

**RISK-BASED CAPITAL FRAMEWORK  
FOR MEMBERS OF THE SINGAPORE EXCHANGE (SGX)**

---

**INTRODUCTION**

1. MAS will be introducing a Risk-Based Capital (RBC) framework in the new Securities and Futures Regulations 2002 ["Regulations"]. The Regulations will be promulgated under the Securities and Futures Act (Cap 42 of 2001), which was passed in Parliament in October 2001.

2. The RBC framework is a single, harmonised regulatory capital regime for Capital Markets Services licence holders that are members of Singapore Exchange Securities Trading Ltd ("SGX-ST") or Singapore Exchange Derivatives Trading Ltd ("SGX-DT") or both ["members"].

**DETAILS OF THE RBC FRAMEWORK**

3. Under the new RBC framework, a member is required to comply with the following financial requirements on a continuing basis: a) a Minimum Capital Requirement and b) a Minimum Financial Resources Requirement.

**MINIMUM CAPITAL REQUIREMENT**

4. To ensure that a member has adequate financial resources to properly carry out its regulated activities, a member will be required to hold Capital of not less than the Minimum Capital Requirement.

5. The Minimum Capital Requirement will be differentiated depending on the clearing status of the member, irrespective of whether the licence holder is a member of SGX-ST or SGX-DT. A clearing member will be required to maintain Capital of not less than \$5 million while a non-clearing member, of not less than \$1 million. In the case of a licence

---

holder that is a member of both SGX-ST and SGX-DT, the higher of the two stipulated Minimum Capital Requirements will be applicable<sup>1</sup>. These requirements are significantly lower than the minimum paid-up capital/shareholders' fund requirement of \$15 million and \$5 million currently applicable to a SGX-ST member and a SGX-DT member, respectively.

### **MINIMUM FINANCIAL RESOURCES REQUIREMENT**

6. To ensure that a member has adequate financial resources to absorb unexpected losses from its business activities, a member will be required to hold Financial Resources of not less than its Total Risk Requirement ["TRR"]. This will be known as the Minimum Financial Resources Requirement.

7. This requirement will be more risk-sensitive than the existing ANC requirement, as members will be required to hold financial resources that relates more directly to the risks arising from its business activities.

### **Early Warning Thresholds**

8. To allow MAS and SGX to identify, at an early stage, members that may be susceptible to non-compliance with the Minimum Financial Resources Requirement, a member will be required to notify MAS and SGX if its Financial Resources falls below a prescribed Early Warning threshold. This threshold will be 120% of Total Risk Requirement in the Securities and Futures Regulation 2002, and 150% in SGX Rules. The higher early warning threshold in SGX Rules reflects SGX's role as a Self-Regulatory Organisation in supervising its members.

---

<sup>1</sup> As a current proposal, SGX Rules will stipulate a minimum capital requirement of \$8 million for a company that is a dual clearing member.

---

## **Financial Resources**

9. A member's Financial Resources is defined as:
- a) the sum of the following items:
- Issued and Paid-Up Ordinary Share Capital;
  - Irredeemable and Non-Cumulative Preference Share Capital;
  - Share Premium Account;
  - Statutory Reserves;
  - Unappropriated Profits/(Loss), including unaudited interim profit/(loss);
  - Irredeemable and Cumulative Preference Share Capital;
  - Revaluation Reserves and Other Reserves;
  - Redeemable Preference Shares;
  - General Provisions; and
  - Qualifying Subordinated Loans;
- b) less:
- an Illiquidity Adjustment.
10. A member will be permitted to meet up to 50% of its Minimum Financial Resources Requirement by providing SGX or its clearing house with qualifying letters of credit. This is a current provision for futures broking members under the Futures Trading Act (Cap. 116), which will be extended to stockbroking members. A member will be required to deduct any asset which cannot be readily converted to cash within 30 days, as an illiquidity adjustment.

## **Total Risk Requirement**

11. Members are exposed to financial losses from risks arising from their business activities. For the purpose of the RBC framework, these risks are broadly grouped into five categories: counterparty risk, position risk, large exposure risk, underwriting risk and operational risk.

A Risk Requirement is prescribed for each of these risks, depending on the transaction or financial instrument involved. The sum of these Risk Requirements is a member's Total Risk Requirement. A description of the different risk categories is provided below.

**Counterparty Risk**

The risk of financial loss associated with a settlement failure or the possibility that a counterparty may default on its contractual obligations, in whole or in part.

**Position Risk**

The risk of financial loss from an adverse movement in the market rates and prices used to value the financial instruments that are held by a member as investments or as part of proprietary trading positions.

**Large Exposure Risk**

The risk of increased financial loss associated with a single counterparty or a single issuer arising from excessive exposure to the single counterparty or single issuer.

**Underwriting Risk**

The risk of financial loss from having to fulfill a commitment (to purchase the securities) under an underwriting agreement with a corporation issuing new securities.

**Operational Risk**

The risk of financial loss arising from deficiencies in a member's management information, support and control systems, legal risk and other risks that may arise from day-to day operations.

## **IMPLEMENTATION**

12. Members will be given a 12-month grace period, from the effective date of the Regulations, to implement the new RBC framework. During this transitional period, members may continue to comply with existing regulations on financial requirements in the Securities Industry Regulations (including Regulations 21 to 23 on large exposures) and Futures Trading Regulations.

13. The new RBC framework has been benchmarked to international best practices. However, as this is the first time that the RBC framework is introduced for members, we will review our local experience after 12 to 24 months and assess the need for further refinement to the framework.