



Monetary Authority of Singapore

SECURITIES AND FUTURES ACT (CAP. 289)

**GUIDELINES ON THE CALCULATION OF COUNTERPARTY RISK
REQUIREMENT FOR SPECIFIED STRUCTURED WARRANTS UNDER
PARAGRAPH 3(2) OF THE THIRD SCHEDULE TO THE SECURITIES
AND FUTURES (FINANCIAL AND MARGIN REQUIREMENTS FOR
HOLDERS OF CAPITAL MARKETS SERVICES LICENCES)
REGULATIONS**

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GUIDELINES ON THE CALCULATION OF COUNTERPARTY RISK REQUIREMENT FOR SPECIFIED STRUCTURED WARRANTS UNDER PARAGRAPH 3(2) OF THE THIRD SCHEDULE TO THE SECURITIES AND FUTURES (FINANCIAL AND MARGIN REQUIREMENTS FOR HOLDERS OF CAPITAL MARKETS SERVICES LICENCES) REGULATIONS (“SFR”)

1 Purpose of these Guidelines

1.1 These Guidelines on the calculation of Counterparty Risk Requirements for specified structured warrants under Paragraph 3(2) of the Third Schedule to the SFR (these “Guidelines”) are issued by the Monetary Authority of Singapore (the “Authority”) pursuant to section 321 of the Securities and Futures Act (Cap.289).

1.2 These Guidelines should be read in conjunction with the provisions of the SFR.

2 Definitions

2.1 In these Guidelines, unless the context otherwise requires –

“Specified structured warrants” means an instrument listed for quotation on an exchange and issued by a financial institution on an underlying financial instrument which gives the holder of the instrument the right –

- (a) to purchase from, or sell to, the financial institution that underlying financial instrument in accordance with the terms of issue of the instrument, or
- (b) to receive from the financial institution a cash payment calculated by reference to the fluctuations on value or price of that underlying financial instrument in accordance with the terms of issue of the instrument;

“underlying financial instrument” means –

- (a) foreign exchange, interest rate, gold or any produce, item, goods or article and includes an index of such foreign exchange, interest rate, gold, produce, item, goods or article; or
- (b) an index of futures contracts in respect of foreign exchange, interest rate, gold or any produce, item, goods or article.

3 Calculation of Counterparty Risk Requirement for Specified Structured Warrants

3.1 A holder of a capital markets services licence (“holder”) shall calculate a counterparty risk requirement for any specified structured warrant which is settled on a delivery-versus-payment basis in accordance with paragraphs 3.2 to 3.6.

Contracts unsettled at end of or after due date

3.2 The holder shall calculate a counterparty exposure on any purchase or sale contract transacted by a counterparty in the cash account in relation to any specified structured warrant which remains unsettled at the end of or after the due date -

- (a) in the case of a purchase contract which remains fully or partially unpaid, as the excess of the amount owed by the counterparty over the current market value of the specified structured warrant purchased; or
- (b) in the case of a sale contract where the specified structured warrant is yet to be delivered by the counterparty to the holder, as the excess of the current market value of the specified structured warrant sold over the contract value of the specified structured warrant.

3.3 The holder shall calculate an individual counterparty risk requirement on any positive counterparty exposure calculated in accordance with paragraph 3.2 as 100% of the counterparty exposure.

Open contracts traded on exchange other than securities exchange or recognized group A exchange

3.4 The holder shall calculate a counterparty exposure on any open purchase contract or open sale contract transacted by a counterparty in the cash account in relation to a specified structured warrant traded on an exchange other than a securities exchange or recognized group A exchange -

- (a) in the case of a purchase contract which is fully or partially unpaid, as the excess of the amount owed by the counterparty over the current market value of the specified structured warrant purchased; or
- (b) in the case of a sale contract where the specified structured warrant is yet to be delivered by the counterparty to the holder, as the excess of the current market value of the specified structured warrant sold over the contract value of the sale contract.

3.5 The holder shall calculate an individual counterparty risk requirement on any positive counterparty exposure calculated in accordance with paragraph 3.4 as 8% of the counterparty exposure.

Contract which is offset by contra contract or forced-sale or buying-in transaction

3.6 Where a contract referred to in paragraph 3.2 or 3.4 has been offset by a contra transaction on or before the due date of the contract, or has been offset by a forced-sale or buying-in transaction after the due date of the contract, the holder shall calculate a counterparty risk requirement in accordance with sub-paragraphs 19 to 22 of paragraph 3 of the Third Schedule to the SFR.