



DECEMBER 2022

Market operator obligations review

SGX-DT

Findings from the FMA's review of how well SGX-DT is meeting its licensed market operator obligations, for the period 14 September 2021 to 30 June 2022

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Executive summary

About this report

Singapore Exchange Derivatives Trading Limited (SGX-DT) is based in Singapore. It is licensed by the Financial Markets Authority – Te Mana Tātai Hokohoko (FMA) under section 317 of the Financial Markets Conduct Act 2013 (FMC Act) as an overseas regulated market. The Monetary Authority Singapore (MAS) is SGX-DT's primary regulator.

On 21 November 2021, the New Zealand dairy derivatives contracts were migrated from the NZX Limited (NZX) to SGX-DT.

The FMC Act requires the FMA to carry out a review and report on how well SGX-DT is meeting its licensed market operator obligations.¹ We may carry out this review at any time but must do so at least annually.

This report covers the FMA's review of SGX-DT for the period 14 September 2021 (the commencement date of SGX-DT's licence) to 30 June 2022 (the end of SGX-DT's reporting period) ("the review period").

How we approached this review

Given SGX-DT is primarily regulated by MAS, and as this is our first review, we relied on MAS's oversight and whether MAS was satisfied with SGX-DT's compliance.

We considered governance and risk management arrangements at SGX-DT, and the operation of the market in general. We also undertook enquiries of MAS and SGX-DT and engaged with other entities. Further details are included in the Appendix.

We employ a risk-based approach to monitoring, and while this review is of SGX-DT's overall compliance with its licensed market operator obligations, we have exercised judgement in selecting the areas of focus, and the level and detail of work performed in each. This report highlights our main findings and observations from the review and, as with any risk-based approach, has inherent limitations.

¹ A market operator's full obligations are set out in the Appendix

Overall assessment

We are satisfied that SGX-DT complied with its licensed market operator obligations during the review period. Our conclusion is largely based on MAS's oversight, which found no information to suggest non-compliance.

Some key highlights of the review period include:

- a good compliance record with respect to regulatory obligations
- successful migration of the New Zealand dairy derivative contracts from NZX
- the design of the market giving consideration to market access by end users in New Zealand
- pleasing operational performance of the market.

We thank SGX-DT staff for their assistance in providing valuable information for this review.

Focus areas

Governance and oversight

Monitoring and oversight by primary regulator

SGX-DT is primarily regulated by MAS. We engaged with MAS to understand its monitoring and oversight arrangements, as well as its assessment of SGX-DT's overall compliance.

MAS considers SGX-DT to be a systemically important entity and has therefore set up a comprehensive monitoring and oversight regime carried out through on-site inspections and external reviews. Working with internal and external auditors, as well as the compliance units of SGX-DT, MAS maintains regular oversight of SGX-DT through its monitoring of SGX-DT's operations and compliance with relevant regulations. In addition, MAS also maintains consistent dialogue with SGX-DT, at the management level and with relevant business functions. MAS also monitors SGX-DT's response to any findings and has arrangements in place to ensure notification of issues such as outages or potential market volatility as soon as they arise.

From its ongoing supervision of SGX-DT, MAS confirmed it does not have any current concerns with SGX-DT's ability to operate an approved exchange in Singapore. MAS also confirmed it does not have any regulatory concerns, and has not identified any information that would suggest SGX-DT has not been compliant with its regulatory obligations during the review period.

SGX-DT governance and market oversight

We engaged with SGX-DT to further understand its governance and oversight arrangements in relation to its obligations. SGX-DT is a wholly owned subsidiary of the Singapore Exchange Limited (SGX) and is structured to operate and leverage broader functions of the SGX.

SGX itself has a number of internal committees to provide oversight into the functioning of its operations, including an Audit Committee, Risk Management Committee and Nominating & Governance Committee. It also operates its commercial and regulatory functions to be largely independent from each other, and established another wholly owned subsidiary, Singapore Exchange Regulation (SGX RegCo), to undertake all frontline regulatory functions on behalf of SGX and its regulated subsidiaries. SGX RegCo is also responsible for management of regulatory conflicts within SGX and its regulated subsidiaries (including SGX-DT). SGX RegCo's chair and the majority of its directors are independent of SGX and its regulated subsidiaries. They are also independent of any other corporation listed on SGX.

SGX RegCo has three units that are responsible for the monitoring and oversight of activity on SGX-DT's markets, tasked with identifying and investigating potential market misconduct, and taking appropriate enforcement action. These are the Member Supervision unit, the Surveillance unit, and the Enforcement unit. The Enforcement unit may take enforcement activity directly, or refer matters to the Disciplinary Committee, MAS or the Singapore Police Force. No referrals were made during the review period.

Risk management

Good risk management practices form an important part of any market operator's ability to demonstrate it has, to the extent that is reasonably practicable, done all things necessary to ensure it is operating in a fair, orderly and transparent manner, and to demonstrate adequacy of its arrangements and sufficiency of resources.

