

Amendments to existing SGX-ST Practice Notes retained as Practice Notes

Rule amendments are marked in blue.

Sample: Rule insertion

Sample: Rule deletion

Practice Note 4.2— Direct Market Access And Sponsored Access

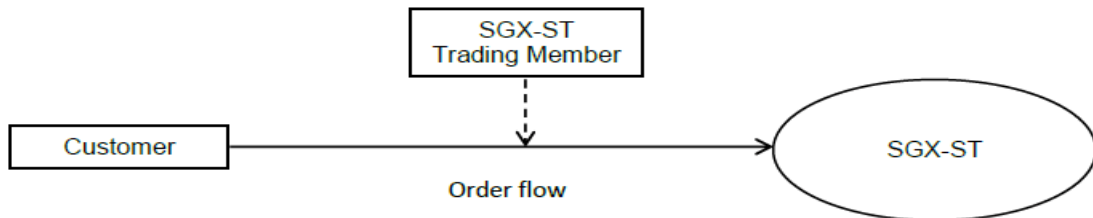
1. Introduction

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 as used in Rule 4.2.

2. Direct Market Access

2.1 DMA Direct Market Access 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 and the order is in turn automatically transmitted for execution to a market under the Trading Member's member ID.



1. Introduction

1.1 Rule 4.10.1(b) requires Trading Members to ensure that adequate pre-execution risk management control checks are conducted, including automated credit control checks on every order and trading limits for each Trading Representative.

1.12 This Practice Note ~~explains the parameters and functions which pre-execution checks may contain~~ as sets out the types of pre-execution checks contemplated in Rule ~~4.6.7A(1)(b)~~ 4.10.1(b).

2. ~~Pre-Execution~~ Pre-Execution Checks

2.1 ~~Rule 4.6.7A(1)(b)~~ The purpose of ~~requires requiring~~ requires requiring Trading Members to ensure that ~~adequate~~ adequate 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 and for credit risk management. As such, the checks must be appropriately set to effectively limit the firm's risk exposure arising from every order (including proprietary orders) to prevent the taking on of excessive risk.

2.2 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 carried on the books of the Trading Member;
- (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.

2.23 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;
- (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.

- [2.34](#) Trading Members who authorise Sponsored Access will be able to meet the requirement in Rule ~~4.6.7A(1)(b)~~ [4.10.1\(b\)](#) by being able to directly set and control pre-determined automated limits in the Sponsored Access customer's system, having automated alerts whenever such limits are altered, and by conducting regular post-execution reviews of trades. Trading Members should assess and continue to ensure that the pre-execution risk management control checks are robust on an ongoing basis.
- [2.45](#) Where a Trading Member has allowed its Clearing Member to directly set and control pre-determined automated limits in the Trading Member's system, the Trading Member should have the appropriate internal controls to prevent unauthorised modification of the limits set by the Clearing Member.

1. Introduction

1.1 Rule 4.10.1(c) requires Trading Members to have error prevention alerts to bring attention to possible erroneous entries of price, order size and other data fields.

1.12 This Practice Note explains the types of error-prevention alerts contemplated in Rule ~~4.6.7A(1)(c)~~ 4.10.1(c).

2. ~~Types of Error-Prevention Alerts~~

2.1 The purpose of requiring Trading Members to have error prevention alerts is to give Trading Members the opportunity to review the order and confirm its accuracy before it is transmitted to the Trading System for matching.

2.12 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.

2.23 Price alerts. ~~Price alerts may include but are not limited to price range checks to alert Trading Representatives and customers when the new order entry price has exceeded should trigger when the order price is far away from the prevailing market price in that it deviates by:—~~

(a) a certain percentage; or

(b) a certain number of ticks,

as compared to the ~~most recent of~~ prevailing market price. The prevailing market price may be the last traded price, the previous settlement price, the closing price or the opening price, as the case may be appropriate.

2.4 Order size alerts. Order size alerts should trigger when the order size exceeds a pre-set threshold. The threshold may be set in terms of quantity or value of an order.

2.5 Other data field alerts. Other data field alerts may include order type alerts that would trigger when an order is of a type that differs from other orders existing in the market (e.g. a buy order instead of a sell order).

Practice Note ~~4.6.7A(2)~~ 4.10.2 — Firm Level Monitoring of Capital and Financial Requirements and Prudential Limits

1. Introduction

1.1 [Rule 4.10.2 provides that a Trading Member must have automated processes and procedures 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, inject additional capital or take such steps as are necessary to prevent such breach.](#)

1.12 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(2)~~.

2. Firm-~~L~~level ~~M~~onitoring of ~~C~~apital ~~R~~requirements and ~~P~~prudential ~~L~~imits

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.

1. Introduction

1.1 Rule ~~4.6.21~~ 4.12 requires Members to:

- (~~ia~~) maintain adequate business continuity arrangements;
- (~~ib~~) document business continuity arrangements in a business continuity plan;
- (~~ic~~) test and review business continuity plans regularly; and
- (~~id~~) appoint emergency contact persons.

1.2 The objective is to ensure that Members have the ability to:

- (~~ia~~) react swiftly to emergency situations; and
- (~~ib~~) maintain critical functions and fulfill obligations to customers and counterparties in the event of major operational disruptions.

2. Business ~~C~~ontinuity ~~P~~lan

2.1 Critical ~~E~~lements of a ~~B~~usiness ~~C~~ontinuity ~~P~~lan

2.1.1 Rule ~~4.6.21(1)~~ 4.12.1 requires Members to maintain adequate business continuity arrangements, and document such arrangements in a business continuity plan. As a guide, a Member's business continuity plan should document the following elements:

- (~~ia~~) Risk assessment: This includes a comprehensive assessment of business continuity risks (including financial and operational risks) and threat scenarios which may severely disrupt a Member's operations. Such scenarios may include prolonged power outages, IT system software or hardware failures, loss of voice or data communication links, acts of terrorism, and outbreak of infectious diseases;
- (~~ib~~) Business impact analysis: This is an evaluation of the impact of the risks and threat scenarios identified in (~~ia~~) above. The business impact analysis should identify critical business functions (including support operations and related information technology systems) and potential losses (monetary and non-monetary) to enable the Member to determine recovery strategies/priorities and recovery time objectives;
- (~~ic~~) Work area recovery: This refers to continuity arrangements for a Member's critical functional capabilities in the event that the Member's primary office becomes inaccessible, for example, availability of a disaster recovery site ready for activation within a reasonable period of time;

- (ivd) Crisis communications: This refers to a communications plan for the Member to liaise with its internal and external stakeholders such as employees, customers and regulatory authorities during a crisis.
- (ve) Roles and responsibilities: This refers to the identification of a Member's key personnel and management staff, their roles and responsibilities, and reporting lines. Alternates should be identified to cover the responsibilities of absent key personnel.
- (vif) Backup for critical functions*, information technology systems and data:*—Critical functions refer to business functions whose failure or disruption may incapacitate the firm.
- (viig) Key service providers^Δ: This refers to assessing a Member's dependencies on key service providers in recovery strategies and recovery time objectives, and taking steps to ensure that key service providers are capable of supporting the Member's business, even in disruptions; ^Δ—Key service providers refer to third-parties who are performing functions that are not normally carried out by Member firms internally, but are critical to Member firms' ability to carry on business operations.—F, f for example, IT system hardware/software vendors.
- (viiih) Outsourcing service providers[#]: This refers to assessing whether the service provider has established satisfactory Business Continuity Plans commensurate with the nature, scope and complexity of the outsourced services; and [#]—Outsourcing service providers refer to third parties who are performing functions that would normally be performed by Members firms internally.—F, f for example, Operations and Technology.
- (ix) Any other elements that the Member deems necessary to be included in its business continuity plan or which SGX-ST may prescribe from time to time.

2.2 Emergency Response Dduring Crisis

2.2.1 A Member should establish and maintain a crisis management plan as part of its business continuity plan. The crisis management plan should include (but not be limited to): —

- (ia) Emergency response procedures;
- (iib) Roles and responsibilities of the crisis management team;
- (iiic) Command and control structures; and
- (ivd) Salvage and restoration procedures.

2.2.2 SGX-ST may declare a wide-area crisis in the event of a major and widespread incident. When such declaration is made, SGX-ST may require a Member to submit status reports to SGX-ST. A wide-area crisis may include any incident where the operations of a large number of market participants are disrupted simultaneously.

