

APPENDIX A – PROPOSED AMENDMENTS TO SGX-ST TRADING RULES

Rule amendment – Rule amendment

RULE	RULE AMENDMENT
3.10.1	<p>3.10 Margin Financing</p> <p>3.10.1 Subject to the margin financing requirements of this Rule, a Trading Member who is licensed to conduct product financing may extend credit facilities to customers for transactions in Specified Products.</p>
3.10.2	<p>3.10.2</p> <p>SGX-ST may exempt a Remote Trading Member from compliance with Rules 3.10.3 to 3.10.16, subject to any other requirements that SGX-ST may impose, if SGX-ST is of the view that the Remote Trading Member is subject to requirements of its Relevant Regulatory Authority that are comparable to the requirements in those Rules.</p>
3.10.3	<p>3.10.3</p> <p>Margin financing arrangements shall be evidenced in the form of a written agreement executed between the Trading Member and the customer.</p>
3.10.4	<p>3.10.4</p> <p>If a Trading Member seeks to mortgage, <u>charge</u>, pledge or hypothecate the <u>assets Specified Products or property</u> of any customer who operates a margin financing account (such account being an account carried on the books of the Trading Member) with it, it shall:</p> <p>(a) obtain authorisation of such customer to do so, and do so only in respect of a sum not exceeding the <u>amount owed by the customer to the Trading Member debit balance in the margin financing account</u> and without obligation to retain in its possession or control <u>assets Specified Products</u> of like character;:-</p> <p>(b) The Trading Member shall also ensure that it is given the discretion to sell or dispose of any or all the <u>assets Specified Products</u> in any manner in order to meet with the prescribed margin financing requirements;:- <u>and</u></p> <p>(c) <u>before mortgaging, charging, pledging or hypothecating a retail customer's assets:</u></p>

RULE	RULE AMENDMENT
	<p>(i) <u>inform the retail customer that the Trading Member may mortgage, charge, pledge or hypothecate the retail customer's assets but only for a sum not exceeding the amount owed by the customer to the Trading Member;</u></p> <p>(ii) <u>explain to the retail customer the risks of mortgaging, charging, pledging or hypothecating the retail customer's assets; and</u></p> <p>(iii) <u>obtain the retail customer's written consent to mortgage, charge, pledge or hypothecate the retail customer's assets.</u></p>
3.10.4A	<p><u>A Trading Member must not, in relation to any assets or monies received from a retail customer, enter into any contract, arrangement or transaction of which the purpose or effect is to transfer any right, interest, benefit or title in those assets or monies to itself or any other person, unless:</u></p> <p>(a) <u>in the case of assets, the contract, arrangement or transaction is entered into in connection with borrowing or lending of the retail customer's Specified Products;</u></p> <p>(b) <u>in the case of monies, the contract, arrangement or transaction is entered into in connection with lending of the retail customer's Specified Products; and</u></p> <p>(c) <u>the Trading Member complies with the relevant laws in relation to the borrowing or lending (as the case may be) of the retail customer's Specified Products.</u></p>
3.10.5	<p>3.10.5</p> <p>A Trading Member who provides margin financing must obtain margin from each customer in respect of any margin financing account (such account being an account carried on the books of the Trading Member) and in respect of any credit facility provided to the customer for Specified Products transactions. The margin deposited by customers with the Trading Member shall be in the form of acceptable collateral and such other instruments as SGX-ST may from time to time prescribe.</p>
3.10.6	<p>3.10.6</p> <p>A Trading Member shall not cause or permit any new transaction made in a customer's margin financing account (such account being an account carried on the books of the Trading Member) unless the resulting equity in the account is not less than 140% of the debit balance, or the Trading Member has required the customer to deposit additional margin in the margin financing account within two Market Days from the date of the Specified Products transaction to bring the equity to not less than 140% of the debit balance.</p>

