

## AMENDMENTS TO THE SGX-ST RULES

PROPOSED RULE AMENDMENTS
<b>Definitions and Interpretation</b>
<b><u>“Accredited Investor”</u></b> Same meaning as in the Securities and Futures Act.
<b><u>“ASEAN Trading Linkage”</u></b> Order-routing service provided by SGX-ST to Trading Members, whether directly or through any other person, through which: <ul style="list-style-type: none"><li>(a) <u>a Trading Member may enter orders directly into a market of a Foreign ASEAN Exchange, as a customer of a member of such Foreign ASEAN Exchange; and</u></li><li>(b) <u>the customer of a Trading Member to whom the Trading Member has authorised Sponsored Access, may enter orders directly into SGX-ST.</u></li></ul>
<b><u>“Direct Market Access”</u></b> <u>Direct access to the Trading System, via an SGX-ST provided or SGX-ST approved order management system through which orders are routed to the Trading System.</u>  <u>Direct Market Access does not include Internet Trading.</u>
<b><u>“Foreign ASEAN Exchange”</u></b> <u>Shall have the meaning ascribed to it in Rule 10A.5.2.</u>
<b><u>“Institutional Investor”</u></b> Same meaning as in the Securities and Futures Act.
<b><u>“Internet Trading”</u></b>

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Trading access to SGX-ST through internet broking services provided by a Trading Member.

### “SGX-ST-approved Order Management System”

An order management system that has passed conformance testing and meets appropriate technical specifications as required by SGX-ST.

### “Sponsored Access”

A form of Direct Market Access in which a Trading Member permits its customer and any other persons to use its member ID to transmit orders for execution directly to SGX-ST without using the Trading Member’s infrastructure.

## **Chapter 4 — Trading Member**

### **4.5A Direct Market Access**

#### **4.5A.1**

A Trading Member may authorise Direct Market Access for its customers in respect of markets established by or operated by SGX-ST or such markets as SGX-ST specifies.

#### **4.5A.2 Conditions Governing Direct Market Access**

(1) For every customer that a Trading Member authorises Direct Market Access for, the Trading Member must have measures in place for each customer to:—

- (a) meet minimum standards including standards on financial standing, credit history and criminal records, adverse records or pending court proceedings relating to prohibited market conduct;
- (b) have appropriate procedures in place to assure that all relevant persons:—
  - (i) are familiar with and comply with these Rules;
  - (ii) have knowledge and proficiency in the use of the order management system;
- (c) be provided information concerning its access to the Trading System and applicable laws:

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- (d) be subject to a legally binding agreement governing the terms and conditions for such Direct Market Access;
- (e) have security arrangements in place to ensure that unauthorised persons are denied such Direct Market Access; and
- (f) assist SGX-ST in any investigation into potential violations of these Rules and applicable laws. Such assistance shall be timely and shall include, but is not limited to, the provision of information to SGX-ST relating to the identity and address of any person who may be responsible for the execution of an order or trade.

(2) Where a Trading Member permits the delegation of Direct Market Access by its authorised customer and any other persons, the Trading Member must include in the legally binding agreement referred to in Rule 4.5A.2(1)(d) the requirement for such customer and any other persons delegating Direct Market Access to ensure that all persons with Direct Market Access are subject to the requirements set out in Rules 4.5A.2(1)(a) to (f).

### **4.5A.3 Conditions Governing Sponsored Access**

(1) Where a Trading Member authorises Sponsored Access for its customers, in addition to the requirements set out in Rule 4.5A.2, the Trading Member must:–

- (a) maintain a register recording the identity and address of all customers with Sponsored Access;
- (b) produce to SGX-ST the register referred to in Rule 4.5A.3(1)(a) at such time as SGX-ST requires; and
- (c) have measures in place for each customer to comply with the requirements set out in Rule 4.6.22, Rule 12.1.1, Directive No. 4, Directive No.5 and any other requirement set out by SGX-ST relating to the order management system.

(2) Where a Trading Member permits the delegation of Sponsored Access by its authorised customer and any other persons:–

- (a) the Trading Member must have measures to ensure that the authorised customer and any other persons delegating Sponsored Access:
  - (i) are persons regulated by a regulatory authority in respect of any regulated activity in any jurisdiction; or
  - (ii) where such persons are not regulated in accordance with Rule 4.5A.3(2)(a)(i), that such persons are Trading Members of SGX-ST, and that such persons shall only be permitted to delegate Sponsored Access to their related corporations; and
- (b) the Trading Member must include in the legally binding agreement referred to in Rule 4.5A.2(1)(d) the requirement for such

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customer and any other persons delegating Sponsored Access to ensure that all persons with Sponsored Access are included in the register referred to in Rule 4.5A.3(1)(a) and subject to the requirements set out in Rule 4.5A.3(1)(c).

For the purpose of this Rule 4.5A.3, “regulated activity” shall have the same meaning as in the Securities and Futures Act.

### **4.5A.4 Suspension and Termination of Direct Market Access**

SGX-ST may suspend or terminate, or direct a Trading Member to suspend or terminate a person’s Direct Market Access:–

- (1) where the person has failed to assist SGX-ST with an investigation in accordance with Rule 4.5A.2(1)(f);
- (2) in the interest of a fair, orderly and transparent market; or
- (3) where the person has caused the Trading Member to breach requirements in the Rules.

### **4.5B Controlling Access**

#### 4.5B.1

A Trading Member must have security arrangements in place to ensure that unauthorised persons are denied access to markets established by or operated by SGX-ST or such markets as SGX-ST specifies.

