



DECEMBER 2023

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 1 July 2022 to 30 June 2023

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Contents

Executive summary	3
About this report	3
How we approached this review	3
Overall assessment	4
Focus areas	5
Compliance and oversight	5
Market suitability	5
Operational performance of the market	5
Appendix: Our role in reviewing SGX-DT	6
Our role	6
Market operator obligations	6
Our approach to oversight of SGX-DT	7

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 of 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 1 July 2022 to 30 June 2023 ('the review period'). This follows from the previous report covering 14 September 2021 (the commencement date of SGX-DT's licence) to 30 June 2022 (the end of SGX-DT's first reporting period).

How we approached this review

Given SGX-DT is primarily regulated by MAS, and there have been no notification of issues or changes to the financial products during the review period, we relied on MAS's oversight and its ongoing satisfaction with SGX-DT's compliance.

We considered feedback from MAS, a self-assessment report from SGX-DT, governance and risk management arrangements at SGX-DT, reporting received from SGX-DT during the review period, and the operation of the market in general.

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 continued to comply 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:

- ongoing compliance with respect to regulatory obligations
- the market remains fit for purpose, giving consideration to market access by end users in New Zealand
- continued operational performance from a technical perspective.

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

Focus areas

Compliance and oversight

Monitoring and oversight by primary regulator

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

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 SGX-DT's compliance units, MAS maintains regular oversight through its monitoring of SGX-DT's operations and compliance with relevant regulations. In addition, MAS 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 regulatory concerns with SGX-DT's ability to operate an approved exchange in Singapore.

Market suitability

As part of the migration of the derivatives contracts from NZX during the last review period, SGX-DT made a number of adjustments to the operation of the market to ensure it remained suitable for the New Zealand participants that would continue to use the market. This included changes to trading times to increase accessibility for New Zealand end users, and recognition of New Zealand public holidays.

SGX-DT remains focused on ensuring the market works well for all participants and end users. During the review period the market has continued to be suitable for its participants and users.

Operational performance of the market

There continues to be significant interest in dairy derivatives since the migration to SGX-DT. The average daily trading volume for the review period is 1,949 lots, a 33% increase from the average daily trading volume for the same period in 2022. The information provided also indicates that as at 30 June 2023, open interest is 89,501 lots, down 14% compared to last year but still up 46% from pre-migration interest.

There have been no market outages or trading interruptions during the review period. The Surveillance team at SGX-DT has not conducted any investigations into market misconduct or breaches of the exchange rules, as no anomalies were identified. There have also been no disciplinary proceedings conducted by the Enforcement unit.

Appendix: 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 the 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
- other engagements and correspondence between FMA and SGX-DT during the review period.

