally, there may be liquidity and access challenges associated with these currencies, making them unavailable to the CCP for effective default management in the event of a default event. Finally, the limited fungibility and liquidity of these currencies could make it difficult for members to manage their margin requirements.

b. the requirement to run intra-day margin cycles at fixed times that are communicated to customers, if members wish to run intra-day margin cycles?

We support this proposal as it will increase transparency for all parties involved, assuming that members wish to run intra-day margin cycles.

c. allowing for delays in foreign currency transfers as an exception to the stipulation that only cash funds that have actually been received can be taken into consideration when crediting a customer's equity balance?

We support this proposal as it acknowledges the global client base of members and the challenges of cross-border payments in various currencies and will enable members to streamline margin management.

d. with the other proposed changes described in this section?

The proposal mentions foreign currency transfers. Please clarify whether this includes SGD.



QUESTION 2

SGX seeks your views and comments on the various changes to the FTR on the trading of contracts.

In particular, do you agree with:

- a. the proposed changes to allow SGX-DT to make temporary modifications with immediate effect in relation to the Final Settlement Price, Price Limits, position limits and trading hours, if such changes are in SGX-DT's opinion necessary in the interest of maintaining a fair, orderly and transparent market?**

We understand the need for SGX to reserve the right to make temporary contract modifications under certain emergency or extraordinary circumstances. However, any such changes must be subject to adequate internal governance and transparency, with clear reasons disclosed to members. Additionally, the adjustments must be made within a reasonable timeframe to avoid creating market uncertainty. SGX should also provide due notice to members, as static data in systems will need to be amended to accommodate such changes.

- b. the reorganisation of the rules relating to SGX-DT's emergency powers?**

We recommend that SGX not force-allocate trades to another member. As mentioned above, such powers should be subject to appropriate governance processes and disclosures to the market. This includes disclosing how SGX will determine that access to the trading system is restricted, how SGX will select transferee members when positions from another member's books are transferred, and whether SGX will obtain the consent of the transferee member, as well as the implications if a transferee member denies such a request.

New FTR 6.16.1 allows SGX to notify the Authority "as soon as practicable" when exercising its emergency powers. This contrasts with the existing rules, which require SGX to notify MAS in advance. We seek to confirm whether MAS's approval is required before exercising any emergency measures for SGX-DC and CDP.

- c. the introduction of the rule providing clarity on the circumstances under which SGX-DT may cancel or price adjust a trade?**

We are supportive of any actions that promote market stability. Ideally, however, trades should not be amended or cancelled after execution, as this would erode certainty. Therefore, this power should be used with extreme prudence and limited to only the most exceptional



circumstances. Trade cancellations should also be time-bound, ideally within a few minutes of execution. For example, the CME allows trade cancellations only within 10 minutes of execution.

We also appreciate any steps that enhance transparency, which is critical for helping market participants understand the reasons behind any actions taken by SGX and building trust in the market.

QUESTION 3

SGX seeks your views and comments on the proposed changes relating to the admission and registration of Registered Persons, including whether you agree with the following:

- a. the removal of credit ratings as an admission requirement and continuing obligation for BTMs?**

How will BTMs be assessed if the credit rating requirement is removed? It is important to ensure that these measures are sufficient to maintain the quality of accepted BTMs.

In that regard, please confirm that a minimum credit rating for direct clearing members is still applicable at the CCP level (SGX-DC Rule 2.02A.1.2).

- b. the requirement for each member to register with SGX-DT a CEO who will be responsible for ensuring the member's compliance with the rules?**

We seek clarification on whether the term "CEO" in the context of this proposal refers to the existing appointee of the member or to a Business Head who is principally responsible for the futures trading business of the Bank. For example, under FTR 2.7.2, the CEO of a Remote Trading Member is defined as "*a person in the employment of, or acting for or by arrangement with, such Member and is principally responsible for the management and conduct of that part of the Member's business that is regulated by the Relevant Regulatory Authority.*"

The CEO of a large financial institution oversees a large swathe of its business and may not be directly involved in the day-to-day management of specific parts of that business. Additionally, if the CEO is not an existing appointee, MAS approval is required under various regulations, such as the Banking Act and Securities and Futures Act. From an entity governance perspective, it is impossible to have two CEOs concurrently—one for the entity and one for the SGX business.



We respectfully request that SGX consider renaming this role to "designated senior manager" or a similar term. This is also consistent with the individual accountability framework put in place by MAS.

c. the removal of the requirement for SGX-DT to approve members' Registered Representatives?

We believe that the "fit and proper" criteria proposed FTR Rule 2.9.2(b) already encompasses the requirements under FTR Rules 2.9.2(e) and (f)², as supported by Paragraphs 13(a) and 15(d) of the MAS Guidelines on Fit and Proper Criteria³.

In light of this, we respectfully request that SGX consider consolidating the requirements under FTR Rules 2.9.2(e) and (f) under FTR Rule 2.9.2(b) as we believe this would make the FTR more concise and easier to understand.

SGX states in paragraph 12.3 of the Consultation Paper that adding another layer of checks by SGX-DT would be unnecessary duplication of work. To facilitate a review of the checks that SGX and SGX-DT members each conduct, please can SGX clarify the checks that they currently carry out?

d. the removal of the Approved Traders category?

