

Consultation Paper

Proposed Removal of the Iceberg Order Functionality in the SGX-ST and SGX-DT Trading Engines

3 January 2012

Responding to this consultation paper

SGX invites comments on this Consultation Paper between **3 January 2012** and **16 January 2012** via:

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Comments should be organized in the following manner:

- cover page;
- statement of interest
- table of contents;
- summary of major points;
- comments; and
- conclusion.

Supporting material may be placed in an annex. All submissions should be clearly and concisely written, and should provide a reasoned explanation for any proposed revision to the rules. Where feasible, participants should identify the specific rule on which they are commenting. In any case in which a participant chooses to suggest revisions to the text of the rules, the participant should state clearly the specific changes to the text that they are proposing.

All submissions should be made on or before **16 January 2012**. Participants submitting comments should include their personal/company particulars as well as their correspondence address, contact numbers and email addresses on the cover page of their submissions.

Respondents to this Consultation Paper are asked to identify the specific proposal or rule that they are commenting on. The Exchange reserves the right to make public all or parts of any written submission and to disclose the identity of the source. Participants may request confidential treatment for any part of the submission that the participant believes to be proprietary, confidential or commercially sensitive. Any such information should be clearly marked and placed in a separate annex. If the Exchange grants confidential treatment, it will consider the comments but will not publicly disclose the information. If the Exchange rejects the request for confidential treatment, it will return the information to the party that submitted it and will not consider the information as part of its review. In the interests of market transparency, participants should limit any request for confidential treatment of information submitted. The Exchange will not accept any submission that requests confidential treatment of all, or a substantial part, of the submission.

*This Consultation Paper is available for download from the SGX's website at **www.sgx.com***

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Introduction

1. Scope of Public Consultation

- 1.1 Singapore Exchange (“SGX”) seeks public comment on its proposal to remove the iceberg order functionality in its Singapore Exchange Securities Trading Limited (“SGX-ST”) and Singapore Exchange Derivatives Trading Limited (“SGX-DT”) trading engines.

2. Background

- 2.1. SGX intends to remove the iceberg order functionality in the SGX-ST and SGX-DT trading engines (hereinafter referred to as “the engine-level iceberg order”).
- 2.2. The engine-level iceberg order is utilised primarily by investors who trade large quantities. The order functionality is little utilised by the marketplace as similar execution functionalities are offered in the order management systems of brokers and automated execution desks to execute their block trades. The continued provision of the engine-level iceberg order is of little benefit to the market.
- 2.3. The removal of the engine-level iceberg order is subject to the approval of the Monetary Authority of Singapore.

Details of the proposal

3. Rationale for Proposed Removal

- 3.1 SGX evaluated the utility of the engine-level iceberg order in the SGX-ST and SGX-DT markets and concluded that the continued provision and maintenance of the order functionality bring little benefit to the marketplace and the removal of the functionality is expected to have little effect on the market.
- 3.2 SGX assessed the market impact of removing the engine-level iceberg order and does not expect adverse market impact to result for the reasons below.

Low usage of SGX's engine-level iceberg orders

- 3.3 The engine-level iceberg order is little utilised in the SGX-ST and SGX-DT markets so any market impact arising from the removal of the order functionality is not expected to be significant.

- (A) Do you utilise the engine-level iceberg order when managing your trading? If so, in what circumstances do you utilise it and why?
- (B) Do you agree that there will not be material market impact resulting from the removal of the engine-level iceberg order? Why?

In the SGX-ST market

- 3.4 Currently, engine-level iceberg orders account for a very small proportion of the overall order turnover in the SGX-ST market. In November 2011, engine-level iceberg orders accounted for only 2.54×10^{-5} of the total number of orders entered in the SGX-ST market and 7.40×10^{-4} of the total trade volume. A table containing the SGX-ST engine-level iceberg order statistics from January 2011 to November 2011 is attached at **Appendix 1**.

In the SGX-DT market

- 3.5 Currently, engine-level iceberg orders in the trading engine account for an extremely small proportion of the overall order turnover in the SGX-DT market. In November 2011, engine-level iceberg orders accounted for only 2.95×10^{-5} of the total number of orders entered in the SGX-DT market and 1.30×10^{-3} of the total trade volume. A table containing the SGX-DT engine-level iceberg order statistics from January 2011 to November 2011 is attached at **Appendix 2**.

Availability of alternative options to the engine-level iceberg orders

- 3.6 SGX does not expect any prejudice to be caused to market participants if it removes the engine-level iceberg order. This is because there are already commonly available alternative execution tools in the markets.
- 3.7 The iceberg order type is generally employed by sophisticated market participants who trade in large quantities. These market participants are not restricted to using the engine-

level iceberg order – instead, the order management systems of brokers and automated execution desks commonly contain similar functionalities which execute a large trade by splicing it into smaller orders before entry into the trading engine. It is SGX's understanding that these market participants tend to utilise their own functionalities when managing their trading, as opposed to the engine-level iceberg order.

- (C) Do you utilise similar functionalities in the order management systems of brokers and automated execution desks? If so, in what circumstances do you utilise them and why?
- (D) Do you prefer to utilise these functionalities when managing your trading as opposed to the engine-level iceberg order? If so, why?
- (E) Do you agree that market participants in the SGX-ST and SGX-DT market will not suffer material prejudice from the removal of the engine-level iceberg order? Why?