2.3 Regular Revision, Testing and Trainning

- 2.3.1 Rule ~~4.6.21(4)~~ [4.12.1](#) also requires a Member to review and test its business continuity plan regularly. Members should do so at least once a year to ensure that their business continuity plans remain relevant.
- 2.3.2 Where there are material changes to a Member's business activities and operations, the Member should update its business continuity plan accordingly. Regular training should be conducted for staff to be updated and aware of any relevant changes to the Member's business continuity arrangements. As a principle, training should be conducted when: —
- (ia) changes have been made to the Member firm's BCP; and
 - (ib) new staff are recruited.

Member firms should also conduct refresher courses for existing staff where appropriate.

2.4 Application to a [General Remote](#) Trading Member ~~that holds a licence specified in Rule 2.4.1(b)~~

- 2.4.1 The features of a business continuity plan set out in paragraphs 2.1, 2.2 and 2.3 ~~above~~ may not be applicable to a [General Remote](#) Trading Member ~~that holds a licence specified in specified in Rule 4.1.1(1)(b). The guidance for such Trading Members is set out in Practice Note 4.6.21; 12.1.1; 12.3.6; 12.6.4; 12.7.2; 12.10A.2; 12.19~~ [A Remote Trading Member should meet any applicable business continuity plan requirements that are prescribed by its Relevant Regulatory Authority. The Trading Member may further adopt the recommended features of a business continuity plan set out in this Practice Note 4.12.](#)

3. Emergency ~~C~~contact ~~P~~persons

- 3.1 Rule ~~4.6.21(5)~~ [4.12.3](#) requires a [Trading](#) Member to appoint emergency contact persons and furnish the contact information of such persons to SGX-ST. Members may appoint an emergency contact person and up to two ~~(2)~~ alternates. A template is attached as Appendix A to this Practice Note for the notification of contact information (postal address, email, telephone, mobile telephone and facsimile numbers) to SGX-ST.

Refer to Appendix A of Practice Note ~~4.6.21~~ [4.12](#).

- 3.2 Members are to ensure that the contact information provided to SGX-ST is updated on a semi-annual basis. Nonetheless, where there are changes to a Member's emergency contact persons and contact information, the Member should notify SGX-ST immediately in writing.
- 3.3 A Member's ~~authoriz~~ed emergency contact person should immediately notify SGX-ST in the event where: —
- (ia) A Member's business operations are or will be significantly disrupted; and/or
 - (ib) A Member's business continuity plan is activated.

Appendix A to Practice Note ~~4.6.21~~ [4.12](#) Business Continuity Management Emergency Contact Person(s)

Please click [here](#) to view Appendix A to Practice Note ~~4.6.21~~ [4.12](#) Business Continuity Management Emergency Contact Person(s).

APPENDIX A TO PRACTICE NOTE ~~4.6.21~~ [4.12](#)

Business Continuity Management Emergency Contact Person(s)

Company Name: _____

Name	Department	Designation	Office No.	Mobile No.	E-mail Address

Prepared by:

Name: _____

Designation: _____

Practice Note ~~8.6.13A(3)~~ 11.5.5(c) — Alternative Reference Price For No Cancellation Range

1. Introduction

- 1.1 Rule ~~8.6.13A(3)~~ 11.5.5(c) provides that SGX-ST may, in its discretion, use an alternative price as the Reference Price for the no-cancellation range if (a) the price of the last good trade is not available; or (b) SGX-ST deems the price of the last good trade to be unreliable or inappropriate as a Reference Price.
- 1.2 In normal market conditions, the price of the last good trade is adopted as the Reference Price. However, SGX-ST has considered that there may be situations where the price of the last good trade is not available or not appropriate. In such situations, SGX would seek to establish a Reference Price from alternative sources.
- 1.3 This Practice Note sets out the alternative prices that SGX-ST may consider in establishing the Reference Price when the price of the last good trade is inappropriate.

2. Alternative pPrices

- 2.1. The table below sets out the alternative prices that SGX-ST may consider in establishing the Reference Price to determine the no-cancellation range.

Instrument	Alternative prices that may be adopted as the Reference Price
Extended s Settlement C contracts	<ul style="list-style-type: none"> • The previous closing price. • The price of the last good trade in the underlying stock.
American D epository R eceipts (“ADR”)	<ul style="list-style-type: none"> • The previous closing price of the underlying stock in home market. • The previous closing price of the ADR in the US market.
Exchange T raded F unds	<ul style="list-style-type: none"> • The previous closing price as determined in accordance with Rule 8.2A 8.3. • The average of the last quoted bid price and the last quoted offer price for the Exchange Traded Fund immediately preceding the error trade. The selection will not include the quotes provided by the Designated Market-Maker who is involved in the error trade which that is under review. • The indicative Net Asset Value.
Exchange t raded N otes	<ul style="list-style-type: none"> • The average of the last quoted bid and the last quoted offer price for the Exchange Traded Note immediately preceding the error trade. The selection will not include the quotes provided by the Designated Market-Maker who is involved in the error trade which that is under review. • The price of other debt papers with a similar credit rating.
All other securities (excluding bonds and structured warrants)	<ul style="list-style-type: none"> • The previous closing price. • The average of the last quoted bid price and the last quoted offer price for the security immediately preceding the error trade. The selection will

Instrument	Alternative prices that may be adopted as the Reference Price
	<p>not include the quotes provided by the parties who are involved in the error trade which <u>that</u> is under review.</p> <ul style="list-style-type: none"> • A price derived from a pricing model established by SGX-ST. For example, in the case of a share consolidation, SGX-ST may use the last traded price prior to the effective date of the consolidation, adjusted for the consolidation ratio.

3. Alternative ~~p~~Prices ~~U~~nsuitable

3.1. Where SGX-ST determines that an appropriate Reference Price cannot be established, it will not establish a no-cancellation range.

1. Introduction

1.1 Rule 8.11.1 states that SGX-ST may declare publicly a security or futures contract to be a "Designated Instrument" if, in its opinion, there has been manipulation of the security or futures contract (or its underlying), excessive speculation in the security or futures contract (or its underlying), or it is otherwise desirable in the interests of organised markets established or operated by SGX-ST.

1.2 This Practice Note explains the circumstances under which ~~the Board~~ SGX-ST may declare a listed or quoted security or futures contract to be a "Designated Instrument".

2. Designation as a ~~R~~regulatory ~~T~~tool

2.1. SGX-ST has three key regulatory tools to support a fair, orderly and transparent market. They are as follows:—

(a) Query to listed companies.— SGX may issue a query to listed companies in situations where there is unusual trading that is not explained by announced developments or industry trends. The query serves to raise investors' awareness that trading activity is unusual;

(b) Designation of a security or futures contract.— SGX may declare a listed or quoted security or futures contract to be a "Designated Instrument" where, in SGX's judgment, there is possible manipulation or excessive speculation in the security or futures contract (or its underlying), or it is otherwise in the interest of the market to do so; and

(c) Suspension.— SGX may suspend a security or futures contract where, in SGX's opinion, the market is not orderly, informed or fair.

2.2 Designation is a tool that is used sparingly and only in exceptional circumstances ~~which that~~ warrant such intervention. Such circumstances may include prolonged trading anomalies observed in the security or futures contract, such as order book imbalances and/or prolonged, excessive speculation in a security. The objective of designation is to restore market equilibrium by removing the impact of such anomalies on price formation, and allow the price of the security or futures contract to be formed through demand and supply forces in an informed market. Designation would be lifted once, in SGX's opinion trading has returned to normalcy.

3. Conditions that may be ~~li~~imposed on a Designated Instrument

3.1 The conditions imposed on a Designated Instrument would depend on the circumstances leading to the designation of the security or futures contract. Examples of such conditions are listed below. One or more of these conditions may be imposed in a particular designation situation, and this list is not exhaustive.

(a) Requirement for collateral to be furnished.— Trading Members may be required to obtain margins from each customer in respect of the customer's dealing in the Designated

Instrument. This may also be imposed as a requirement for the Trading Member to obtain partial or full payment for any buy order from a customer, prior to executing the order. Such requirements would be specified in the conditions for the designation;

- (b) Trading restrictions on specific Trading Members.— Trading restrictions may also be imposed on specific Trading Members in relation to a Designated Instrument if the Trading Member has outstanding unsettled positions in the security (or the underlying security of the futures contract) that is more than 5% (or any percentage that ~~the~~ SGX-ST Board may prescribe) of the paid-up capital of the company whose securities are designated;
- (c) Restrictions on sale.— A prospective seller of a Designated Instrument may be prohibited from placing a sell order unless he is already holding the security (or underlying security of the futures contract) at the time of sale. The seller may be required to provide evidence that he/she holds the security (or the underlying security of the futures contract). This evidence could be in the form of statements by CDP or a custodian showing that the seller is holding a sufficient quantity of the security. Furthermore, the Trading Member may be required to ~~sight~~ cite such evidence prior to the execution of the sale order; and
- (d) Other conditions such as prohibitions on short-selling, contra trading or Internet Trading.