### **4.6.7A Risk Management and Financial Controls**

(1) A Trading Member must have written policies and procedures on risk management controls in respect of customer orders, including orders of related corporations, and demonstrate compliance in the following areas:–

- (a) monitoring the credit risks arising from the acceptance of orders on at least a daily basis;
- (b) ensuring that:
  - (i) automated pre-execution risk management control checks are conducted on all orders, including credit control checks on all orders;
  - (ii) there are appropriate internal controls for the setting and modification of any parameters of such automated pre-execution risk management control checks;
- (c) having error-prevention alerts to bring attention to possible erroneous entries of quantity, price and other data fields; and

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(d) defining and managing the Trading Member's sources of liquidity to ensure that there are sufficient liquidity facilities to meet settlement obligations.

(2) A Trading Member referred to in Rule 4.6.7A(1) must have written policies and procedures on risk management controls demonstrating compliance with the areas set out in Rule 4.6.7A(1) in respect of its own orders.

(3) A Trading Member referred to in Rule 4.6.7A(1) must have automated processes in place to monitor at the firm level if the Trading Member is at risk of breaching capital and financial requirements and prudential limits on exposures to a single customer and a single security, so as to restrict trading activity or inject additional capital if necessary.

### **4.6.22 Adequacy of Systems**

A Trading Member must ensure that its systems and connections to the Trading System operate properly, and have adequate and scalable capacity to accommodate trading volume levels.

*Refer to Directive No. 5.*

## **Chapter 10 — Foreign Market Linkages**

### **10.2 Application of Chapter**

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### 10.2.3

This Chapter does not apply to the ASEAN Trading Linkage.

## **Chapter 10A: ASEAN Trading Linkage**

### **10A.1 Definitions**

#### 10A.1.1

In this Chapter:–

“Originating Participant” means a Trading Member who is granted participation privileges by SGX-ST to the ASEAN Trading Linkage, for the execution of orders and trades on a market of a Foreign ASEAN Exchange as a customer of a member of such Foreign ASEAN Exchange.

“Sponsoring Participant” means a Trading Member who is granted participation privileges by SGX-ST to the ASEAN Trading Linkage for the purposes of enabling its Sponsored Access customer to gain access to SGX-ST via the ASEAN Trading Linkage infrastructure.

### **10A.2 Application of Chapter**

#### 10.A.2.1

A Trading Member who has been granted participation privileges by SGX-ST to the ASEAN Trading Linkage and its Trading Representatives are bound by this Chapter in respect of all activities undertaken in connection with the ASEAN Trading Linkage.

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### 10A.3 Eligibility for Participation

#### 10A.3.1

Any Trading Member may participate in the ASEAN Trading Linkage as an Originating Participant, subject to the provision of such information and documentation as SGX-ST may require.

#### 10A.3.2

A Trading Member may participate in the ASEAN Trading Linkage as a Sponsoring Participant if it is also a Clearing Member, subject to the provision of such information and documentation as SGX-ST may require.

### 10A.4 Compliance

#### 10A.4.1

A Trading Member participating in the ASEAN Trading Linkage must, at all times, comply with these Rules and the Securities and Futures Act in carrying on its business in connection with the ASEAN Trading Linkage.

#### 10A.4.2

Without prejudice to the generality of Rule 10A.4.1, a Sponsoring Participant must comply with the requirements under these Rules applicable to the authorisation of Sponsored Access to its customer.

#### 10A.4.3

Without prejudice to the generality of Rule 10A.4.1, in trading for its customers via the ASEAN Trading Linkage, an Originating Participant must comply with all provisions in the Securities and Futures Act applicable to the conduct of its business.

#### 10A.4.4

Without prejudice to the generality of Rule 10A.4.1, in trading on a market of a Foreign ASEAN Exchange via the ASEAN Trading Linkage, an Originating Participant must comply with all provisions in the Securities and Futures Act applicable to market conduct on such markets.

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### 10A.5 Available Markets

#### 10A.5.1

SGX-ST may, at its discretion, determine the products listed or quoted on SGX-ST which may be available for trading via the ASEAN Trading Linkage.

#### 10A.5.2

The Foreign ASEAN Exchanges refers to such exchanges and market operators as SGX-ST may prescribe.

#### 10A.5.3

Unless prohibited or otherwise excluded by the Foreign ASEAN Exchanges, all products listed or quoted on the Foreign ASEAN Exchanges are available for trading via the ASEAN Trading Linkage.

### 10A.6 Liability of SGX-ST

#### 10A.6.1

Without prejudice to Rule 2.4, SGX-ST, and its Directors, Officers, employees and agents have no liability of any kind to a Trading Member or other person in respect of any loss or damage (including consequential loss or damage) which may be incurred, or arise directly or indirectly, in connection with:–

- (1) the ASEAN Trading Linkage;
- (2) inability to use ASEAN Trading Linkage; or
- (3) any failure, error or omission on the part of SGX-ST.

#### 10A.6.2

The limitation of liability under Rule 10A.6 includes any loss or damage arising in connection with:–

- (1) trading on any market of a Foreign ASEAN Exchange;
- (2) suspension, interruption, cancellation or closure of trading on any market of a Foreign ASEAN Exchange, or any product listed

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on such market;

- (3) inoperability or malfunction of equipment, software or other product supplied to a Trading Member;
- (4) the installation, maintenance or removal of equipment, software or other product supplied to a Trading Member; or
- (5) the accuracy of information transmitted via the ASEAN Trading Linkage.

### Chapter 12 — Operational Requirements

#### 12.1 Records

##### 12.1.1

A Trading Member, Director or Trading Representative must:—

- (1) maintain complete and accurate records and audit trails to evidence compliance with the Rules, and in accordance with the requirements in the Securities and Futures Act, Securities and Futures Regulations ~~or~~ and the Rules;
- (2) not make, or cause to be made, a false or misleading entry, in hardcopy, or electronic form, in any books, records, slips, documents, statements relating to the business, affairs, transactions, conditions, assets or accounts ("the Documents") of a Trading Member;
- (3) make all material entries in any of the Documents; and
- (4) not alter or destroy any of the Documents without a valid reason.

