

Consultation Paper

# Proposed Changes to the Reporting and Registration of Negotiated Large Trades ("NLTs")

15 March 2012

## Responding to this consultation paper

SGX invites comments on this Consultation Paper between **15 March 2012** and **26 March 2012** via:

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Singapore 068804  
(Attention: Ms Chan Huimin)

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 **26 March 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](http://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 implement the following changes to the reporting and registration of Negotiated Large Trades ("NLTs") –
  - 1.1.1 To introduce the Trade Report Application Programming Interface ("API") functionality in the Singapore Exchange Derivatives Trading Limited ("SGX-DT") trading platform, which will allow the registration of NLTs through the QUEST API; and
  - 1.1.2 To extend NLT registration hours on the electronic NLT ("eNLT") system to 8.00 pm (Singapore time) for all SGX-DT contracts.

## 2. Background

- 2.1. Market participants on the SGX-DT market can currently trade off-exchange via the eNLT system, provided that the futures or options contract is designated and approved for NLT transactions. All NLTs are to be reported and registered via the eNLT system for clearing, subject to Regulatory Notice 4.1.11 of the Futures Trading Rules. SGX intends to introduce, as an alternative mode of registration, the Trade Report API functionality.
- 2.2. Currently, all NLTs executed during or before the relevant contract trading hours are to be registered no later than 30 minutes after the relevant T session and all NLTs executed after the relevant contract trading hours, no later than 30 minutes after the next business day's T session closes. SGX intends to extend registration hours on the eNLT system to 8.00 pm (Singapore time) for all SGX-DT contracts, regardless of contract trading hours.
- 2.3. The proposed changes to the reporting and registration of NLTs are subject to an indication of no objection from the Monetary Authority of Singapore ("MAS").

## Details of the proposal

### 3. Proposed Changes to the Reporting and Registration of NLTs

- 3.1 SGX seeks feedback on the proposed changes to the reporting and registration of NLTs. In particular, SGX seeks your views on the following proposals –

#### Introduction of the Trade Report API functionality

- 3.2 SGX proposes to introduce a NLT reporting functionality that enables registration through the QUEST API. The Trade Report API functionality will be available in the trading engine during all trading session states.
- 3.3 The introduction of the Trade Report API functionality will provide market participants with an alternative mode of NLT registration to the existing eNLT system. Given that the order management systems of market participants currently connect to the SGX trading engine via API, the proposed Trade Report API functionality will offer market participants greater convenience in managing and reporting their NLTs.
- 3.4 At the same time, market participants will continue to retain the option of registering NLTs via the eNLT system.
- 3.5 With the Trade Report API functionality, NLTs submitted for registration through the functionality during the T session will be automatically registered as T trades while trades submitted and matched through the functionality during the T+1 session will be registered as T+1 trades.

#### Extension of NLT registration hours on the eNLT system for all SGX-DT contracts

- 3.6 SGX proposes to extend NLT registration hours on the eNLT system by allowing the registration of NLTs for all SGX-DT contracts until 8.00 pm (Singapore time).
- 3.7 The proposed extension of registration hours will grant market participants greater flexibility to execute their options strategy and futures hedges, and brings SGX-DT in line with the current NLT registration practice on SGX AsiaClear®.
- 3.8 Currently, all NLTs executed during or before the relevant contract trading hours shall be T Trades while NLTs executed after the relevant contract trading hours shall be T+1 Trades. T trades are required to be registered no later than 30 minutes after the relevant T session closes and all T+1 Trades, no later than 30 minutes after the next business day's T session closes.
- 3.9 When the proposed extension of registration hours on the eNLT system takes effect, all NLTs registered on the eNLT system up to 8.00 pm (Singapore time) will be considered T Trades, regardless of the relevant contract trading hours. All trades registered through the eNLT system after 8.00 pm will be considered late trades.
- 3.10 This differs from trade reporting through the proposed Trade Report API functionality, where only trades registered during the T session will be registered as T trades and trades registered during the T+1 session will be T+1 trades. Hence, market participants

who wish to register T trades during the contract's T+1 session should register their NLT via the eNLT system (up to 8.00 pm [Singapore time]).

#### **4 Proposed Implementation**

- 4.1 Subject to the receipt of an indication of no objection from MAS, SGX is proposing to implement the changes to the reporting and registration of NLTs in the third quarter of 2012.
- 4.2 The consequential amendments to Regulatory Notice 4.1.11 of the Futures Trading Rules are attached at **Appendix 1**.

## Appendix 1: Proposed Amendments to Regulatory Notice 4.1.11 of the Futures Trading Rules

The following sets out the amendments to the Regulatory Notice 4.1.11 of the Futures Trading Rules pursuant to the proposed changes to the reporting and registration of NLTs as if implemented.