1. Introduction

1.1 Rule 8.13.1 states that SGX-ST may suspend or restrict trading in any or all listed or quoted securities or futures contracts. It may do so for one or more markets, one or more trading sessions or any part of a trading session in specified circumstances.

1.2 Rule 8.15.1 states that a trading halt may be imposed by SGX-ST at the request of an issuer. Rule 8.15.2 states that a trading halt may be imposed by SGX-ST on a security or futures contract when its underlying, or such instrument on the same underlying as SGX-ST may prescribe, is subject to a Cooling-Off Period pursuant to Rule 8.14.2.

1.3 This Practice Note explains the characteristics of a suspension and a trading halt.

2. Characteristics of a suspension and a trading halt

Characteristic	Suspension	Trading Halt
Initiating party	A suspension can be imposed by SGX-ST under the circumstances stated in Rule 8.10.1 <u>8.13.1</u> . An Issuer may also request a suspension if its request for extension of a trading halt is not approved by SGX-ST.	A trading halt can be imposed by SGX-ST under the circumstances stated in Rules 8.11.1 <u>8.15.1</u> and 8.11.1A <u>8.15.2</u> .
Status of unmatched orders	During a market suspension, unmatched orders in the Trading System may lapse, as determined by SGX-ST. SGX-ST will notify Trading Members of the status of their unmatched orders before the lifting of a market suspension. During a suspension of a single security or futures contract, all unmatched orders will lapse.	During a trading halt, all existing orders in the ready and unit share markets <u>Trading System</u> remain valid. Orders can still be entered, modified or withdrawn in the ready and unit share markets but <u>are will</u> not <u>be</u> matched.
Duration of suspension or trading halt	A suspension may persist for a prolonged period.	A trading halt is usually intra-day, with a minimum duration of 30 minutes. SGX-ST may extend the duration of a trading halt beyond 3 <u>three</u> Market Days upon the Issuer's' request.
Upon lifting of suspension or trading halt	Upon lifting of a suspension, the suspended security or futures contract will enter into an Adjust Phase for at least 15 minutes.	Upon lifting of a trading halt, orders that can be matched will be matched at a single price computed based on the algorithm set by SGX-ST. Unmatched orders are will be carried forward into the respective market phase <u>that</u> the

		market is in when the trading halt is lifted.
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Practice Note ~~8.10.3~~ 8.13.4 and 8.15.7 — Approval of Off-Market Trades in a Security or Futures Contract Subject to Suspension or Trading Halt

1. Introduction

- 1.1 This Practice Note explains the rationale and the circumstances under which SGX-ST may approve the trading of a security or futures contract that is the subject of a suspension or trading halt.
- 1.2 Rule ~~8.10.3~~ 8.13.4 says securities or futures contract ~~which that~~ have been suspended from trading shall not be traded on the Trading System. Except with SGX-ST's approval, a Trading Member must not execute any transactions in a suspended security or futures contract.
- 1.3 Rule ~~8.11.7~~ 8.15.7 says securities or futures contracts ~~which that~~ are subject to a trading halt shall not be traded on the Trading System. Except with SGX-ST's approval, a Trading Member must not execute any transactions in a security or futures contract subject to a trading halt.

2. Rationale for Rules

- 2.1 All market participants should have equal opportunity. The objective of a suspension and trading halt is usually to facilitate proper dissemination of material information to the market place to ensure the operation of a fair market. Hence, SGX-ST Rules ~~8.10.3~~ 8.13.4 and ~~8.11.6~~ 8.15.7 stop all trading of a security or futures contract by a Trading Member if the security or futures contract is under suspension or trading halt. However, SGX-ST recognises that there may be circumstances under which off-market trading of the security or futures contract is appropriate.

3. Circumstances Under Which SGX-ST May Approve Off-Market Trades in A Security or Futures Contract Subject to Suspension or Trading Halt

- 3.1 SGX-ST may, on a case-by-case basis, approve off-market trades in a security or futures contract that is subject to suspension or trading halt, if the buying customer and selling customer are informed of the reasons for suspension or trading halt and there is a reason for the trade beyond simply wanting to trade. Circumstances under which SGX-ST may approve off-market trades include:—
- (~~1~~a) A seller, being in financial difficulty, needs to sell a security, or liquidate a futures contract in relation to a security, that may be suspended for an indefinite period.
- (~~2~~b) A seller who short-sold a security or futures contract that is subsequently subject to suspension or trading halt, and the clearing house requires the seller to cover the short position within a prescribed period.
- (~~3~~c) A security or futures contract is suspended prior to delisting on SGX-ST. The minority shareholders may wish to sell the security or futures contract to the majority shareholders.
- (~~4~~d) The trustee of the estate of a deceased investor needs to liquidate a security or futures contract that may be suspended for an indefinite period.

Practice Note ~~9.4.3A(b)~~ 9.6.4(b) — Money Received on Account of Customer

1. Rule ~~9.4.3A(b)~~ 9.6.4(b) states that a buying customer who is not a buying customer specified in Rule ~~9.4.3A(a)~~, 9.6.4(a) must pay the Trading Member for its trade on Intended Settlement Day, regardless of whether the securities have been delivered by CDP.
2. For the avoidance of doubt, where securities have not been delivered by CDP on Intended Settlement Day, the payment by the customer provided in Rule ~~9.4.3A(b)~~ 9.6.4(b) shall be treated as money received on account of its customer for the purposes of SFR (Licensing and Conduct of Business). The Trading Member must therefore still comply with Rules ~~12.11 and 12.12~~ 4.30.2 in relation to any money paid by the buying customer to the Trading Member, including, where relevant, the requirement to deposit the money received on account of its customer in a trust account no later than such time as required in the SFR (Licensing and Conduct of Business). The Trading Member is permitted to withdraw such money from the trust account for the purpose of making payment to CDP for the customer's trade when such payment is due.
3. This Practice Note does not preclude the Trading Member from applying the payment towards permitted uses set out in the SFR (Licensing and Conduct of Business) and/or relevant law.

Practice Note ~~11.7A.1, 11.8A.1~~ — Exposure 3.7 and 3.9 – Remote Trading Member Exposure to Single Customer and Single Security

1. Introduction

- 1.1- Rules ~~11.7A.1 3.7.1~~ and ~~11.8A.1 3.9.1~~ require Remote Trading Members ~~that hold a licence specified in Rule 4.1.1(1)(b)~~ to have in place adequate tools and procedures to monitor their exposure to a single customer or single security.
- 1.2- ~~Such~~ A Remote Trading Member may be required to demonstrate the adequacy of such tools and procedures. This Practice Note explains the tools and procedures ~~which that~~ a Remote Trading Member may have in place to satisfy the requirement for adequate tools and procedures.

2. Adequate Tools and Procedures

- 2.1- Tools and procedures to monitor a Remote Trading Member's exposure to a single customer or single security ~~which that~~ SGX-ST deems adequate include, but are not limited to the following:—
- (a) The Remote Trading Member may, based on its available financial resources, establish the level of concentration risks arising from exposure to a single customer or single security that is acceptable to it. Thereafter, the Remote Trading Member should monitor its exposures to a single customer or single security against such acceptable level of risk.
 - (b) The Remote Trading Member may have in place adequate systems to monitor ~~the Trading Member's~~ its exposure to customers on an individual customer and aggregated basis, and generate reports describing the results of such monitoring.
- 2.2- SGX-ST shall have the right to require ~~such a Remote~~ Trading Member to demonstrate the adequacy of such tools and procedures as it deems necessary.

Practice Note ~~12.3.1~~ 4.15.2(a) and (b) — Opening of Customer Accounts: Obtaining Adequate Particulars, Verification Procedure in Respect of Customer's Identity of Identity, and Verification of Authority to Trade

1. Introduction

- 1.1 ~~Rules 12.3.1 requires a Trading Member to take suitable steps to verify an individual customer's identity if the customer does not open an account in person. 4.15.2(a) and (b) state that prior to opening a customer account, a Trading Member shall satisfy itself that it has (a) obtained adequate particulars of each customer, and (b) verified the identity of each customer, and in the case of a non-individual customer verified that it is validly constituted and that the person opening the account has the requisite authority to do so, and in the case of an agency customer, verified the identity of the principal and the customer's authority to trade for its principal.~~
- 1.2 ~~This Practice Note sets out the procedures that a Trading Member should take to verify an individual customer's identity if the customer does not open an account in person. This Practice Note sets out some of the ways in which a Trading Member may comply with its obligations under Rule 4.15.2(a) and (b).~~

2. ~~Verification Procedure~~ Individual customer account

2.1 The particulars that a Trading Member may obtain include the following:

- (a) full name;
- (b) copy of identity card or passport;
- (c) specimen signature (where applicable);
- (d) residential and mailing addresses;
- (e) telephone numbers;
- (f) occupation;
- (g) name of customer's employer;
- (h) address of customer's employer; and
- (i) telephone number of customer's employer.