*Refer to Directive No. 4.*

##### 12.1.3

A Trading Member must make records available to SGX-ST at such time as SGX-ST requires.

#### 12.3.6 Risk Acknowledgement Statement

Unless otherwise permitted by the Securities and Futures Act, a Trading Member must obtain a written acknowledgement from a

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customer that the customer is aware of the risk associated with holding and trading of securities and Futures Contracts. This Rule does not apply to a customer who is an ~~a~~Accredited Investor ~~or Institutional Investor~~ trading only in securities.

### 12.3.7 Account Designation

A customer account must be identified and designated by the full name of the customer(s) and an account code.

### 12.3.9

The account code used to designate a customer or a proprietary account must be of 7 alphanumeric or numeric characters.

### 12.3A Customer Education

#### 12.3A.1

Save for Accredited Investors and Institutional Investors, a Trading Member must provide its Internet Trading customers with adequate information, guidance and training on:—

- (1) prohibited trading practices;
- (2) potential limitations and risks of Internet Trading;
- (3) system functionalities and order management procedures; and
- (4) market conventions such as minimum bid sizes and board lot sizes.

With respect to Accredited Investors and Institutional Investors, a Trading Member's obligation relates solely to the provision of adequate information in relation to prohibited trading practices.

#### 12.14.1

A Trading Member must have processes in place to minimise and manage any conflicts of interest, including but not limited to separating its front office and back office functions.

### Chapter 13 — Trading Practices and Conduct

### 13.8.9

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A Trading Member must have in place processes to review orders and trades for the purpose of detecting suspicious trading behaviour.

### **13.11.4**

A Trading Member must have in place controls to prevent unauthorised changes to order information entered into the Trading System, including Trading Representative identification numbers.

### **13.12.1**

A Trading Representative must have a unique identification number of not more than 3 characters and password to enter orders into the Trading System and must maintain confidentiality of the identification number and password.

### **13.12.2**

A Trading Member must submit, upon admission, a list of Trading Representative identification numbers and names to SGX-ST, and notify SGX-ST of any amendments to the list on an ongoing basis.

## **Chapter 17 — Securities Borrowing and Lending**

### **17.2 Agreement**

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#### **17.2.2**

A Trading Member borrowing from an aAccredited ~~i~~Investor shall comply with Regulation 45(6) of the Securities and Futures (Licensing & Conduct of Business) Regulations.

### **17.3 Collateral**

#### **17.3.1A**

Except where a Trading Member borrows securities from an aAccredited ~~i~~Investor, if a Trading Member borrows or lends securities to any person, it must obtain collateral in accordance with this Rule 17.3 and meet its obligations under Regulation 45(5) of the Securities and Futures (Licensing & Conduct of Business) Regulations.

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### SGX-ST DIRECTIVE NO. 4 ON AUDIT TRAILS AND RECORDS

#### 1. Introduction

1.1 In accordance with Rule 12.1.1, a Trading Member must maintain proper records and audit trails to evidence compliance with the Rules, and in accordance with the requirements in the Securities and Futures Act, Securities and Futures Regulations, and the Rules.

#### 2. Storage of Audit Trail Data

2.1 The Trading Member must keep data and records such that they are easily retrievable by authorised personnel and are stored securely such that no tampering occurs. Backups of records must be kept at a location separate from the original records.

2.2 The Trading Member must check data and records for quality and accuracy on an on-going basis and correct any quality or accuracy defects detected.

2.3 The following are examples of proper procedures in maintaining records and audit trails:–

(a) for electronic storage of audit trail data :

(i) the Trading Member is able to store or download the data in text delimited or ASCII format or such other format that is readable by SGX-ST;

(ii) the Trading Member is able to print out the data in hard copies;

(iii) the Trading Member has proper back-up controls for its data and records;

(iv) the order management system has dated and clocked all data files placed on storage media to reflect the computer run time of the file; and

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(b) for non-electronic storage of audit trail data, the Trading Member has paper records showing all the actions of an order (from the point the order is entered) and the respective times and dates, and there are paper records to reflect the print time and date.

### 3. Audit Trail of Transactions

3.1 A Trading Member must produce to SGX-ST, if asked, a complete audit trail of transactions, from the receipt of an order to its settlement. Unless otherwise required by SGX-ST, for trades and orders which occurred within the 6 month period immediately before the request, the records must be provided to SGX-ST immediately, and for trades and orders which occurred more than 6 months prior to the request, the records must be provided to SGX-ST no later than two business days from the date of request.

3.2 For a complete audit trail of transactions, a Trading Member must ensure that the following records are captured, where applicable:

Record of all Fields Relating To Order Entry

1.	<u>SGXAccess Connection ID</u>
2.	<u>Trader ID and name</u>
3.	<u>Client ID and name – from customer account</u>
4.	<u>User ID and name – used to log into Trading Member’s systems</u>
5.	<u>Order ID – assigned by the Trading System</u>
6.	<u>Order type – eg good-till-cancelled order, all-or-none order, etc</u>
7.	<u>Buy/sell</u>
8.	<u>Counter name and quantity to be bought/sold</u>
9.	<u>Order price</u>
10.	<u>Settlement instructions – eg settlement with CPF funds, contra etc</u>
11.	<u>Forced key usage</u>

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12.	<u>Flow of order – if order passes through multiple systems prior to reaching the market</u>
13.	<u>Identity of order reviewer – if any</u>
14.	<u>Description of amendments made – if any</u>
15.	<u>Date and time of order entry, and of any actions taken relating to the order – including transmission, rejection, amending, routing, filtering, execution, withdrawal, etc ,and should include orders that are progressively released.</u>
16.	<u>Error messages and subsequent actions taken by the user, reviewer or system</u>
17.	<u>Status of order – such as the order being partially filled, fulfilled, unfilled, withdrawn, amended, rejected, etc</u>
18.	<u>Executed order number – assigned by the Trading System</u>
19.	<u>Traded price – for executed orders</u>
20.	<u>Counter name and quantity bought/sold – for executed orders</u>
21.	<u>Counterparty Trading Member identity – for executed orders</u>
22.	<u>Orders and trades in Trading Member records not stored electronically – to be referenced to Order ID and executed order numbers assigned by the Trading System</u>
23.	<u>Any other relevant records/instructions</u>

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3.3 For record of times required under the Rules, the Trading Member must ensure that:–

(a) the record of times should be to the highest level of precision achievable by the operating system and such record must be accurate at least to the second;

(b) the times captured must not use a clock that can be modified by the person entering the order; and

(c) the time in the order management system should be synchronized with the GPS time adopted by SGX-ST. If it is not feasible to synchronize the times, the Trading Member must maintain on record the time difference at the start of each Trading Day so as to facilitate the reconciliation of audit trail logs during audit and security incident investigations.