4. Iceberg Orders in the Opening and Closing Routines

- 4.1 The removal of the engine-level iceberg order will benefit the market by bringing enhanced transparency in the opening and closing routines.
- 4.2 Currently, in the REACH-ST engine, engine-level iceberg orders can be entered in the opening and closing routines and the entire order volume (shown and hidden) participates in the calculation of the equilibrium price. This behaviour differs from that in the previous QUEST-ST engine but is the same in the QUEST-DT engine.
- 4.3 By removing the engine-level iceberg order, there will be greater transparency in the opening and routine routines as well as in the calculation of the equilibrium price. It also eliminates any likelihood of confusion caused to market participants by the participation of hidden volume in the auction routine.
- 4.4 At present, the total proportion of the engine-level iceberg orders entered in the opening and closing routines in the SGX-ST market, in terms of both number and volume, is extremely low. The usage of engine-level iceberg orders in the SGX-DT market is also minimal. Detailed statistics for the opening and closing routines in the SGX-ST and SGX-DT markets can be found at **Appendices 3 and 4**.

- (F) Do you agree that the removal of the enhanced transparency in the opening and closing routines would be beneficial to the market? Why?

5. Proposed Implementation

- 5.1 Subject to regulatory approval, SGX intends to remove the engine-level iceberg orders in the first quarter of 2012.

Appendix 1: Month-by-month engine-level iceberg order statistics in the SGX-ST market

Month	Number of engine-level iceberg orders entered	Total number of all orders entered	Proportion of all orders (to 2 d.p.)	Traded volume attributable engine-level iceberg orders	Total trade volume	Proportion of total trade volume (to 2 d.p.)
January 2011	82	18746613	4.37×10^{-6}	1810000	80333563560	2.25×10^{-5}
February 2011	44	16560632	2.66×10^{-6}	2545000	52760355830	4.82×10^{-5}
March 2011	57	20551691	2.77×10^{-6}	2151000	63567175652	3.38×10^{-5}
April 2011	44	17283850	2.55×10^{-6}	2789000	55432344546	5.03×10^{-5}
May 2011	6	19605511	3.06×10^{-7}	0	47120933048	0
June 2011	47	21877983	2.15×10^{-6}	530000	47615959576	1.11×10^{-5}
July 2011	281	23392468	1.20×10^{-5}	11536000	59478695332	1.94×10^{-4}
August 2011	243	29180501	8.33×10^{-6}	13905000	75766900168	1.84×10^{-4}
September 2011	471	28337307	1.67×10^{-5}	10641000	60798197602	1.75×10^{-4}
October 2011	372	22643344	1.64×10^{-5}	83714000	59274932456	1.41×10^{-3}
November 2011	547	21501738	2.54×10^{-5}	48,021,000	64873237250	7.40×10^{-4}

Appendix 2: Month-by-month engine-level iceberg order statistics in the SGX-DT market

Month	Number of engine-level iceberg orders entered	Total number of all orders entered	Proportion of engine-level iceberg orders (to 2 d.p.)	Traded volume attributable engine-level iceberg orders	Total trade volume	Proportion of total order volume
January 2011	84	18536581	4.53×10^{-6}	10957	10007302	1.10×10^{-3}
February 2011	181	18662912	9.70×10^{-6}	19721	11109508	1.80×10^{-3}
March 2011	241	28341073	8.50×10^{-6}	37847	18046814	2.10×10^{-3}
April 2011	65	14363512	4.53×10^{-6}	6828	10398860	7.00×10^{-4}
May 2011	122	11773130	1.04×10^{-5}	12024	10618108	1.10×10^{-3}
June 2011	137	13606997	1.01×10^{-5}	13322	13441758	1.00×10^{-3}
July 2011	191	13709087	1.39×10^{-5}	13755	11326146	1.20×10^{-3}
August 2011	202	30812883	6.56×10^{-6}	14354	15131016	9.00×10^{-4}
September 2011	189	43520549	4.34×10^{-6}	30022	15178002	2.00×10^{-3}
October 2011	458	30042980	1.52×10^{-5}	29887	12340656	2.40×10^{-3}
November 2011	710	4103351	2.95×10^{-5}	15156	11897960	1.30×10^{-3}

Appendix 3: Engine-level iceberg order statistics for opening and closing routines in the SGX-ST market (to 4 d.p.)

Engine-level iceberg orders entered during opening or closing routines	August 2011 15/8 - 31/8 12 trading days		September 2011 1/9 - 30/9 22 trading days		October 2011 1/10 - 31/10 20 trading days	
	Pre-Open	Pre-Close	Pre-Open	Pre-Close	Pre-Open	Pre-Close
Total number entered	29	1	174	1	158	1
Proportion of total number of orders entered during opening or closing routines	0.0061%	0.0010%	0.0186%	0.0005%	0.0194%	0.0006%
Total volume traded	300000	450000	2000	554000	9825000	0
Proportion of total volume of orders entered during opening or closing routines	0.06150%	0.1026%	0.0001%	0.0340%	1.3045%	0.0078%

Appendix 4: Engine-level iceberg order statistics for opening and closing routines in the SGX-DT market (to 2 s.f.)

Engine-level iceberg orders entered during opening or closing routines	August 2011 1/8 - 31/8		September 2011 1/9 - 30/9		October 2011 1/10 - 31/10	
	Pre-Open	Pre-Close	Pre-Open	Pre-Close	Pre-Open	Pre-Close
Total number entered	29	1	11	0	34	0
Proportion of total number of orders entered during opening or closing routines	0.00016%	0.000044%	0.000062%	-	0.00020%	-
Total volume traded	650	0	1412	0	719	0
Proportion of total volume of orders entered during opening or closing routines	0.0021%	-	0.0039%	-	0.0023%	-



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