2.12 ~~If the customer does not open the account in person, a Trading Member should take suitable steps to verify the customer's identity. A~~ The Trading Member may employ ~~1~~ one or more of the following means to establish ~~a~~ the customer's identity:—

- ~~(1a)~~ (a) Accept account opening forms that are certified by:—

- (~~a~~i) a Justice of Peace, a commissioner for oaths, a notary public, or an advocate and solicitor;
- (~~b~~ii) members of other securities exchanges ~~which that~~ have established information sharing agreements with SGX-ST; or
- (~~e~~iii) branches of banks in which the customer holds a banking account.

A Trading Member ~~may should~~ verify the certification, for example through direct telephone contact with persons performing the certification;

- (~~2~~b) Establish telephone contact with the ~~applicant~~ customer on an independently verified home or business number;
- (~~3~~c) With the customer's consent, contact the personnel department of the customer's employer on a listed business number to confirm his employment; or
- (~~4~~d) Obtain from the customer statements from a bank, the Central Provident Fund Board, income tax authority or such equivalent authority.

3. Corporate/Non-individual customer account

3.1 The particulars that a Trading Member may obtain include the following:

- (a) full name;
- (b) residential and mailing addresses;
- (c) full names of persons authorised to trade on the customer's behalf;
- (d) specimen signatures of persons authorised to trade on the customer's behalf (where applicable);
- (e) certified true copy of the certificate of incorporation of the customer;
- (f) either:
 - (i) a copy of the directors' resolution of the customer approving the opening of a corporate/non-individual customer account with the Trading Member and empowering specific directors to trade in securities or futures contracts for the corporate/non-individual customer account and execute all documentation for trading and settlement in the customer account;
 - (ii) a power of attorney (in English) certified by a notary public authorising identified persons to open a corporate/non-individual customer account and trade on behalf of the corporate/non-individual customer; or

(iii) noting in writing the basis upon which the Trading Member believes the corporate/non-individual customer may open the corporate/non-individual customer account and engage in transactions and that the persons acting for the corporate/non-individual customer have been duly authorised to trade on the customer's behalf.

34. Digital Signature

34.1 A Trading Member is encouraged to explore the use of digital signatures for online identification and verification. The identification and verification procedures for acceptance of digital signatures must be at least as rigorous as those which a Trading Member would normally have employed.

Practice Note ~~12.3.1, 12.3.2~~ 4.15.2(d) — Understanding a Customer's Account Risk Appetite and Investment Objectives

1. Introduction

~~1.1~~ Rule 4.15.2(d) states that prior to opening a customer account, a Trading Member shall satisfy itself that it has understood each customer's risk appetite and investment objectives (if applicable).

~~1.12~~ This Practice Note ~~explains~~ provides guidance on the ~~circumstances, conditions and operational procedures pursuant to the requirements to obtain particulars of customers and to~~ understand their a customer's risk appetite and investment objectives.

2. ~~Customer Account~~ Risk Appetite and Investment Objectives

~~2.1~~ Rules 12.3.1(1) and 12.3.2(1) require a Trading Member to obtain particulars of a customer and understand the investment objectives. The purpose is to ensure that the Trading Member abides by the know your customer principle.

~~2.21~~ Investment objectives of a customer would include:—

~~(a)~~ the risk appetite of the customer;

~~(ba)~~ the types of securities or futures contract that the customer may want to trade in, such as:—

(i) securities or futures contracts listed or quoted on SGX-ST, and

(ii) securities offered in reliance on the exemptions under Sections 274 or 275 of the ~~Securities and Futures Act, Chapter 289 of Singapore ("SFA")~~, where the requirement to lodge a prospectus or profile statement with the Authority before making an offer of the securities does not apply;

~~(eb)~~ such other objectives prescribed by the Relevant Regulatory Authority.

~~2.3~~ Securities offered in reliance on the exemptions under Sections 274 or 275 of the SFA may include:—

~~(a)~~ Relevant Debt Securities;

~~(b)~~ Global Depository Receipts ("GDRs"); and

~~(c)~~ such other securities that are offered pursuant to the exemptions.

~~2.42~~ Trading Members that hold a Capital Markets Services Licence should bear in mind the effect of Sections 274, 275 and 276 of the SFA. If a customer wants to trade in a security that is offered in reliance on the exemptions under Sections 274 or 275 of the SFA, Trading Members should—;

- (a) explain to the customer the effect of Sections 274, 275 and 276 of the SFA, and the definition of "Relevant Person" under Section 275 of the SFA;
- (b) obtain documents to satisfy themselves that the customer is an institutional investor or a Relevant Person; and
- (c) prominently disclose to the customer in writing that—
 - (i) the aforesaid security is ~~a security~~ one that is offered in reliance on the exemptions under Sections 274 or 275 of the SFA,
 - (ii) for such a security, the requirement to lodge a prospectus or profile statement with the Authority and SGX-ST does not apply.

2.53 For the avoidance of doubt, the above requirements are applicable to the trading of global depository receipts ("GDRs") which are offered in reliance on the exemptions under Sections 274 or 275 of the SFA. Trading Members should also observe relevant provisions of the Listing Manual in relation to GDRs.

2.64 All the documents obtained under paragraph 2.42(b) should form part of the permanent records of the Trading Members. If the customer's account carried on the books of the Trading Member is closed, the documents should be kept for at least the minimum period required by law.

1. Introduction

- 1.1 ~~With effect from 1 March 2009, the age of contractual capacity under the Civil Law Act has been lowered from 21 to 18. Accordingly, the minimum age requirement for securities account holders is lowered to 18. Rule 4.15.2(a) provides that prior to opening a customer account, a Trading Member shall satisfy itself that it has obtained adequate particulars of each customer. Such particulars include the age of the customer.~~
- 1.2 ~~In relation to a Trading Member that holds a licence specified in Rule 4.1.1(1)(b), the minimum age requirement for securities account holders in the jurisdiction of such Trading Member ("Foreign Acceptable Age") shall be such minimum age as prescribed by the Relevant Regulatory Authority. Where no Foreign Acceptable Age is prescribed by the Relevant Regulatory Authority, the Foreign Acceptable Age shall be 18. Rule 4.15.3 provides that before opening a customer account for a customer under the age of 21 ("Young Investor"), a Trading Member shall assess the customer's suitability to trade and disclose the risks of trading to the customer.~~
- ~~1.3 SGX-ST recognises that individuals above the age of 18 or the Foreign Acceptable Age and below the age of 21 years ("Young Investors") may be new to the securities market and have limited trading experience. These Young Investors may not fully appreciate the risks of securities and other investment products offered to them.~~
- 1.43 This Practice Note provides guidance on how a Trading Member shall assess a Young Investor's suitability to trade and disclose the risks of trading to the Young Investor and also sets out the measures and operational procedures that Trading Members should take as part of good business practice when Young Investors open securities trading accounts with them.

2. ~~Account Opening Procedures~~ Suitability assessment and risk disclosure

- ~~2.1 SGX-ST Rules 12.3.1 and 12.3.4 require a Trading Member to obtain the particulars of a customer and to understand the customer's investment objectives.~~
- 2.21 When a Young Investor opens an account carried on the books of the Trading Member, the Trading Member should undertake the following procedures, in addition to their own account opening procedures, and give appropriate emphasis to the following:—
- (a) Suitability assessment.— A Trading Member should assess the suitability, taking into account the financial knowledge and risk capacity of the Young Investors to trade. A specific suitability assessment should also be made before allowing a Young Investor to trade in more complex instruments or products (such as a derivative contract or product with embedded derivatives). The decision to allow the Young Investor to trade in such instruments or products should be approved by a senior executive of the Trading Member. A Remote Trading Member ~~that holds a licence specified in Rule 4.1.1(1)(b)~~ should carry out suitability assessments of Young Investors in accordance with the applicable standards prescribed by the Relevant Regulatory Authority.

- (b) *Risk disclosure.*— The risks and uncertainties associated with investing or trading in securities and other products to be sold by the Trading Member should be properly explained to the Young Investor. This is to ensure that he or she has an appropriate understanding of the key risks and commitments involved. A Remote Trading Member ~~that holds a licence specified in Rule 4.1.1(1)(b)~~ should provide risk disclosure to Young Investors in accordance with the applicable standards prescribed by the Relevant Regulatory Authority.