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### SGX-ST DIRECTIVE NO. 5 ON ADEQUACY OF SYSTEMS

#### 1. Introduction

1.1 In accordance with Rule 4.6.22, a Trading Member must ensure that its systems and connections to the Trading System operate properly, and have adequate and scalable capacity to accommodate trading volume levels.

#### 2. Planning and Assessment Programs to Ensure Adequacy

2.1 In ensuring the adequacy of systems and connections to the Trading System, Trading Members should establish comprehensive planning and assessment programs to test system capacity and security. Trading Members should also possess appropriate technical expertise to maintain and operate systems and connections to the Trading System.

2.2 The scope of such programs should cover:–

(a) the establishment of capacity estimates for systems performing automated order routing, execution and market data functions.

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Such estimates should be based on a suitably long look-back period and historical activity;

(b) periodically conducting capacity stress tests to determine the behaviour of automated systems under a variety of simulated conditions;

(c) seeking on a periodic basis the assessment of independent reviewers with regard to whether Trading Members' systems are performing adequately and whether these systems have adequate security. Such independent reviewers may be any persons not involved in the operation of Trading Members' systems who have sufficient technical expertise; and

(d) implementation of policies for the hiring and training of qualified technical personnel. Such policies may take into account outsourcing arrangements where appropriate.

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## Practice Note — Direct Market Access And Sponsored Access

<u>Issue Date</u>	<u>Cross Reference</u>	<u>Enquiries</u>
<u>Added on 18 September 2012.</u>	<u>Definitions and Interpretation</u>	<u>Please contact Member Supervision:</u> <u>Facsimile No : 6538 8273</u> <u>E-Mail Address:</u> <u>membersup@sgx.com</u>

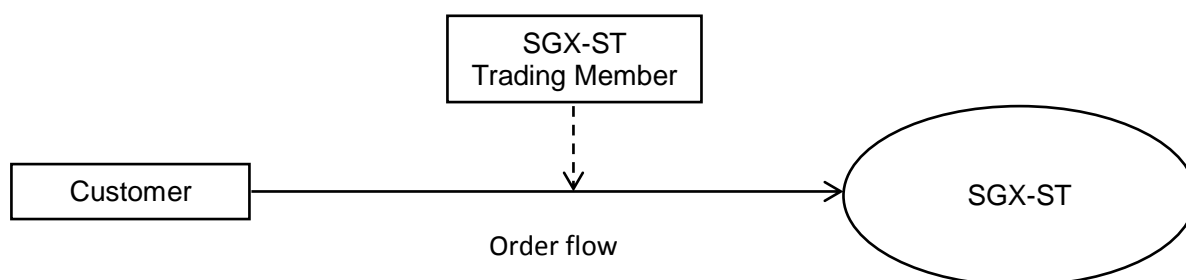
### 1. Introduction

1.1 This Practice Note provides further guidance on the definitions of Direct Market Access and Sponsored Access in the Definitions and Interpretations section of the Rules.

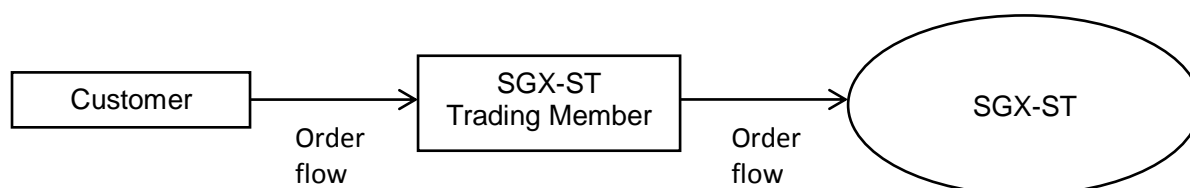
### 2. Direct Market Access

2.1 DMA may take place in the following manner:–

(a) where the Trading Member permits its customer to use its member ID to transmit orders for execution directly to SGX-ST without using the Trading Member’s infrastructure. This is known as Sponsored Access.



(b) where the Trading Member permits its customer to transmit orders electronically to the Trading Member’s infrastructure (i.e., system architecture, which may include technical systems and/or connecting systems), where the order is in turn automatically transmitted for execution to a market under the Trading Member’s member ID.



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## Practice Note 4.6.7A(1)(b) — Pre-Execution Checks

<u>Issue Date</u>	<u>Cross Reference</u>	<u>Enquiries</u>
<u>Added on 18 September 2012.</u>	<u>Rule 4.6.7A(1)(b)</u>	<u>Please contact Member Supervision: Facsimile No : 6538 8273 E-Mail Address: membersup@sgx.com</u>

### 1. Introduction

1.1 This Practice Note explains the parameters and functions which pre-execution checks may contain as contemplated in Rule 4.6.7A(1)(b).