RULE	RULE AMENDMENT
	<p><u>[This rule is proposed to be deleted]</u></p>
3.10.7	<p>3.10.7</p> <p><u>(a)</u> A Trading Member shall not cause or permit the equity in a customer's margin financing account (such account being an account carried on the books of the Trading Member) to fall to or below 110% of the debit balance in the customer's margin financing account <u>be 110% of the debit balance in the customer's margin financing account or less.</u></p> <p><u>(b)</u> Where the equity in a customer's margin financing account falls to or below is 110% of the debit balance in his margin financing account <u>or less,</u> the Trading Member:</p> <p><u>(i)</u> shall<u>must</u> immediately require the customer to provide additional margin in the margin financing account within two Market Days from the date of the notice to increase the equity in the customer's margin financing account to more than 110% of the debit balance in the customer's margin financing account; and-</p> <p><u>(ii)</u> shall not cause or permit any new transaction to be made in the customer's margin financing account, unless such new transaction will increase the percentage of equity over debit balance in the customer's margin financing account.</p>
3.10.8	<p>3.10.8</p> <p>Where the customer fails to provide additional margin as required by the Trading Member under Rule 3.10.7, the Trading Member shall have the discretion to take such action as it may deem appropriate, including, liquidating the Specified Products purchased via the margin financing account and/or liquidating all or any acceptable collateral deposited to bring the equity to more than 110% of the debit balance without notice to the customer.</p>
3.10.9	<p>3.10.9</p> <p>A Trading Member shall review all margin financing accounts carried on the books of the Trading Member daily to ensure that credit is not over-extended beyond the approved facility limits and that the margin financing requirements <u>and limits</u> prescribed <u>in this Rule 3.10</u> are met at all times. <u>The Trading Member shall establish and maintain a robust framework to govern the conduct of such reviews.</u> For the</p>

RULE	RULE AMENDMENT
	<p>purpose of computing margin financing requirements in a margin financing account, the last done price of the Specified Product on the preceding Market Day, or in the case of a Prescribed Instrument, the closing price of the Prescribed Instrument on the preceding Market Day shall be used. All transactions done on the same day shall be combined on a transaction date basis and the total cost of purchase or the net proceeds of sale including any commission charged and other expenses shall be taken into account for computing margin financing requirements.</p> <p><u>Refer to Practice Note 3.10.9.</u></p>
3.10.10	<p>3.10.10 A Trading Member shall have the discretion to impose higher margin financing requirements on any of its customers and/or to prescribe more stringent provisions on its customers then the provisions of this <u>Rule 3.10</u>.</p>
3.10.11	<p>3.10.11 A customer may withdraw cash or assets Specified Products from his margin financing account carried on the books of the Trading Member provided that: <u>(a) such withdrawal does not cause</u> the equity in his account to does not fall to 110<u>140</u>% of the debit balance or less; and <u>(b) the amount of cash withdrawn does not exceed the amount of cash balance held in his margin financing account at the point of withdrawal.</u></p>
3.10.12	<p>3.10.12 A Trading Member shall not cause or permit:—</p> <p>(a) the aggregate of the margin exposures in the margin financing accounts of all customers (such accounts being accounts carried on the books of the Trading Member) to exceed 300%, or such other percentage as SGX-ST may allow, of its free financial resources;</p> <p>(b) the aggregate of the margin exposures in the margin financing accounts of all customers in respect of Specified Products, other than Specified Products quoted on SGX-ST, to exceed 100%, or such other percentage as SGX-ST may allow, of its free financial resources; and</p> <p>(c) the debit balance in each customer's margin financing account to exceed 20%, or such other percentage as SGX-ST may allow, of its free financial resources.</p>
3.10.13	<p>3.10.13 All transactions in a margin financing account carried on the books of the Trading Member shall be on a ready basis. The margin financing account shall not be used to meet margin requirements in respect of Marginable Futures Contracts.</p>

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3.10.14	<p>3.10.14</p> <p>In computing the market value of Specified Products bought and carried in a customer's margin financing account (such account being an account carried on the books of the Trading Member) and the market value of acceptable collateral, the Trading Member shall apply such applicable haircuts as SGX-ST may prescribe from time to time.</p>
3.10.15	<p>3.10.15</p> <p>SGX-ST shall have the absolute discretion upon notice to the Trading Members to vary any or all of the margin financing requirements stipulated in this <u>Rule 3.11</u> or any of the haircuts in <u>Rule 3.10.14</u>, and impose such other requirements for margin financing transactions from time to time as it deems fit and appropriate.</p>
3.10.16	<p>3.10.16</p> <p>For the purposes of this Rule <u>3.10</u>, the terms:</p> <ul style="list-style-type: none"> (a) "acceptable collateral", "debit balance", "equity", "free financial resources" and "margin exposure" each has the meaning ascribed to them in Regulation 24(6) of the SFR (Financial and Margin Requirements); (b) <u>"assets" in relation to a customer has the meaning ascribed to "customer's assets" in Regulation 15 of the SFR (Licensing and Conduct of Business);</u> (c) <u>"cash balance" includes unutilised cash deposits, and cash from sales proceeds or corporate action events; and</u> (d) <u>"retail customer" has the meaning ascribed to it in Regulation 2 of the SFR (Licensing and Conduct of Business).</u>

Practice Note 3.10 Margin Financing

1. Introduction

1.1 Rule 3.10.9 requires a Trading Member to review all margin financing accounts carried on its books daily to ensure that credit is not over-extended beyond the approved facility limits and that the margin financing requirements and limits prescribed in Rule 3.10 are met at all times. The Rule also requires the Trading Member to establish and maintain a robust framework to govern the conduct of such reviews.