### Regulatory Notice

#### 4.1.11 Negotiated Large Trades

Issue date	Cross Reference	Enquiries
7 Dec 2009	Rule 4.1.11	<p>Please contact Product Management for policy issues: 6236-8450</p> <p>Please contact Clearing House for operational issues: 6538-5319</p> <p>Facsimile No: 6533-6163</p> <p>Email address : <a href="mailto:sgxdc_clear@sgx.com">sgxdc_clear@sgx.com</a></p>

### 1. INTRODUCTION

- 1.1 This Regulatory Notice sets out the minimum volume thresholds, notification requirements and procedures that Persons effecting Negotiated Large Trades or “**NLTs**” are required to observe.

### 2. MINIMUM VOLUME THRESHOLDS

- 2.1 The minimum volume thresholds for NLTs are set out in Appendix A.
- 2.2 Within the same Underlying, a NLT is deemed to be in accordance with the minimum volume threshold if at least one (1) of the legs meets the minimum volume threshold.
- 2.3 Trades which are not in accordance with the minimum volume threshold will not be accepted for registration as NLTs and will be rejected.

Example: Minimum volume threshold for NK Futures = 100 lots

Minimum volume threshold for NK Options = 25 lots

The following NLT will be in accordance with the minimum volume threshold as one (1) of the legs (NK Options Jan 06 Call 14000) meets the NK Options minimum volume threshold of 25 lots:

Contract	Qty	Price
NK Futures Mar 06	19 lots	@ 14200
NK Options Jan 06 Call 14000	13 lots	@ 300
NK Options Jan 06 Call 14000	12 lots	@ 301
NK Options Feb 06 Put 13750	2 lots	@ 610

### 3. GENERAL POLICY

#### 3.1 Trading Hours

3.1.1 The NLT facility shall be available twenty-four (24) hours a day. All NLTs executed during or before the Contract “T” trading hours shall be “T Trades” while NLTs executed after the Contract “T” trading hours shall be “T+1 Trades”.

#### 3.2 Reporting and Registration of NLTs

3.2.1 All NLTs must be reported to the Exchange. Registration of all NLTs shall be done via submission through one of the following two modes of registration:

- a. The eNLT system (Electronic Negotiated Large Trade – a web-based system). The submission can be done by either party to the trade, with mutual agreement.
- b. The Trade Report Application Programming Interface functionality. The submission can be done by either party to the trade, with mutual agreement, or by both parties to the trade.

Entry of the details of the NLT through ~~the eNLT system~~ the aforementioned modes of registration may be done by either the party to the trade, or any authorised personnel of their respective Clearing Members and its affiliates on their behalf.

- 3.2.2 NLTs submitted for registration must be also approved prior to submission, by the relevant Clearing Members for both the buying and selling Customers, ~~via eNLT, before registration can be effected.~~
- 3.2.3 Clearing Members are required to ensure that all "T Trades" and "T+1 Trades" are submitted for registration via the eNLT system in a timely manner before 8.00 pm (Singapore time) on the day of the trade and that all "T+1 Trades" are registered before 8.00 pm (Singapore time) on the next Business Day. ~~All "T Trades" are required to be registered no later than thirty (30 ) minutes after the relevant "T" session closes and all "T+1 Trades" no later than thirty (30) minutes after the next Business Day's "T" session closes.~~

### 3.3 NLT Execution

- 3.3.1 Members shall ensure that NLTs are not transacted for Customers who have the same beneficial interest in both sides of the transactions. Members may submit NLT orders from two (2) separate Customers under the same Omnibus Account, provided that the Members' record keeping and audit trails are able to demonstrate the separate beneficial ownership.
- 3.3.2 A Member shall ensure that its Customers are aware of and have given their approval for the execution of the Customers' orders via the NLT facility. Where a Member receives a Customer's order that is not a NLT order but meets the requirements of the NLT facility, such Member may execute the Customer's order via the NLT facility provided that such Member has obtained the prior approval from the Customer, either specifically for the transaction or as a general blanket approval (and such blanket approval has not been terminated by the Customer). If a Customer's approval is obtained verbally, the Member shall ensure that a tape recording of the conversation where the Customer's approval was obtained is retained for record keeping purposes. A Member shall also inform its Customers if the Member may be or is a counterparty to the Customer's NLT and obtain the Customer's prior written approval.
- 3.3.3 Members may obtain a general blanket approval from their Customers provided the conditions below are met. Members shall disclose to their Customers all NLTs executed pursuant to the general blanket approval in the contract notes sent to their Customers. The conditions for obtaining a general blanket approval from the Customer are as follows:

- (a) Members shall inform the Customer that the general blanket approval is subject to compliance with the rules, laws and regulations in the Customer's country of domicile;
- (b) the general blanket approval shall be in writing and shall provide details on the nature and scope of the general blanket approval given;
- (c) Members shall highlight to the Customer the risks and liabilities that the Customer may be exposed to in giving such general blanket approval. In particular, the Member shall highlight that in some instances, NLT orders may not be executed at the best possible price and that the timeliness of order execution may be compromised. The Customer must also be informed that the Customer is obligated to accept all NLTs executed pursuant to the general blanket approval; and
- (d) the Customer shall acknowledge that it has read, understood, and received a copy of the signed general blanket approval.