### 2. Pre-Execution Checks

2.1 Rule 4.6.7A(1)(b) requires Trading Members to ensure that automated pre-execution risk management control checks are conducted on all orders, including credit control checks on all customer orders. The purpose of this is to prevent overtrading. The parameters of such pre-execution checks and filters may include but are not limited to:–

- (a) dollar limit to control the gross buy and sell value and/or net buy/sell value. This limit may be applied to an individual customer, a Trading Representative, a group of related accounts or a proprietary account;
- (b) security limit to control the dollar/quantity exposure to each security. This limit may be used to control concentration risk for each customer and for the Trading Member's accounts as a whole on a per-security basis;
- (c) dollar/quantity limit and price limit for each order. This allows for the detection of errors in inputting orders. For example, if a customer or Trading Representative were to enter an unusually large sized order or an order at a price that is far from the prevailing price, they could be alerted for confirmation of the order before it is accepted by the system; and
- (d) controls to restrict customers to selected markets, order types and securities.

2.2 By way of illustration, pre-execution risk management control functions may include the following:–

- (a) the ability to adjust credit or quantity limits in real time during a trading session;

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(b) the ability to set permission levels (e.g. access to selected products/instruments) and revoke the access of a Trading Representative or customer on a real time basis; and

(c) the ability to intercept orders that exceed credit or trading limits on a real-time basis and trigger error-prevention alerts.

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## Practice Note 4.6.7A(1)(c) — Error Prevention

<u>Issue Date</u>	<u>Cross Reference</u>	<u>Enquiries</u>
<u>Added on 18 September 2012.</u>	<u>Rule 4.6.7A(1)(c)</u>	<u>Please contact Member Supervision: Facsimile No : 6538 8273 E-Mail Address: membersup@sgx.com</u>

### 1. Introduction

1.1 This Practice Note explains the types of error-prevention alerts contemplated in Rule 4.6.7A(1)(c).

### 2. Types of Error-Prevention Alerts

2.1 The types of error-prevention alerts to be made available may include but are not limited to the following:–

- (a) maximum quantity per order — to alert Trading Representatives and customers of possible erroneous entries in relation to quantity; and
- (b) price alerts — to alert Trading Representatives and customers of possible erroneous entries in relation to price.

2.2 Price alerts include:–

- (a) price range checks to alert Trading Representatives and customers when the new order entry price has exceeded a certain percentage; or
- (b) number of ticks as compared to the last traded price or the previous settlement price if last traded price is not available.

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## Practice Note 4.6.7A(3) — Firm-Level Monitoring of Capital and Financial Requirements and Prudential Limits

<u>Issue Date</u>	<u>Cross Reference</u>	<u>Enquiries</u>
<u>Added on 18 September 2012.</u>	<u>Rule 4.6.7A(3)</u>	<u>Please contact Member Supervision:</u>  <u>Facsimile No : 6538 8273</u> <u>E-Mail Address:</u> <u>membersup@sgx.com</u>

### 1. Introduction

1.1 This Practice Note explains the requirement for monitoring potential breaches of capital and financial requirements and prudential limits on exposures to a single customer and a single security set out in Rule 4.6.7A(3).

### 2. Firm-Level Monitoring of Capital Requirements and Prudential Limits

2.1 In an electronic trading environment where orders are processed and routed at speed, Trading Members should use appropriate measures to monitor if the firm is at risk of breaching its capital or financial requirements or any prudential limits, for example:–

- (a) setting automated filters on firm-wide aggregated exposures;
- (b) having processes to generate warnings; or
- (c) having processes to route large value orders for review.

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## Practice Note 12.3A.1 — Customer Education

<u>Issue Date</u>	<u>Cross Reference</u>	<u>Enquiries</u>
<u>Added on 18 September 2012.</u>	<u>Rule 12.3A.1</u>	<u>Please contact Member Supervision:</u> <u>Facsimile No : 6538 8273</u> <u>E-Mail Address:</u> <u>membersup@sgx.com</u>

### 1. Introduction

1.1 This Practice provides guidance on the information that a Trading Member should provide to its Internet Trading customers.

### 2. Information, Guidance and Training

2.1 A Trading Member should provide its Internet Trading customers with adequate information, guidance and training with respect to the areas below.

2.2 Prohibited trading practices, which refer to trading practices prohibited under these Rules, the Act or other Singapore laws.

2.3 Potential limitations and risks of Internet Trading, which include:–

- (a) possibility of delays in order transmission and confirmation of order execution, and what to do in case of such delays;
- (b) not being able to withdraw erroneous orders in time due to the speed of electronic trading; and
- (c) danger of unauthorised access to a customer's internet account and recommended preventive security measures in relation to matters such as the protection of passwords and leaving an on-line screen unattended.

2.4 System functionalities and order management procedures, which include:–

- (a) system access requirements;
- (b) how to place, modify and withdraw orders;
- (c) types of trading controls e.g. types of error-prevention alerts and how to interpret system alerts;
- (d) types of credit controls e.g. types of trading limits; and
- (e) types of orders e.g. Good till Cancelled and All or None.

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2.5 Market conventions, which include:–

(a) board lot size;

(b) minimum bid size;

(c) convention for price quotation of different securities; and

(d) corporate actions and their effect on prices.

**Legend:**

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Blue struckthrough – deletions from existing Rules

## Practice Note 12.14.1 — Conflicts of Interest

<u>Issue Date</u>	<u>Cross Reference</u>	<u>Enquiries</u>
<u>Added on 18 September 2012.</u>	<u>Rule 12.14.1</u>	<u>Please contact Member Supervision:</u> <u>Facsimile No : 6538 8273</u> <u>E-Mail Address:</u> <u>membersup@sgx.com</u>

### 1. Introduction

1.1 This Practice Note provides guidance on how front office and back office functions of Trading Members should be separated, in accordance with Rule 12.14.1.

### 2. Separation of Key Functions

2.1 The purpose of separating a Trading Member's various key functions is to minimise and manage conflicts of interests among these functions.