1.2 This Practice Note sets out SGX-ST's expectations on the matters that should be included in the framework.

2. Margin Financing Review Framework

2.1 To ensure that the review of margin financing accounts is robust, the framework include at least the following:

- (a) Policies and procedures to be put in place for determining the suitability and valuation of acceptable collateral;
- (b) Concentration limits to be set at security and single customer level to prevent the firm from taking on excessive risks;
- (c) Performance of timely monitoring of adverse news and market developments to identify potential matters that may impact the valuation of collaterals (e.g. trade with caution alerts, trade suspension, corporate actions); and
- (d) Performance of daily mark to market of margin collateral and daily margin calls to restore margin ratios.

2.2 The Trading Member should review its policies at least annually and during times of market volatility, to ensure the suitability of acceptable collateral and their valuation.

2.3 For the purposes of paragraph 2.1, "single customer" shall have the same meaning ascribed to it in Rule 3.6.6.

2.4 The framework should provide, for the purpose of computing margin financing requirements in a margin financing account, that:

- (a) all transactions done on the same day shall be combined on a transaction date basis;

- (b) the total cost of purchase or the net proceeds of sale, including any commission charged and other expenses, shall be taken into account; and
- (c) the Trading Member may use either:
 - (i) the last done price of the Specified Product on the preceding Market Day, or in the case of a Prescribed Instrument, the closing price of the Prescribed Instrument on the preceding Market Day, or
 - (ii) the market price of the Specified Product at the point of calculation on the current Market Day. Where the Trading Member uses real-time market prices for margin valuation, computation of margin financing requirements and issuance of margin calls where required should be carried out at the same time.

2.5 The framework should require that there be a determination of the suitability and valuation of the margin collateral in a margin financing account and require that the following factors be taken into account for that purpose:

- (a) type and quality of margin collateral;
- (b) price volatility of margin collateral;
- (c) where the margin collateral is listed or traded in a foreign jurisdiction or is cash in a foreign currency, matters such as:
 - (i) exchange rate volatility,
 - (ii) ease of liquidating collateral in the foreign jurisdiction, and
 - (iii) differences in legal and regulatory framework between such foreign jurisdiction and Singapore; and
- (d) where the margin collateral is custodised in a foreign jurisdiction, matters such as:
 - (i) risks arising from differences in custody arrangements in such foreign jurisdiction; and
 - (ii) treatment of, or legal protection afforded to, customer collateral in the foreign jurisdiction, e.g. prohibition of title transfer for retail customer collateral.

SCHEDULE A

Rule Violation		Whether composition may be offered	Composition amount that may be offered by SGX-ST, where SGX-ST has determined the Trading Member, Chief Executive Officer 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)			Chief Executive Officer			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		
Chapter 3 — Capital and Financial Requirements													
3.10	Margin Financing												
3.10.2	Remote Trading Member to comply with such requirements prescribed by the Relevant Regulatory Authority	Compounded	\$2,000 – \$4,000	\$4,000 – \$7,000	\$7,000 – \$10,000	\$1,000 – \$3,000	\$3,000 – \$6,000	\$6,000 – \$8,000	N.A.	N.A.	N.A.	N.A.	
3.10.3	Trading Member to obtain written agreement for margin account arrangements	Compounded	\$2,000 – \$4,000	\$4,000 – \$7,000	\$7,000 – \$10,000	\$1,000 – \$3,000	\$3,000 – \$6,000	\$6,000 – \$8,000	N.A.	N.A.	N.A.	N.A.	
3.10.4	Trading Member to obtain the specified <u>informed written consent</u> authorisation and discretion from its customer	Compounded	\$2,000 – \$4,000	\$4,000 – \$7,000	\$7,000 – \$10,000	\$1,000 – \$3,000	\$3,000 – \$6,000	\$6,000 – \$8,000	N.A.	N.A.	N.A.	N.A.	
<u>3.10.4A</u>	<u>A Trading Member not to enter into contract.</u>	Compounded	\$2,000 –	\$4,000 –	\$7,000 –	\$1,000 –	\$3,000 –	\$6,000 –	N.A.	N.A.	N.A.	N.A.	

