

AMENDMENTS TO THE CDP CLEARING RULES

PROPOSED RULE AMENDMENTS

3.9 Qualification of Trading Members

3.9.1 Qualification Procedures

In order to qualify a Trading Member, a Clearing Member shall:—

- (1) inform CDP of such qualification of the Trading Member, and if CDP requests, such details of the Trading Member as CDP may from time to time specify;
- (2) pay such administrative fee as CDP may from time to time levy for the processing of such applications;
- (3) satisfy CDP that it has in place adequate internal control measures and risk management systems, including automated pre-execution credit control checks, to monitor the Trading Member's Exchange Trades and manage its risk exposure to such Exchange Trades;
- (4) enter into a written agreement with the Trading Member setting out the T&C governing their relationship, which shall include without limitation, risk management provisions such as the right to impose trading limits on the Trading Member;
- (5) undertake to inform CDP if it has knowledge or has reasons to believe that a Trading Member qualified by it has defaulted or may default in any of its obligations under the Exchange Trades transacted by the Trading Member; and
- (6) have processes in place to minimise and manage any conflicts of interest, including but not limited to separating its front office and back office functions.

Legend:

Blue underlined – additions to Rules/new Rules

Blue struckthrough – deletions from existing Rules

CDP Practice Note 3.9.1(3) — Pre-Execution Checks

<u>Issue Date</u>	<u>Cross Reference</u>	<u>Enquiries</u>
<u>Added on 18 September 2012.</u>	<u>Rule 3.9.1(3)</u>	<u>Please contact Member Supervision:</u> <u>Facsimile No : 6538 8273</u> <u>E-Mail Address:</u> <u>membersup@sgx.com</u>

1. Introduction

1.1 This Practice Note explains the parameters and functions which pre-execution checks may contain as contemplated in Rule 3.9.1(3).

2. Pre-Execution Checks

2.1 Rule 3.9.1(3) requires a Clearing Member, in order to clear the trades of a Trading Member, to satisfy CDP that it has in place automated pre-execution risk management control checks to monitor the Trading Member's Exchange Trades and manage its risk exposure to such Exchange Trades. The purpose of this is to prevent overtrading and for credit risk management purposes. 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;
- (b) security limit to control the dollar/quantity exposure to each security;
- (c) dollar/quantity limit and price limit for each order. This allows for the detection of errors in inputting orders; and
- (d) controls to restrict Trading Members to selected markets, order types and securities.

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

- (a) the ability to adjust credit or quantity limits in real time during a trading session;
- (b) the ability to set permission levels (e.g. access to selected products/instruments) and suspend the Trading Member during the trading session on a real time basis; and
- (c) the ability to intercept orders that exceed credit limits and trigger error-prevention alerts on a real time basis.

2.3 Clearing Members will be able to meet the requirement in Rule 3.9.1(3) by being able to set pre-determined automated limits in the Trading Member's system.

Legend:

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having automated alerts whenever such limits are altered, and by conducting regular post-execution reviews of trades. Clearing Members should assess and continue to ensure that the pre-execution risk management control checks are robust on an ongoing basis.

Legend:

Blue underlined – additions to Rules/new Rules

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CDP Practice Note 3.9.1(6) — Conflicts of Interest

<u>Issue Date</u>	<u>Cross Reference</u>	<u>Enquiries</u>
<u>Added on 18 September 2012.</u>	<u>Rule 3.9.1(6)</u>	<u>Please contact Member Supervision:</u> <u>Facsimile No : 6538 8273</u> <u>E-Mail Address:</u> <u>membersup@sgx.com</u>

1. Introduction

1.1 This Practice Note provides guidance on how front office and back office functions of Clearing Members should be separated, in accordance with Rule 3.9.1(6).

2. Separation of Key Functions

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

2.2 Examples of proper separation include:—

(a) the setting and authorising credit limits on customers by senior management staff who are independent of sales and marketing functions, and are not related to the customer in question; and-

(b) having adequate separation of management responsibilities e.g the heads of sales, dealing or marketing functions should not have responsibilities over the middle and back office functions of Clearing Members.

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

Legend:

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Blue struckthrough – deletions from existing Rules

Schedule A

Rule Violation		Whether composition may be offered	Composition Amount which may be Offered by the Clearing House, where CDP has Determined the Clearing Member to be Liable			Mandatory minimum penalty imposable by the DC
Rule Chapter/ Number	Brief Description of Rule		1st Violation	2nd Violation	3rd Violation	
Rule 3 —Membership						
<u>3.9.1(6)</u>	<u>Clearing Member to have proper separation of front and back office functions</u>	<u>Compoundable</u>	<u>\$2,000 – \$4,000</u>	<u>\$4,000 – \$7,000</u>	<u>\$7,000 – \$10,000</u>	<u>N.A</u>

Legend:

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 Blue struckthrough – deletions from existing Rules