We support the streamlining and consolidation of registrations under a single RR category. Can SGX confirm that existing ATs will be automatically grandfathered, so no further action is required for them to be recognized as RRs under the new rules?

² FTR Rule 2.9.2 - To be eligible for registration with SGX-DT as a Registered Representative, each an applicant must:

.....

(b) be a fit and proper person*, based on the Authority's Guidelines on Fit and Proper Criteria;

.....

(e) not be a person who has previously been disallowed by an exchange or a regulatory body, whether in or out of Singapore, from acting as a representative in respect of the relevant regulated activities;

(f) not be an undischarged bankrupt, whether in or out of Singapore;...

³ Guideline 13 – Honesty, Integrity and Reputation

... (a) has been refused the right or restricted in its or his right to carry on any trade, business or profession for which a specific license, registration or other authorisation is required by law in any jurisdiction;...

Guideline 15 – Financial Soundness:

... (d) in the case where the relevant person is an individual:

(i) is or has been the subject of a bankruptcy petition, whether in Singapore or elsewhere;

(ii) has been adjudicated a bankrupt and the bankruptcy is undischarged, whether in Singapore or elsewhere; or has been subject to any other process outside Singapore that is similar to those referred to in sub-paragraph (i) and (ii);...



Some ATs and RRs are also representatives under MAS' Representative Notification Framework. These representatives will be subject to the due diligence checks required under the MAS circular "CMI 01/2011 Due Diligence Checks and Documentation in Respect of the Appointment of Appointed, Provisional, and Temporary Representatives"⁴. Can SGX please confirm whether these checks meet their expectations for the checks required to be performed on RRs?

e. the rule amendments to effect the proposed changes?

New FTR 4.8.1 requires members to ensure that each of their RR "undergoes adequate education and training, including such continuing education and training as SGX-DT may prescribe...". Can SGX clarify what continuing education SGX may prescribe?

QUESTION 4

SGX seeks your views and comments on the proposed changes to the policies and rules relating to operational requirements. In particular, do you agree with:

a. the automated trading rules in the new FTR as well as the SGX-ST Rules which govern the use of algorithmic trading?

We seek the following clarifications:

- i. Please clarify the definition of "Direct Market Access".
- ii. Please confirm how the rules will apply for end clients who are not direct clients and for whom Sponsored Market Access is authorised.
- iii. Please confirm that senior management can delegate the day-to-day development, testing, and deployment of algorithms and the monitoring of algorithmic trading to subject matter experts. Additionally, we request that senior management be allowed to delegate the required reviews to designated heads of IT/Trading, as they are better positioned to understand the technicalities and nuances of algorithmic trading.

⁴ <https://www.mas.gov.sg/regulation/circulars/cmi-012011-due-diligence-checks-and-documentation-in-respect-of-the-appointment-of-appointed-provisional-and-temporary-representatives>



e. the formalisation of the outsourcing requirements in the new FTR?

Please confirm that the outsourcing requirements do not apply to Trading Members (Proprietary) (**TMPs**) that are not licensed or subject to regulatory/audit requirements. This would be commensurate with the risk profile of TMPs, who only trade for their own account.

g. the rule amendments to effect the proposed changes?

Generally yes, although definitions of certain key terms and greater clarification of certain situations are still required, such as a for “Direct Market Access”.

QUESTION 5

SGX seeks your views and comments on the various updates to policies and rules relating to suspension, resignation and termination of SGX-DT members. In particular, do you agree with:

b. the introduction of the rule on declaration of a member in default?

If a member's access to the markets is suspended when it is declared a defaulter, the member will be unable to enter into risk-reducing positions. This will impede its ability to wind down its positions effectively.

QUESTION 6

SGX seeks your views and comments, including whether you agree with the following:

a. the new limitation of liability rule?

We agree that liability should be limited in certain circumstances.

However, if members' trades are impacted by a malfunction of the Exchange Systems or any software managed by SGX, then SGX should be responsible for any losses suffered by the members.

In addition, we seek clarification from SGX on the scenarios and types of losses for which it is limiting liability through this new rule.

b. the terms of the rules on the provision of information to SGX-DT?

Some members have expressed concerns that the proposed requirement for Registered Persons to undertake that they have obtained the relevant consents from the individual



concerned is unusual and may breach regulations on tipping off. It should not be necessary for them to obtain consent from the individual in respect of such requests from SGX-DT.

We also seek further clarification on the scope of the information requested by SGX-DT. For example, will SGX require information pertaining only to members' clients or beyond that?

c. the additional reportable events prescribed?

Automated trading reporting requirements should be subject to a materiality threshold so that members need only report significant events, thereby increasing certainty and ensuring efficient use of resources.

In light of this, we suggest the following amendments to new FTR 2.19(o):

*(o) is experiencing an incident in relation to its Automated Trading **that has a material adverse which impacts on** orderly trading on SGX-DT.*

QUESTION 7

SGX seeks your views and comments, including whether you agree with the following:

b. the proposed changes to the SGX-DC Clearing Rules?

Please refer to our comments in Question 1(a) on margin collateral.

We welcome the opportunity to work with SGX to address these comments.

Please feel free to contact me at bherder@fia.org, or Yeo Tze Min, Head of Legal & Policy, Asia Pacific at tmyeo@fia.org should you wish to further discuss.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Bill Herder', is written over a light blue horizontal line.

Bill Herder
Head of Asia-Pacific