3. Supervision

- 3.1 Trading Members should ensure that the relevant staff members are adequately trained and familiar with the safeguards put in place for Young Investors. Similarly, any additional procedures should be communicated to all Trading Representatives to ensure proper adherence and consistent application.
- 3.2 In addition, a senior executive should be appointed to oversee and take responsibility for managing all issues relating to Young Investors. This includes monitoring the Trading Member's dealings with the Young Investors and making appropriate adjustments to the procedures and processes, where necessary.

4. Investor Education

- 4.1 Trading Members should offer basic investment courses to Young Investors, as well as product-specific courses to those who wish to trade in more sophisticated instruments and products. These courses will enable Young Investors to be more aware of the implications of their trading decisions and to be able to make better investment choices.
- 4.2 Such courses may be organised or conducted by third party course providers or in-house trainers.

1. Introduction

1.1 Rule 4.18 states that save for Accredited Investors, Institutional Investors and Expert Investors, a Trading Member must provide its Internet Trading customers with adequate information, guidance and training on (a) prohibited trading practices; (b) potential limitations and risks of Internet Trading; (c) system functionalities and order management procedures; and (d) market conventions such as minimum bid sizes and board lot sizes. With respect to Accredited Investors, Institutional Investors and Expert Investors, a Trading Member's obligation relates solely to the provision of adequate information in relation to prohibited trading practices.

1.12 This Practice Note 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 SFA](#) 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.

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.

Practice Note ~~12.6.3(2)~~ 4.24.3(c) — Evidence of Informed Consent for Contract Notes in Electronic Form

1. Introduction

- 1.1. Rule ~~12.6.3(2)~~ 4.24.3(c) requires that a Trading Member, before issuing contract notes in electronic form, must obtain the customer's prior revocable and informed consent for receipt of contract notes in electronic form. The Trading Member must retain evidence of the customer's consent. To constitute ~~an~~ informed consent, a customer must be told of the manner of delivery and retrieval of the electronic record and any costs that may be incurred.
- 1.2. This Practice Note provides guidance on how a Trading Member may show evidence of informed consent in accordance with SGX-ST Rule 12.6.3(2).

2. Evidence of Informed Consent

- 2.1. To show evidence of a customer's informed consent ~~to receive electronic~~ for receipt of contract notes in ~~accordance with SGX-ST Rule 12.6.3(2)~~ electronic form, a Trading Member ~~should~~ may maintain records to show that ~~each the~~ customer ~~that is provided with electronic statements instead of paper statements~~ had been given adequate prior notice of the cessation or non-provision of paper statements and had been provided with instructions on how to opt out of electronic-only statements.

1. Introduction

1.1 [Rule 4.9.3 provides that a Trading Member must have processes in place to minimise and manage conflicts of interest, including but not limited to separating its front and back office functions.](#)

[1.2](#) This Practice Note provides guidance on how front office and back office functions of Trading Members should be separated.

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.

Practice Note 12.17.1 — Review of Remisier's Personal Trades

1 — Introduction

1.1 — This Practice Note sets out the need for more frequent reviews of the trading activities of Remisiers.

2 — Need for More Frequent Reviews

2.1 — Rule 12.17.1 requires a Trading Member to approve the personal trades of its Directors, Officers, Dealers and employees before these trades can be effected. This Rule does not require a Trading Member to approve Remisiers' personal trades. However, as a good control measure, Trading Members should conduct more frequent reviews of the trading activities of its Remisiers. This is also in line with Rule 12.17.6 which requires a Trading Member to have in place procedures to monitor the trading activities of its Remisiers, amongst other persons. The frequency of these reviews should be conducted at a level where the Trading Member is confident that its Remisiers' trading activities are above board.

1. Introduction

- 1.1 Rule ~~12.20.1~~ 4.38.1 says that a Trading Member and its Trading Representatives may receive goods and services from a broker for directing business to the broker under certain conditions.
- 1.2 Rule ~~12.20.2~~ 4.38.2 says that a Trading Member may pay for goods and services to a customer for directing business to the Trading Member under certain conditions.
- 1.3 This Practice Note provides guidance on the types of goods and services that do not qualify for soft dollar receipts or payments.

2. Good and Services that Do Not Qualify as Soft Dollar Receipts or Payments

- 2.1 The following goods and services do not qualify as acceptable soft dollar receipts or payments for the purpose of Rule ~~12.20~~ 4.38:
 - (~~1a~~) Travel, accommodation and entertainment expenses.
 - (~~2b~~) General administrative goods and services including office equipment and premises expenses.
 - (~~3c~~) Membership fees.
 - (~~4d~~) Employees' salaries.
 - (~~5e~~) Direct money payment. This does not include payment of referral fees under a referral agreement.
- 2.2 A Trading Member or its Trading Representative should not receive goods and services from a broker, if the act of it compromises the interest of the customer or may result in the breach of the Rules or other regulatory requirements by the Trading Member or its Trading Representatives.

1. Introduction

~~1.1~~ — This Practice Note explains the application of Rule ~~13.4.1~~.

1.21 Rule ~~13.4~~ 5.7.1 states that save in specified situations, neither a Trading Member nor a Trading Representative ~~must not shall~~ deal in securities or futures contracts for ~~his or her its~~ own account or for a Prescribed Person's account if the Trading Representative has an unexecuted order on the same terms from a customer. ~~However, this Rule does not apply if the Trading Representative does not have access to customer's order flow information while executing for his own account or for the Prescribed Person's account.~~

~~1.2~~ Rule 5.7.2 defines "Prescribed Person" as including a person, a group of persons, a Corporation or a group of Corporations, or family trusts, whom the Trading Member, or any Director, Officer, Trading Representative, employee or agent of the Trading Member is associated with or connected to.

~~1.3~~ This Practice Note explains the application of Rule 5.7.

2. Application of Rule ~~13.4.1~~ 5.7.1

2.1 An order includes an order for a single stock futures contract or futures contracts.

2.2 An unexecuted order from a customer includes an order that has been received but not entered into the Trading System.

2.3 "On the same terms" includes:—

(~~1a~~) orders for the same counter, same buy/sell instruction and limit price;

(~~2b~~) a price limit order and a careful discretion order in the same counter and same buy/sell instruction; and

(~~3c~~) an order for the underlying security on the one hand and an order for single stock futures or Marginable Futures Contracts over that underlying security on the other.

~~2.4~~ — Rule ~~13.4.2(4)~~ includes a person, group of persons, a Corporation or a group of Corporations or family trusts, whom the Trading Member, Director, employee or Trading Representative of the Trading Member is associated with or connected to under the definition of "Prescribed Person". ~~However, this does not apply where the Trading Member, Director, employee or Trading Representative of the Trading Member has no control or influence over the associated or connected person, group of persons, Corporation or group of Corporations, or family trusts.~~

2.54 The Trading Member or Trading Representative must ensure that customers' orders are not compromised when squaring off a house error position on the same terms. Where the customer's order is a careful discretion order, trades allocated to the customer's account must not be worse

off to that allocated to the house error account (such accounts being accounts carried on the books of the Trading Member).

2.65 In considering whether Rule ~~13.4.1~~ 5.7.1 has been complied with, the following factors are relevant:—

- (a) whether the Trading Member or the Trading Representative acts in accordance with the Trading Member or the Trading Representative's customers' instructions;
- (b) whether orders that do not involve the exercise of discretion by the Trading Representative are entered in the sequence in which they are received, and otherwise as expeditiously as practicable;
- (c) whether in ~~the~~ a situation where the time the orders were received cannot be clearly established and one of the orders is for the Trading Member or the Trading Representative's own account, the Trading Member or the Trading Representative gives preference to the order of a customer over any order for the Trading Member or the Trading Representative's own account;
- (d) whether the Trading Member or the Trading Representative who is aware of a customer's unexecuted instructions ensures that ~~he or she~~ it does not use that information to:—
 - (i) the disadvantage of the customer; or
 - (ii) the Trading Member or the Trading Representative's own benefit.

3. Interpretation of Rule 5.7.2

3.1 “Prescribed Person” includes a person, group of persons, a Corporation or a group of Corporations or family trusts, whom the Trading Member, Director, employee or Trading Representative of the Trading Member is associated with or connected to.

3.2 However, where the Trading Member, Director, employee or Trading Representative of the Trading Member has no control or influence over the associated or connected person, group of persons, Corporation or group of Corporations, or family trusts, they would not fall within the definition of “Prescribed Person”.