2.2 Examples of proper separation include:–

- (a) access into the dealing or trading room to be restricted to authorised personnel only;
- (b) setting and authorising credit or trading limits on customers by senior management staff who are independent of sales and dealing functions, and are not related to the customer in question;
- (c) setting and authorising credit or trading limits on Trading Representatives by senior management staff who are independent of sales and dealing functions; and
- (d) having adequate separation of management responsibilities e.g the heads of sales, dealing, or marketing functions should not have responsibilities over all middle and back office functions of Trading Members.

2.3 The basis for determining and amending trading limits should be properly documented. Adequate audit trail reports should be maintained to show all changes to trading limits, the date and time of the modifications and the authorised person who approved the changes. In addition, sufficient checks and procedures should be in place to ensure that all limits and parameters set and modified by the credit control administrator are accurate and have been approved.

#### **Legend:**

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Blue struckthrough – deletions from existing Rules



## Practice Note 13.8.9 — Processes for Review of Orders and Trades

<u>Issue Date</u>	<u>Cross Reference</u>	<u>Enquiries</u>
<u>Added on 18 September 2012.</u>	<u>Rule 13.8.9</u>	<u>Please contact Member Supervision:</u> <u>Facsimile No : 6538 8273</u> <u>E-Mail Address:</u> <u>membersup@sgx.com</u>

### 1. Introduction

1.1 This Practice Note provides guidance on what Trading Members should do as part of their processes for post-execution review of orders and trades.

### 2. Guidance on processes

2.1 Trading Members should adopt processes to place suspicious orders and trades on exception reports or to trigger automated alerts for review. Exception reports and alerts should be reviewed by an independent party like a compliance officer or other appropriately qualified person on a regular basis to detect orders and trades or patterns of orders and trades which give rise to the possibility of non-compliance with the Rules and Regulations. The review process may involve further enquiry with Trading Representative and/or customers or reviewing other Trading Representative or customer-related information such as past trading activity.

2.2 Trading Members are expected to follow up on suspicious orders and trades and keep on file the result of their review process. Where it has been established that has been non-compliance with the Rules and Regulations, or if there is any doubt as to its compliance, apart from reporting such activity to SGX-ST pursuant to Rule 13.8.8, Trading Members are expected to take appropriate action, such as advising the Trading Representative or customer to refrain from such activity, performing a closer monitoring of the Trading Representative or customer and ultimately to close the account if the suspicious activity persists. Trading Members should note that the mere fact that an order has been placed on an exception report does not absolve them from their underlying compliance responsibilities.

### 3. Parameters to assist in detecting suspicious trading behaviour

3.1 The effectiveness of processes to identify suspicious trading behaviour depends to a large extent on the types and size of the parameters set. A list of suggested parameters is below:

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- (1) To detect orders/trades which are inconsistent with recent trading (not justified by assets, earnings, income yield or prospects) in the security or that which would materially alter the market, such as:
  - (a) orders/trades more than x% or a number of price steps from previous bid/offer/last traded or closing price.
  - (b) several orders usually for small quantities placed close together at increasing or decreasing prices to create 'layering' of buy/sell orders in the market. Such orders may have a material impact on price but could potentially avoid detection by filters designed to pick up large one-time moves in price as the layering of orders results in many small price moves.
  - (c) the excessive use of forced keys in entering orders. This may be indicative of a Trading Representative and/or customer or a group of Trading Representatives and/or customers working to move the price far beyond the current price.
  - (d) orders entered during pre-opening and pre-close at such a quantity and price which have the effect of creating a false or misleading appearance of the market for, or the price of, such securities.
  
- (2) Orders/trades which result in no change in beneficial ownership of a security that which create a false or misleading appearance of active trading, for example:
  - (a) orders/trades arising from orders placed on both the buy and sell side of the market at a similar price and time by the same Trading Representative or customer or by a group of Trading Representatives and/or customers acting in concert.

3.2 Trading Members' processes should be able to identify the above irregular orders/trades regardless of whether they originate from one Trading Representative or customer or a group of Trading Representatives and/or customers acting in concert. In addition, they should also be able to identify consistent patterns of irregular trades done over a period of time.

3.3 In setting the above parameters, Trading Members should take note of securities which are illiquid or those with small free floats which make them susceptible to cornering and price manipulation.

3.4 Trading Members should also pay attention to orders entered after a corporate action to ensure that the orders reflect the change in price and/or quantity after the corporate action. This is to prevent securities being traded at dramatically wrong prices/quantities due to a lack of knowledge or a misunderstanding of the corporate action by uninformed customers.

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## Schedule A

Rule Violation		Whether composition may be offered	Composition Amount which may be Offered by SGX-ST, where SGX-ST has Determined the Trading Member, Approved Executive Director and/or Trading Representative to be Liable									Mandatory minimum penalty imposed by the Disciplinary Committee
Rule Chapter/ Number	Brief Description of Rule		Trading Members (or Designated Market Maker, where applicable)			Approved Executive Directors			Trading Representatives (or Market Making Representative, where applicable)			
			1st Violation	2nd Violation	3rd Violation	1st Violation	2nd Violation	3rd Violation	1st Violation	2nd Violation	3rd Violation	
<b>Chapter 4 — Trading Members</b>												
<b>4.5A Direct Market Access</b>												
4.5A.2(1)(a)	Trading Member to have measures covering minimum standards for Direct Market Access	Compoundable	<u>\$2,000 – \$4,000</u>	<u>\$4,000 – \$7,000</u>	<u>\$7,000 – \$10,000</u>	<u>\$1,000 – \$3,000</u>	<u>\$3,000 – \$6,000</u>	<u>\$6,000 – \$8,000</u>	N.A	N.A	N.A	N.A.
4.5A.2(1)(b)	Trading Member to have measures covering procedures on Direct Market Access for relevant persons	Compoundable	<u>\$2,000 – \$4,000</u>	<u>\$4,000 – \$7,000</u>	<u>\$7,000 – \$10,000</u>	<u>\$1,000 – \$3,000</u>	<u>\$3,000 – \$6,000</u>	<u>\$6,000 – \$8,000</u>	N.A	N.A	N.A	N.A.
4.5A.2(1)(c)	Trading Member to have measures providing information on access and applicable laws for Direct Market Access	Compoundable	<u>\$2,000 – \$4,000</u>	<u>\$4,000 – \$7,000</u>	<u>\$7,000 – \$10,000</u>	<u>\$1,000 – \$3,000</u>	<u>\$3,000 – \$6,000</u>	<u>\$6,000 – \$8,000</u>	N.A	N.A	N.A	N.A.
4.5A.2(1)(d)	Trading Member to have measures for legally binding agreement on Direct Market Access	Compoundable	<u>\$2,000 – \$4,000</u>	<u>\$4,000 – \$7,000</u>	<u>\$7,000 – \$10,000</u>	<u>\$1,000 – \$3,000</u>	<u>\$3,000 – \$6,000</u>	<u>\$6,000 – \$8,000</u>	N.A	N.A	N.A	N.A.
4.5A.2(1)(e)	Trading Member to	Not	Not Compoundable						N.A	N.A	N.A	<u>\$10,000</u>