3.3.4 In order to ensure that Customers' interests are not compromised, the Members shall, unless their Customers specifically request for a trade to be done through the NLT facility, place all Customers' orders on ~~QUEST~~ the SGX-DT matching engine for execution. After the Customers' orders have been placed on ~~QUEST~~ the SGX-DT matching engine for execution, Members' employees may then seek their Customers' approval to accept the order as an NLT. However, Members may only withdraw an order from ~~QUEST~~ for subsequent execution as a NLT if the price for the NLT is at least equal to or better than the prevailing bid/offer quoted in the ~~QUEST~~ SGX-DT matching engine at the time the order is withdrawn, unless otherwise instructed by Customers.

3.3.5 Members shall not combine individual Customers' orders in order to meet the NLT minimum volume threshold requirements. Members shall not combine separate Customers' orders of different Contracts to create an inter-commodity spread or strategy transaction. However, individual orders greater than or equal to the minimum volume threshold may be combined by Members to match a larger NLT counter bid/offer, subject to the condition that the NLTs should, upon execution, be individually reported.

3.3.6 Various price combinations within the same NLT, or within the same leg of an NLT in the case of spreads or combinations, may be used to set an 'average' price, provided that the trade is for the same entity and that each respective price must meet the minimum tick for NLTs as set out in Appendix B.

3.3.7 Upon execution, a Member may give up an NLT to another Clearing Member or different Clearing Members via the SGXCLEAR system or any other system prescribed by the Exchange for allocation(s) to various Customer Accounts maintained with that other Clearing Member(s). The allocated number of Contracts to each such account may be less than the minimum volume threshold for the Contract in question provided that the NLT was executed for fund managers,

commodity trading advisors etc. who may at times be required to allocate in part to 'sub-funds', high net worth individuals/investors, etc. who may maintain their own accounts with the other Clearing Member(s).

- 3.3.8 The Exchange shall have the sole and absolute discretion to cancel or adjust the price of any NLT, even after the registration of the NLT.

### 3.4 Publicising of NLT

The Exchange shall publish information relating to the details of NLTs ~~on the eNLT home page on the Internet and on the Exchange's website.~~

### 3.5 NLT Fees

The standard clearing fees applicable to the relevant Contracts shall be imposed on all NLTs. In addition, a special facility fee charge shall also be imposed on all NLTs.

### 3.6 Deterrence Fees

- 3.6.1 Clearing Members are required to register their NLTs ~~via eNLT~~ within the period specified in paragraph 3.2 above. A flat deterrence fee of S\$5000 per trade will be imposed for all late reporting.

- 3.6.2 The Exchange may, in its absolute discretion, waive the imposition of the deterrence fee for the late registration of an NLT.

### 3.7 Use of NLT Facility in event of interrupted access to ~~eNLT~~ modes of NLT registration

- 3.7.1 In the event of any technical fault that prevents or inhibits access and/or use of the ~~eNLT system~~ stipulated modes of NLT registration by any Clearing Member(s), the Exchange may, in its absolute discretion, and in circumstances which it deems appropriate, allow for registration of NLTs via manual submission of Form CH31, duly filled up and signed by their authorised personnel on behalf of their Customers, to the Exchange.

- 3.7.2 If the Exchange exercises its discretion pursuant to paragraph 3.7.1:

- (a) The Exchange will inform all Clearing Members of this decision by issuance of a circular;

- (b) The Exchange may vary or waive the time periods for reporting of NLT trades set out in paragraph 3.2 above; and
- (c) The Exchange shall impose a deterrence fee for any NLT submitted for registration that does not have at least one (1) leg that meets the required minimum volume threshold. The deterrence fee will be charged separately for each leg in the NLT and be equal to S\$20 multiplied by the relevant minimum volume threshold.

3.7.3 The Exchange may, in its absolute discretion, waive the imposition of any deterrence fees.

3.7.4 Any loss or inhibition of access and/or use of the eNLT system, which is due to any technical faults arising from or caused by a Clearing Member's own equipment, system, device or market facility will not be considered as a sufficient ground for the Exchange to exercise its discretion under paragraph 3.7.1.

3.7.5 Factors which the Exchange may consider in the exercise of its discretion include:

- a) the number of Clearing Members which are affected by the technical fault;
- b) the estimated length of time required to resolve the technical fault;
- c) the impact of the technical fault on the ability of the Exchange to operate a fair, orderly and transparent market; and/or
- d) any other factor which the Exchange deems relevant.



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