1. Introduction

- 1.1 ~~Public confidence in a fair and orderly market, one that reflects the forces of genuine supply and demand, enhances its liquidity and efficiency. Confidence in the financial system and effective intermediation of financial flow requires that markets be fair, orderly and transparent. Improper conduct which gives rise to a false or misleading impression, appearance of trading activity, price movements or market information leads to a reduction in market efficiency and confidence undermines market integrity and erodes investor confidence.~~ SGX-ST seeks to ensure that its markets are fair and orderly and free of manipulative trading.
- 1.2 ~~There are rules regulating trading activity in SGX-ST Rules and the Securities and Futures Act. Trading Members and Trading Representatives must ensure that their trading is conducted in accordance with the SGX-ST Rules and the Securities and Futures Act.~~

2. ~~Market Manipulation and False Market~~ False Trading and Market Rigging

- 2.1 ~~Rule 13.8.1 5.12.1 says, A states that a~~ Trading Member or a Trading Representative must not engage in, ~~or knowingly act with any other person in, any act or practice that will or is likely to any course of conduct that is likely to create a false or misleading appearance:—~~
- (1a) ~~create a false or misleading appearance~~ of active trading in any securities or futures contracts; or
 - (2b) ~~lead to a false market in respect of any securities or futures contracts. For avoidance of doubt, a false market includes a market in which:—~~ with respect to the market for, or the price of, any security or futures contract.
 - (a) ~~Information is false, exaggerated or tendentious~~
 - (b) ~~contrived factors are in evidence, such as buyers and sellers acting in collaboration to bring about artificial market prices; or~~
 - (c) ~~manipulative or fictitious orders, transactions or other devices have been employed.~~
- 2.2 ~~In broad terms, market manipulation involves intentional interference with the free forces of supply and demand to deceive and defraud investors, or for some other ulterior purpose. Rule 5.12.1 prohibits false trading and market rigging. This trading misconduct involves an intentional interference with the free forces of supply and demand, such that a distortive effect is created vis-à-vis the market for, or the price of, the security or futures contract traded. This distortive effect occurs as a result of any trading strategy or practice that may be employed in order to artificially manage the market for, or the price of, the security or futures contract concerned.~~
- 2.3 ~~SGX-ST's determination of whether a course of conduct is likely to create a false or misleading appearance will be made on an objective basis. In other words, the Rule does not require the Trading Member or Trading Representative to have intended to create the false or misleading~~

appearance, or knew that it or he was in fact creating a false or misleading appearance. Rule 5.12.2 identifies the factors that SGX-ST may take into account when making the said determination.

2.34 ~~Rule 13.8.1 is concerned with the effect or likely effect of an order or a transaction, and involves an objective assessment of whether a false or misleading appearance or false market has been created. Whether an activity is “false or misleading” will depend on circumstances in each case. The Rule does not prevent Trading Members and Trading Representatives from carrying out legitimate trading strategies which that reflect the forces of genuine supply and demand. However, Trading Members and Trading Representatives must do so bearing in mind their obligations to the maintain an orderly market, and to conduct their trading activities with an appropriate degree of care.~~

2.45 ~~Although Trading Members and Trading Representatives must carry out their customers’ instructions, a Trading Member or Trading Representative should not accept a customer’s instructions blindly, but should exercise judgment in each case. Trading Representatives (as licensed professionals) must not act as mere order takers and accept their customers’ instructions blindly, without conducting any due diligence.~~

2.56 ~~Naturally, some orders or transactions will have an impact on the market. They are not prohibited if SGX-ST is unlikely to have concerns if the order or transaction is executed in a proper manner and that there is a legitimate commercial rationale and the order or transaction is executed in a proper manner for engaging in the said course of conduct.~~

2.6 ~~Rule 13.8.2 identifies the factors that Trading Members and Trading Representatives should take into account when considering the circumstances of an order or a transaction.~~

3. **Guidance on Rule ~~13.8.2~~ 5.12.2**

3.1 ~~Rule 5.12.2 identifies the factors that SGX-ST may take into account when making the determination of whether a course of conduct is likely to create a false or misleading appearance.~~

3.1.1 ~~Rule ~~13.8.2(1)~~ 5.12.2(a): Whether the Proposed execution of the T transaction Will be is inconsistent with the History of, or Recent T trading, activity in the S security or F futures C contract, taking into account prevailing market conditions.~~

3.1.1 Trading Members and Trading Representatives would generally be familiar with the patterns of trading in each security or futures contract. They are therefore expected to exercise judgment, based on their experience and knowledge of trading in the security or futures contract, in assessing the likely impact of a proposed transaction on the market for a security or futures contract. This is especially so if the execution of the transaction would result in a significant change in the price (which is inconsistent with the recent trading activity in the security or futures contract, including the intra-day, daily, weekly or monthly price range) and represent a significant proportion of the daily traded volume in the security or futures contract.

3.1.2 The Rule does not prevent a Trading Member or Trading Representative from executing an order simply because it will have an impact on the market for, or the price of, a security or futures contract.

3.1.2 ~~Rule 13.8.2(2)~~ 5.12.2(b): Whether the ~~Proposed execution of the T~~transaction ~~will or May is likely to C~~cause or ~~C~~contribute to a ~~M~~material ~~C~~change in the price of, or the ~~M~~market for, the ~~S~~security or ~~F~~futures ~~C~~contract, and ~~W~~whether the ~~P~~person ~~i~~involved or ~~A~~another ~~P~~person with ~~W~~whom the ~~F~~first ~~P~~person is ~~C~~collaborating ~~M~~may ~~D~~directly or ~~i~~ndirectly ~~B~~benefit ~~F~~from ~~A~~alterations in the ~~M~~market-~~P~~lace or ~~P~~price.

3.2.1 In the absence of a good reason to buy or sell quickly, customers generally want to obtain the best price. A Trading Member or Trading Representative who receives an order that would materially alter the market for, or the price for, the security or futures contract, should consider whether it is genuine or manipulative.

3.2.2 Trading Members and Trading Representatives must also know their customers. Orders placed by a customer or a related party of that customer, who may have an interest in creating a material change in the market for, or the price of, a particular security or futures contract, should be closely examined.

3.2.3 Examples:

(1a) Orders placed by a large holder of a particular security or futures contract who may have an interest in inflating the value of that holding (e.g. window dressing for investment performance purposes), or decreasing the price of the security or futures contract (e.g. as a precursor to a takeover bid or for purposes which include lowering a conversion price).

(2b) Buying during the period of a rights issue by an underwriter, sub-underwriter or any other party which increases or maintains the price of the underlying security may include, as a purpose, inducing others to take up their rights entitlement under the issue.

3.1.3 ~~Rule 13.8.2(3)~~ 5.12.2(c): Whether the ~~Proposed execution of the T~~transaction ~~i~~involves the ~~P~~lacing of ~~M~~multiple ~~B~~buy and ~~S~~sell ~~O~~orders at ~~V~~various ~~P~~prices ~~H~~higher or ~~L~~lower than the ~~M~~market ~~P~~price, or the ~~P~~lacing of ~~B~~buy and ~~S~~sell ~~O~~orders ~~which that G~~give the ~~A~~appearance of ~~i~~increased ~~V~~volume.

3.3.1 A Trading Member or Trading Representative should not make large entries above or below the prevailing spread to facilitate filling an order on the other side of the market. The placing of buy (or sell) orders at various price steps below (or above) the market may create a false or misleading appearance that the entries are on behalf of genuine buyers (or sellers). The layering of orders also translates into a change in the depth screen and may mislead market participants with respect to interest in the counter.

3.1.4 ~~Rule 13.8.2(4)~~ 5.12.2(d): Whether the ~~Proposed execution of the T~~transaction ~~will is likely to C~~coincide with or is ~~L~~likely to ~~i~~influence the ~~C~~calculation of ~~R~~reference ~~P~~prices, ~~S~~settlement ~~P~~prices and ~~V~~valuations.

3.4.1 A Trading Member or Trading Representative should consider carefully any orders placed with instructions to execute them at or near the close of trading, particularly if a price target is set. A Trading Member or Trading Representative should also be alert to orders placed near the close

on the last trading day of the month, quarter or year, or on the expiry dates of options, warrants or futures contracts, which will move the price when executed.

3.4.2 A customer who, to the knowledge of the Trading Member or Trading Representative, declines the opportunity to obtain a better price during the day and prefers to pay a higher (or lower) price near the close should be queried as to the strategy. This is important if the order is to buy (or sell) a small volume of the security or futures contract, which is likely to move the price and possibly fix the closing price. Further, if the Trading Member or Trading Representative received a series of similar orders over a number of days, each of which generated a price movement near the close of trading, the Trading Member or Trading Representative should be satisfied that the customer is not attempting to create a false or misleading appearance with respect to the price of the security or futures contract.