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	<u>have measures for security arrangements on Direct Market Access</u>	<u>Compoundable</u>										
4.5A.2(1)(f)	<u>Trading Member to assist SGX-ST in any investigation on Direct Market Access in respect of potential violations</u>	<u>Not Compoundable</u>	<u>Not Compoundable</u>						<u>N.A</u>	<u>N.A</u>	<u>N.A</u>	<u>\$10,000</u>
4.5A.2(2)	<u>Trading Member to have conditions restricting who can delegate Direct Market Access and to have conditions passed to other persons via legally binding agreement</u>	<u>Compoundable</u>	<u>\$2,000 – \$4,000</u>	<u>\$4,000 – \$7,000</u>	<u>\$7,000 – \$10,000</u>	<u>\$1,000 – \$3,000</u>	<u>\$3,000 – \$6,000</u>	<u>\$6,000 – \$8,000</u>	<u>N.A</u>	<u>N.A</u>	<u>N.A</u>	<u>N.A.</u>
4.5A.3(1)(a)	<u>Trading Member to keep a Sponsored Access record</u>	<u>Compoundable</u>	<u>\$2,000 – \$4,000</u>	<u>\$4,000 – \$7,000</u>	<u>\$7,000 – \$10,000</u>	<u>\$1,000 – \$3,000</u>	<u>\$3,000 – \$6,000</u>	<u>\$6,000 – \$8,000</u>	<u>N.A</u>	<u>N.A</u>	<u>N.A</u>	<u>N.A.</u>
4.5A.3(1)(b)	<u>Trading Member to show Sponsored Access record when requested</u>	<u>Not Compoundable</u>	<u>Not Compoundable</u>						<u>N.A</u>	<u>N.A</u>	<u>N.A</u>	<u>\$10,000</u>
4.5A.3(1)(c)	<u>Trading Member to have measures on specific requirements for Sponsored Access</u>	<u>Compoundable</u>	<u>\$2,000 – \$4,000</u>	<u>\$4,000 – \$7,000</u>	<u>\$7,000 – \$10,000</u>	<u>\$1,000 – \$3,000</u>	<u>\$3,000 – \$6,000</u>	<u>\$6,000 – \$8,000</u>	<u>N.A</u>	<u>N.A</u>	<u>N.A</u>	<u>N.A.</u>
4.5A.3(2)(a)	<u>Trading Member to have measures to assure status of Sponsored Access customer</u>	<u>Compoundable</u>	<u>\$2,000 – \$4,000</u>	<u>\$4,000 – \$7,000</u>	<u>\$7,000 – \$10,000</u>	<u>\$1,000 – \$3,000</u>	<u>\$3,000 – \$6,000</u>	<u>\$6,000 – \$8,000</u>	<u>N.A</u>	<u>N.A</u>	<u>N.A</u>	<u>N.A.</u>
4.5A.3(2)(b)	<u>Trading Member to have measures on specific requirements relating to</u>	<u>Compoundable</u>	<u>\$2,000 – \$4,000</u>	<u>\$4,000 – \$7,000</u>	<u>\$7,000 – \$10,000</u>	<u>\$1,000 – \$3,000</u>	<u>\$3,000 – \$6,000</u>	<u>\$6,000 – \$8,000</u>	<u>N.A</u>	<u>N.A</u>	<u>N.A</u>	<u>N.A.</u>