	<u>arrangement or transaction of which the purpose or effect is to transfer any right, interest, benefit or title in assets or monies received from a retail customer to itself or any other person, other than in the specified cases</u>		\$4,000	\$7,000	\$10,000	\$3,000	\$6,000	\$8,000				
3.10.5	Margins deposited by the customer to a Trading Member to be in the acceptable form	Compou ndable	\$2,000 – \$4,000	\$4,000 – \$7,000	\$7,000 – \$10,000	\$1,000 – \$3,000	\$3,000 – \$6,000	\$6,000 – \$8,000	N.A.	N.A.	N.A.	N.A.
3.10.6 [Delete d]	Trading Member not to cause or permit a new transaction in the customer's margin account when equity limit stipulated is not met [Deleted]	Compou ndable [Deleted]	\$2,000 – \$4,000 [Delete d]	\$4,000 – \$7,000 [Delete d]	\$7,000 – \$10,000 [Delete d]	\$1,000 – \$3,000 [Delete d]	\$3,000 – \$6,000 [Delete d]	\$6,000 – \$8,000 [Delete d]	N.A. [Delete d]	N.A. [Delete d]	N.A. [Delete d]	N.A. [Delete d]
3.10.6/ 3.10.7/ 3.10.8	Trading Member not to cause or permit the equity in a customer's margin account to fall to or below the stipulated limit, and, <u>Where equity in a customer's margin account falls to or</u>	Compou ndable	\$2,000 – \$4,000	\$4,000 – \$7,000	\$7,000 – \$10,000	\$1,000 – \$3,000	\$3,000 – \$6,000	\$6,000 – \$8,000	N.A.	N.A.	N.A.	N.A.

	below the stipulated limit, Trading Member: (i) had not to require the customer to provide additional margin, and (ii) not to cause or permit any new transaction to be made in the customer's margin account, unless such transaction increases the percentage of equity over debit balance in the account.											
3.10.9	Trading Member to conduct daily review of all margin accounts in the prescribed manner, and establish and maintain a framework to govern such reviews	Compou ndable	\$2,00 0 – \$4,00 0	\$4,00 0 – \$7,00 0	\$7,00 0 – \$10,0 00	\$1,00 0 – \$3,00 0	\$3,00 0 – \$6,00 0	\$6,00 0 – \$8,00 0	N.A.	N.A.	N.A.	N.A.
3.10.11	Trading Member not to allow customers to withdraw cash or assets Specified Products from their accounts when the equity is <u>110% or less</u> below 140% or the amount of cash	Compou ndable	\$2,00 0 – \$4,00 0	\$4,00 0 – \$7,00 0	\$7,00 0 – \$10,0 00	\$1,00 0 – \$3,00 0	\$3,00 0 – \$6,00 0	\$6,00 0 – \$8,00 0	N.A.	N.A.	N.A.	N.A.

	<u>sought to be withdrawn exceeds the cash balance in their accounts</u>											
3.10.12 (a)	Trading Member not to cause or permit the aggregate of the margin exposures of all customers to exceed the stipulated limit	Compounded	\$2,000 – \$4,000	\$4,000 – \$7,000	\$7,000 – \$10,000	\$1,000 – \$3,000	\$3,000 – \$6,000	\$6,000 – \$8,000	N.A.	N.A.	N.A.	N.A.
3.10.12 (b)	Trading Member not to cause or permit the aggregate of the margin exposures of all customers in respect of Specified Products, other than Specified Products quoted on SGX-ST, to exceed the stipulated limit	Compounded	\$2,000 – \$4,000	\$4,000 – \$7,000	\$7,000 – \$10,000	\$1,000 – \$3,000	\$3,000 – \$6,000	\$6,000 – \$8,000	N.A.	N.A.	N.A.	N.A.
3.10.12 (c)	Trading Member not to cause or permit the debit balance in each customer's margin account to exceed the stipulated limit	Compounded	\$2,000 – \$4,000	\$4,000 – \$7,000	\$7,000 – \$10,000	\$1,000 – \$3,000	\$3,000 – \$6,000	\$6,000 – \$8,000	N.A.	N.A.	N.A.	N.A.
3.10.13	Transactions in a margin account to be on a ready basis	Compounded	\$2,000 – \$4,000	\$4,000 – \$7,000	\$7,000 – \$10,000	\$1,000 – \$3,000	\$3,000 – \$6,000	\$6,000 – \$8,000	N.A.	N.A.	N.A.	N.A.

3.10.14	Trading Member to apply haircuts prescribed by SGX-ST in computing the market value of Specified Products	Compou ndable	\$2,00 0 – \$4,00 0	\$4,00 0 – \$7,00 0	\$7,00 0 – \$10,0 00	\$1,00 0 – \$3,00 0	\$3,00 0 – \$6,00 0	\$6,00 0 – \$8,00 0	N.A.	N.A.	N.A.	N.A.
3.10.15	Trading Member to comply with SGX-ST's requirements for margin financing transactions	Compou ndable	\$2,00 0 – \$4,00 0	\$4,00 0 – \$7,00 0	\$7,00 0 – \$10,0 00	\$1,00 0 – \$3,00 0	\$3,00 0 – \$6,00 0	\$6,00 0 – \$8,00 0	N.A.	N.A.	N.A.	N.A.