3.4.3 **Examples:**

(1a) A fund manager's quarterly performance will improve if the valuation of his portfolio at the end of the quarter in question is higher. By placing a large order to buy relatively illiquid securities and/or futures contracts, which are also components of his portfolio, to be executed at or just before the close, his purpose might be to distort the price in his favour.

(2b) The expiry of futures contracts may require a timed unwinding of the countervailing security position. In these circumstances, price impact in some securities may be inevitable, particularly in less liquid securities. However, a Trading Member or Trading Representative should be alert to a customer seeking to cause unnecessary price impact to improperly generate a profit or move the index.

3.1.5 ~~Rule 13.8.2(5)~~ **5.12.2(e): Whether Pparties involved in the Proposed Ttransaction are Cconnected or associated with each other.**

3.5.1 A concern here might arise if the security or futures contract is held in the name of a colluding party but the market risk actually remains with the seller. There may effectively be no change in beneficial interest.

3.1.6 ~~Rule 13.8.2(6)~~ **5.12.2(f): Whether the Buy and Sell the order or Oorders for the purchase (or sale) of a security or futures contract is or are to be Eentered with the knowledge that an order or orders of substantially the same size, at About substantially the Ssame Ttime, for About and at substantially the Ssame Pprice and Quantity, for the sale (or purchase) of the security or futures contract has been or will be entered by or for the same or different parties (Eexcluding Direct Business).**

3.6.1 The time proximity of orders and the fact that they are for ~~about~~ substantially the same price (particularly if the price is out-of-range) and quantity may suggest that the transaction is pre-arranged. Pre-arranged transactions have the effect of creating a false or misleading appearance of active trading, or improperly excluding other market participants from the transaction since the first bid or offer was not adequately exposed to the market.

3.6.2 Pre-arranged trading can create an unfair market as it is, in substance, executing risk-free transactions at pre-determined prices rather than at market prices. As the transfer of beneficial interest or market risk (if any) is only between persons who are acting in concert or collusion, there is essentially no legitimate commercial rationale behind pre-arranged transactions. Likewise, a Trading Representative who consistently matches his own buy and sell orders may be considered to have engaged in pre-arranged trading as the transactions are unlikely to be executed for a legitimate economic purpose.

3.6.3 The execution of crossings or transactions between the same parties for the same volumes, which are subsequently reversed at the same prices, also raises questions whether the transactions involve a change in beneficial ownership, or are for rollover of trades to extend settlement, or for a purpose of engaging in a circular trading scheme to create the impression of turnover.

3.1.7 ~~Rule 13.8.2(7)~~ 5.12.2(g): Whether the Proposed execution of the Ttransaction Will or May is likely to Ccause the Pprice of the Ssecurity or Ffutures Ccontract to Iincrease or Ddecrease, but Ffollowing Wwhich the Pprice is Llikely to Iimmediately Rreturn to Aabout its Pprevious Llevel.

3.7.1 The key question in this area is whether there appears to be any logical trading pattern to the price and volume of the security or futures contract, or whether it seems erratic. Trading is manipulative if it is intended to move the price of the security or futures contract.

3.1.8 ~~Rule 13.8.2(8)~~ 5.12.2(h): Whether a Proposed the Bbid (or Ooffer) is Hhigher (or Llower) than the Pprevious Bbid (or Ooffer) but is to be Removed from the Market Before it is Executed withdrawn or amended to avoid execution.

3.8.1 This could indicate that the order is not genuine, especially where a distinctive pattern of such orders is observed. At the time the bid (or offer) was made, the Trading Member or Trading Representative did not intend to buy (or sell), but intended that the bid (or offer) would not trade and would be ~~cancelled~~ withdrawn eventually. Sometimes, such orders are entered to induce buyers (or sellers) into the market to facilitate the filling of an order on the other side of the market.

3.8.2 Circumstances that should be carefully reviewed by Trading Members and Trading Representatives include where there is a particularly high ratio of order to trade volume or a record of actively entering and amending orders on both sides of the order book but only trading on one side.

3.1.9 ~~Rule 13.8.2(9)~~ 5.12.2(i): Whether the Vvolume or Ssize of the Proposed order or Ttransaction is Eexcessive Rrelative to Rreasonable Eexpectations of the Ddepth and Lliquidity of the Mmarket at the Ttime.

3.9.1 This Rule does not restrict Trading Members and Trading Representatives trading significant volumes where there is a legitimate purpose for the transaction and where the transaction is executed in a proper manner. However, trading significant volumes with the purpose of controlling the price of a security or futures contract will amount to manipulative trading.

3.9.2 Example:

A Trading Representative purchased substantial volume in a thinly traded counter, which accounted for a large proportion of the market volume, to establish a predetermined price. Sometimes, this may be followed by up-ticking the bid despite the absence of bona fide investor demand for the security or futures contract.

3.9.3 In the same vein, entering excessively large order(s) that is disproportionate to the depth of the order book may be manipulative, as it can create an imbalance between the quantum of demand and supply on the order book and in turn, mislead market participants with respect to interest in the security or futures contract.

3.1.10 ~~Rule 13.8.2(10)~~ **5.12.2(j):** ~~Whether the Proposed Buy (or Sell) Order is Likely to Trade with the Entire Best Offer (or Bid) Volume and Part of the Offer (or Bid) at the Next Price Level.~~

3.10.1 If a customer regularly buys (or sells) on the up-tick (or down-tick) in the face of consistent selling (or buying) pressure, the Trading Member or Trading Representative should query whether the customer is a bona fide purchaser (or seller). Repetitive orders to clear the best offer (or bid) volume, particularly within a short time, suggest that the Trading Member or Trading Representative might be attempting to break the market. The trading spikes or troughs were meant to excite the market and attract spectators to join in.

3.1.11 ~~Rule 13.8.2(11)~~ **5.12.2(k):** ~~Whether the Proposed Buy (or Sell) Order Forms Part of a Series of Orders that Successively and Consistently Increase (or Decrease) the Price of the Security or Futures Contract.~~

3.11.1 If a customer places a sell order well above the best ask and one or more buy orders which would increase the price towards the customer's ask price, a Trading Member or Trading Representative should query the customer as to the strategy. It may be that the buy orders are intended to get the price running and facilitate the sale at the higher price. Illiquid securities or futures contracts, in particular, are susceptible to this type of improper trading.

3.1.12 ~~Rule 13.8.2(12)~~ **5.12.2(l):** ~~Whether There Appears to be a Legitimate Commercial Reason for the Proposed Transaction.~~

3.12.1 Many orders for legitimate commercial reasons can change the market for, or the price of, a security or futures contract when executed. Such orders are acceptable despite the volume and/or price impact, but the Trading Member or Trading Representative must consider any additional intentions that may exist and execute the order in an appropriate manner, bearing in mind its or his obligations, including the requirement to maintain an orderly market.

3.12.2 Examples:

~~(1a)~~ A Trading Member conducting index arbitrage as principal and entering orders in an illiquid security or futures contract may have a material impact on the price of some securities or futures contracts, even with small orders. Index arbitrage orders are a legitimate commercial reason for trading, but the Trading Member must exercise sufficient care to ensure that the order did not result in a false or misleading appearance with respect to the price of a security or futures contract.

- (2b) A Trading Representative accepting orders from a customer seeking to replicate an index at a time when one or more of the ~~security securities~~ or futures contracts are being included or excluded from the relevant index, or when the size of the portfolio is being increased or decreased, should consider the impact the orders may have. If the Trading Representative attempts to execute a large proportion of the order during the Pre-Close phase, having ignored opportunities earlier in the day, and the order has a material impact on the closing price, it may result in allegations that the Trading Representative created a false or misleading appearance with respect to the price of that security or futures contract.
- (3c) A Trading Member or Trading Representative trading as principal to hedge an exposure should be alert to the impact its trading may have on the market for, or the price of, a security or futures contract.

~~4. Guidance on SGX-ST Rule 13.8.3~~

~~4.1 Rule 13.8.3 says;~~

~~A Trading Member or a Trading Representative must not enter a buy order or a sell order on the Trading System if there is an existing opposite order from that same Trading Member or Trading Representative in the same security or futures contract for the same price. This Rules does not apply if:~~

- ~~(1) the Trading Member or Trading Representative knows or ought reasonably knows that the orders are for different beneficial owners;~~
- ~~(2) the order is a type expressly permitted in a practice note published from time to time by SGX-ST as having a legitimate commercial reason and which is unlikely to create a false market; or~~
- ~~(3) the Trading Member or Trading Representative can otherwise establish that the purpose for which the order was made was not to create a false market.~~

~~4.2 Pursuant to Rule 13.8.3(2), orders entered under the following circumstances will be permitted:-~~

~~-~~

- ~~(1) orders from a fund manager whose instructions are intended to switch the security or futures contract from one sub-account to another for legitimate commercial reasons.~~
- ~~(2) orders from an affiliate overseas, acting on behalf of different beneficial owners, and the trades will be booked out eventually to these beneficial owners.~~

54. Conclusion

4.1 SGX-ST expects that Trading Members and Trading Representatives act as “gatekeepers” against market manipulation of any kind. Trading Members and Trading Representatives should provide frontline protection against manipulative activity and not contribute or act as an accessory to such trading misconduct.