SGX on a group level utilises a 'three lines of defence' approach to risk management. The first line is the business units themselves taking responsibility for business risks. This is challenged and overseen by a risk management function, its second line of defence. The third line of defence consists of an internal audit function that is overseen by the Audit Committee and covers various risks including, but not limited to, operations, technology and regulation. SGX's senior management also provides an annual attestation to the Risk Management Committee detailing SGX's preparedness in terms of its business continuity planning. This includes testing, outcomes and disclosing residual risks.

SGX maintains a strong commitment to creating a robust risk management framework. Its 'three lines of defence' model is aimed at providing a clear hierarchy of oversight across all of SGX, not just its dairy derivatives market, to ensure accountability and reliability of its processes.

In regard to the technical performance of the market, SGX manages its business continuity and crisis management exercises on an organisation-wide basis rather than specifically for SGX-DT. SGX regularly tests the resiliency of its business services and operations, and works to continuously improve system reliability and availability.

Operational performance of the market

On 21 November 2021, the migration of the New Zealand dairy derivatives contracts occurred with no notable issues.

Following the migration there has been an increase in market activity. The information provided indicates that as at 30 June 2022, open interest is 103,942 lots, up 70% compared to the open interest migrated to SGX-DT. The average daily trading volume for the six-month period from 1 January 2022 to 30 June 2022 is 1,646 lots. This is a 45% increase from the average daily trading volume for the same period in 2021, when the equivalent contract was traded on NZX.

Our enquiries suggest that end users in New Zealand continued to have access to the market. We note that SGX-DT's dairy derivatives market was designed to support continued access by New Zealand users. For example, there is recognition of New Zealand public holidays, and an adjustment was made to trading hours to ensure continued accessibility for existing New Zealand end users.

We engaged with select entities involved in the migration and the dairy derivatives activity in New Zealand. These engagements suggest that the migration went smoothly, and the ongoing operation of the dairy derivatives markets was as expected.

There have also been no market outages or trading interruptions during the review period.

Appendix 1: Our role in reviewing SGX-DT

Our role

The FMA is an Independent Crown Entity. Our purpose is to promote and facilitate the development of fair, efficient and transparent financial markets.

Under the FMC Act, we are required to review, at least annually, how well a licensed market operator is meeting its obligations. We are also required to publish a written report of the review.

If we consider, after carrying out a review, that a licensed market operator has failed or is failing to meet any one or more of its market operator obligations, we may, by written notice, require the licensed market operator to submit an action plan to the FMA.

Market operator obligations

In the FMC Act, 'market operator obligations', for an overseas entity such as SGX-DT, means:

- the general obligations in respect of licensed markets (section 314):
 - to ensure, to the extent that is reasonably practicable, that each of its licensed markets is a fair, orderly and transparent market
 - to have adequate arrangements for notifying disclosures made to it from participants in its markets, and for continuing to make those disclosures available
 - to have adequate arrangements for handling conflicts between its commercial interests and the need to ensure its markets operate in a fair, orderly and transparent manner
 - to have adequate arrangements for monitoring the conduct of participants in its markets
 - to have adequate arrangements for enforcing compliance with market rules
 - to have sufficient resources (including financial, technological and human resources) to operate its licensed markets properly
- an obligation to give the FMA an annual self-assessment of compliance with its obligations (section 337)
- an obligation to act on the directions of the FMA or the Minister, if the operator is found to be failing to meet any of its obligations (sections 340 to 342)
- any obligation imposed as a condition of a market operator's licence.

Our approach to oversight of SGX-DT

A market operator that is authorised and regulated in an overseas country may be licensed under the FMC Act if certain conditions are met.

A key requirement is that the home jurisdiction responsible for regulating and supervising the market operator should provide a level of investor protection and market integrity that is comparable to the FMC Act. This allows us to rely on the overseas regulator to assess and monitor the capability and compliance of the market operator.

SGX-DT's market operator obligations are outlined in the FMC Act, as noted in our report above. SGX-DT must also report to MAS annually on how it complies with its market operator obligations. MAS may assess at any time how well SGX-DT is complying with any or all of the obligations.

The FMA and MAS are both signatories of the [IOSCO Memorandum of Understanding \(MMOU\)](#), which sets out the principles for mutual assistance and exchange of information between regulatory agencies that are party to the MMOU. This allows the FMA to request, and MAS to share, information relating to SGX-DT's operations.

A key component of our review was to request and review information from MAS on SGX-DT's compliance with its Singapore-based obligations, and whether SGX-DT was of good standing in its home jurisdiction. We requested information on:

- MAS's ongoing oversight of SGX-DT
- any matters or concerns raised with SGX-DT and how they were addressed
- MAS's overall view of SGX-DT's compliance with its market operator obligations.

For purposes of this review, we also reviewed and considered:

- SGX-DT's Self-Assessment Report on its compliance with its obligations under the FMC Act
- a summary of MAS's engagements with SGX-DT
- select policies and procedures in place at SGX-DT
- information obtained from engagement with, and enquiries of, other select entities
- other engagements and correspondence between FMA and SGX-DT during the review period.