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	<a href="#">delegation of Sponsored Access</a>											
4.5A.4	<a href="#">SGX-ST to direct Trading Member to suspend or terminate Direct Market Access</a>	<a href="#">Not Compoundable</a>	<a href="#">Not Compoundable</a>						<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">\$10,000</a>
<b>4.5B</b>	<b><a href="#">Controlling Access</a></b>											
4.5B.1	<a href="#">Trading Member to have security arrangements in place to deny access to unauthorised persons.</a>	<a href="#">Not Compoundable</a>	<a href="#">Not Compoundable</a>						<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">\$10,000</a>
<b>4.6</b>	<b><a href="#">Trading Members Obligations of a Trading Member</a></b>											
4.6.7A(1)(a).	<a href="#">Trading Member to monitor credit risks from acceptance of customer orders at least daily</a>	<a href="#">Compoundable</a>	<a href="#">\$2,000 – \$4,000</a>	<a href="#">\$4,000 – \$7,000</a>	<a href="#">\$7,000 – \$10,000</a>	<a href="#">\$1,000 – \$3,000</a>	<a href="#">\$3,000 – \$6,000</a>	<a href="#">\$6,000 – \$8,000</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A.</a>
4.6.7A(1)(b).	<a href="#">Trading Member to have automated pre-execution checks on orders and appropriate internal controls</a>	<a href="#">Compoundable</a>	<a href="#">\$2,000 – \$4,000</a>	<a href="#">\$4,000 – \$7,000</a>	<a href="#">\$7,000 – \$10,000</a>	<a href="#">\$1,000 – \$3,000</a>	<a href="#">\$3,000 – \$6,000</a>	<a href="#">\$6,000 – \$8,000</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A.</a>
4.6.7A(1)(c).	<a href="#">Trading Member to have error prevention alerts on orders</a>	<a href="#">Compoundable</a>	<a href="#">\$2,000 – \$4,000</a>	<a href="#">\$4,000 – \$7,000</a>	<a href="#">\$7,000 – \$10,000</a>	<a href="#">\$1,000 – \$3,000</a>	<a href="#">\$3,000 – \$6,000</a>	<a href="#">\$6,000 – \$8,000</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A.</a>
4.6.7A(1)(d).	<a href="#">Trading Member to define and manage sources of liquidity</a>	<a href="#">Compoundable</a>	<a href="#">\$2,000 – \$4,000</a>	<a href="#">\$4,000 – \$7,000</a>	<a href="#">\$7,000 – \$10,000</a>	<a href="#">\$1,000 – \$3,000</a>	<a href="#">\$3,000 – \$6,000</a>	<a href="#">\$6,000 – \$8,000</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A.</a>
4.6.7A(2)	<a href="#">Trading Member to have risk management controls on its own orders</a>	<a href="#">Compoundable</a>	<a href="#">\$2,000 – \$4,000</a>	<a href="#">\$4,000 – \$7,000</a>	<a href="#">\$7,000 – \$10,000</a>	<a href="#">\$1,000 – \$3,000</a>	<a href="#">\$3,000 – \$6,000</a>	<a href="#">\$6,000 – \$8,000</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A.</a>
4.6.7A(3)	<a href="#">Trading Member to have automated</a>	<a href="#">Compoundable</a>	<a href="#">\$2,000 – \$4,000</a>	<a href="#">\$4,000 – \$7,000</a>	<a href="#">\$7,000 – \$10,000</a>	<a href="#">\$1,000 – \$3,000</a>	<a href="#">\$3,000 – \$6,000</a>	<a href="#">\$6,000 – \$8,000</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A.</a>

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	<a href="#">processes to monitor capital requirements and prudential limits</a>											
<a href="#">4.6.22</a>	<a href="#">Trading Member to ensure that systems and connections to SGX-ST operate properly</a>	<a href="#">Compoundable</a>	<a href="#">\$2,000 – \$4,000</a>	<a href="#">\$4,000 – \$7,000</a>	<a href="#">\$7,000 – \$10,000</a>	<a href="#">\$1,000 – \$3,000</a>	<a href="#">\$3,000 – \$6,000</a>	<a href="#">\$6,000 – \$8,000</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A.</a>
<b>Chapter 12 – Operational Requirements</b>												
<b>12.1</b>	<b>Records</b>											
<a href="#">12.1.3</a>	<a href="#">Trading Member to make records available to SGX-ST as required</a>	<a href="#">Not Compoundable</a>	<a href="#">Not Compoundable</a>						<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">\$10,000</a>
<b>12.3</b>	<b>Customer accounts</b>											
<a href="#">12.3.9</a>	<a href="#">Trading Member to ensure customer and proprietary account code designated by 7 alphanumeric/numeric characters</a>	<a href="#">Compoundable</a>	<a href="#">\$2,000 – \$4,000</a>	<a href="#">\$4,000 – \$7,000</a>	<a href="#">\$7,000 – \$10,000</a>	<a href="#">\$1,000 – \$3,000</a>	<a href="#">\$3,000 – \$6,000</a>	<a href="#">\$6,000 – \$8,000</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A.</a>
<b>12.3A</b>	<b>Customer Education</b>											
<a href="#">12.3A.1</a>	<a href="#">Trading Member to provide online customers with adequate information on specific areas</a>	<a href="#">Compoundable</a>	<a href="#">\$500</a>	<a href="#">\$1,000</a>	<a href="#">\$2,000</a>	<a href="#">\$250</a>	<a href="#">\$500</a>	<a href="#">\$1,000</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A.</a>
<b>Chapter 13 – Trading Practices and Conduct</b>												
<b>13.8</b>	<b>Market Manipulation and False Market</b>											
<a href="#">13.8.9</a>	<a href="#">Trading Member to have in place processes to review orders and trades post-execution for suspicious trading activity</a>	<a href="#">Compoundable</a>	<a href="#">\$2,000 – \$4,000</a>	<a href="#">\$4,000 – \$7,000</a>	<a href="#">\$7,000 – \$10,000</a>	<a href="#">\$1,000 – \$3,000</a>	<a href="#">\$3,000 – \$6,000</a>	<a href="#">\$6,000 – \$8,000</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A</a>	<a href="#">N.A</a>

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<b>13.11</b>	<b>Responsibility for Orders</b>											
<a href="#">13.11.4</a>	Trading Member to have in place processes to prevent unauthorised changes to order info	Compoundable	<del>\$2,000 – \$4,000</del>	<del>\$4,000 – \$7,000</del>	<del>\$7,000 – \$10,000</del>	<del>\$1,000 – \$3,000</del>	<del>\$3,000 – \$6,000</del>	<del>\$6,000 – \$8,000</del>	N.A	N.A	N.A	N.A
<b>13.12</b>	<b>Identification and Password</b>											
<a href="#">13.12.2</a>	Trading Member to submit and maintain a list of TR IDs	Compoundable	<del>\$2,000 – \$4,000</del>	<del>\$4,000 – \$7,000</del>	<del>\$7,000 – \$10,000</del>	<del>\$1,000 – \$3,000</del>	<del>\$3,000 – \$6,000</del>	<del>\$6,000 – \$8,000</del>	N.A	N.A	N.A	N.A

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Blue struckthrough – deletions from existing Rules