5.14.2 Manipulative trading may be inferred from In determining whether a course of conduct is likely to create a false or misleading appearance, SGX-ST will make the necessary inference from circumstantial evidence, such as an unusual pattern of trading, ~~coupled with as well as~~ a person's interest (whether genuine or ulterior motive) in ~~affecting trading in~~ the security or futures contract in question.

4.3 SGX-ST acknowledges that Trading Members and Trading Representatives may not always know if a customer's ~~has a~~ particular interest in a security or futures contract ~~or what it may be is~~ genuine or not. However, a Trading Member or Trading Representative ~~needs to be able to show that, taking into account the circumstances of the order, it should not have reasonably suspected that the purpose of the trading was to create a false or misleading appearance. It is important that a Trading Member or Trading Representative~~ who receives an unusual order ~~is~~ must be able to establish that it or he has made due enquiries and is satisfied as to the reason for the trading, i.e. taking into account the circumstances of the order, the purpose is unlikely to create a false or misleading appearance.

4.4 In the event that a Trading Member or Trading Representative reasonably suspects that an order may be for some other ulterior purpose but continue to facilitate the transaction, the Trading Member or Trading Representative must be aware that its or his contributing act towards the transaction may be unlawful.

1. Introduction

- 1.1 Rule 5.12.9 states that a Trading Member must have in place processes to review orders and trades for the purpose of detecting suspicious trading behaviour.
- 1.2 This Practice Note provides guidance on what Trading Members ~~should~~ could 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 that~~ 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 there 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~~ 5.12.8, 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 carried on the books of the Trading Member 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:

(~~1~~a) To detect orders/trades ~~which that~~ 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 the 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; ;

- (eiii) the excessive use of ~~f~~Forced ~~k~~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; ~~;~~ and/or
 - (div) orders entered during pre-opening and pre-close at such a quantity and price which that have the effect of creating a false or misleading appearance of the market for, or the price of, such securities.
- (2b) Orders/trades which that result in no change in beneficial ownership of a security or that which create a false or misleading appearance of active trading, for example: —
- (ai) 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 that 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.

NEW

Practice Note 5.12.3 — Transaction with no change in beneficial ownership

1. Introduction

1.1 Rule 5.12.3 states that a Trading Member or a Trading Representative must not effect, take part in, be concerned in, or carry out, directly or indirectly, any transaction to purchase or sell a security or futures contract, being a transaction that does not involve any change in the beneficial ownership of the security or futures contract as defined in Section 197(5) of the Securities and Futures Act.

1.2 Rule 5.12.3 further states that it is a defence if the Trading Member or Trading Representative can show that the purpose or purposes for which it or he purchased or sold the security or futures contract was not, or did not include, the purposes of creating a false or misleading appearance with respect to the market for, or the price of, the security or futures contract.

2. Guidance on Rule 5.12.3

2.1 A transaction that does not involve any change in beneficial ownership will not be considered to be for the purpose or purposes of creating a false or misleading appearance with respect to the market for, or the price of, the relevant security or futures contract if the transaction arises under any of the following circumstances:

- (a) orders from a fund manager whose instructions are intended to switch the security or futures contract from one sub-account to another for legitimate commercial reasons; or
- (b) orders from an affiliate overseas, acting on behalf of different beneficial owners, and the trades will be booked out eventually to these beneficial owners.

NEW

Practice Note 11.3 — Error Trade Cancellation Procedures

1. Introduction

1.1 Rule 11.3 sets out the procedures for the cancellation of Error Trades.

1.2 This Practice Note sets out the steps that a Trading Member should take if it wishes to cancel an Error Trade.

2. Definitions

2.1 Rule 11.2.1 states that an “Error Trade” refers to a trade that is executed on the Trading System and that results from:

(a) An erroneous entry in relation to the price and/or volume of an order; and/or

(b) An erroneous entry in relation to the name of the securities or futures contracts.

2.2 For the purpose of this Practice Note, the party that caused the Error Trade will be referred to as the “TM in error”; any counterparty to the Error Trade will be referred to as a “counterparty TM”; and both parties will be referred to collectively as the “parties”.

3. Preliminary Steps

3.1 When an Error Trade occurs, the TM in error must:

(a) Inform SGX-ST by telephone at (+65) 6713 7088 within 30 minutes from the time the Error Trade occurred; and

(b) Contact the counterparty TM(s) without delay and seek its(their) agreement to cancel the Error Trade.

3.2 Both the TM in error and the counterparty TM(s) must take all necessary steps to minimise any likely market impact caused by the Error Trade.

3.3 Rule 11.4.1 gives SGX-ST the discretion to review any Error Trade if SGX-ST deems it necessary for the proper maintenance of a fair and orderly market. As such, market participants are advised that even if they do not initiate the procedure for cancelling an Error Trade, SGX-ST may exercise its discretion under Rule 11.4.1 to review the Error Trade.

4. Cancellation Procedures

4.1 Upon being notified by a TM in error of an Error Trade, the counterparty TM must contact all its affected clients to:

- (a) inform them of the Error Trade and seek their instructions on the cancellation of the Error Trade;
- (b) inform them on the possibility that the Error Trades may be referred by the TM in error to SGX-ST for review and may be cancelled upon the conclusion of the review; and
- (c) inform them not to close their position until the issue has been resolved.

Mutual cancellation

4.2 In the event that the parties agree to cancel an Error Trade, the following procedures will apply:

- (a) The TM in error must inform SGX-ST of the mutual cancellation without delay; and
- (b) Both parties must submit the duly completed trade cancellation request forms to SGX-ST.

4.3 If the counterparty TM agrees to cancel an Error Trade, the TM in error should consider compensating, on an *ex gratia* basis, the counterparty TM for any losses that would be incurred as a result of the mutual cancellation.

No mutual cancellation

4.4 If the parties cannot mutually agree to cancel the Error Trade, the TM in error may submit a written request to SGX-ST to review the Error Trade.

4.5 In making the request to SGX-ST to review an Error Trade, the TM in error must:

- (a) refer the matter to SGX-ST within 60 minutes from the time the Error Trade occurred or before 18:00 hours on the day the Error Trade occurred, whichever is earlier; and
- (b) notify the counterparty TM that it has referred the matter to SGX-ST for review.

4.6 In a situation where multiple counterparty TMs are involved in an Error Trade and some agree to a mutual cancellation while the others do not, the TM in error must notify all the counterparty TMs of any referral to SGX-ST for review.

4.7 If a TM in error makes a request to SGX-ST to review an Error Trade, the counterparty TM must provide the TM in error and SGX-ST with its reasons for not agreeing to a mutual cancellation of the Error Trade.

5. Review Procedures

5.1 A TM in error must pay a non-refundable trade review fee of S\$1,000 for each referral accepted for review by SGX-ST, regardless of the outcome of the review.

5.2 In its referral to SGX-ST for review, the TM in error shall provide details of:

- (a) the name of the counter to which the Error Trade pertains;

(b) the price and volume at which the Error Trade was done;

(c) the timestamp of the Error Trade;

(d) the Trade ID; and

(e) the reasons for the erroneous order being entered into the Trading System.

5.3 Once it has reviewed an Error Trade, SGX-ST will inform the market of the outcome of the review (i.e. whether the Error Trade remains valid or has been cancelled) via market broadcast.

5.4 SGX-ST will also notify the parties of the outcome of the review in writing.

6. No-cancellation Range

6.1 Rule 11.4.1 gives SGX-ST the discretion to review any Error Trade if SGX-ST deems it necessary for the proper maintenance of a fair and orderly market, notwithstanding any no-cancellation range

6.2 Rule 11.5.3 states that SGX-ST has the discretion to apply or remove a no-cancellation range.

6.3 Market participants are advised that an Error Trade may be cancelled by SGX-ST even if the Error Trade falls within the no-cancellation range.

7. Extension of Time

7.1 SGX-ST may in its discretion allow for an extension of time for any submission of information and documents in relation to the Error Trade, particularly during the review stage.