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# OBJECTIVES AND PRINCIPLES OF FINANCIAL SUPERVISION IN SINGAPORE

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Monetary Authority of Singapore  
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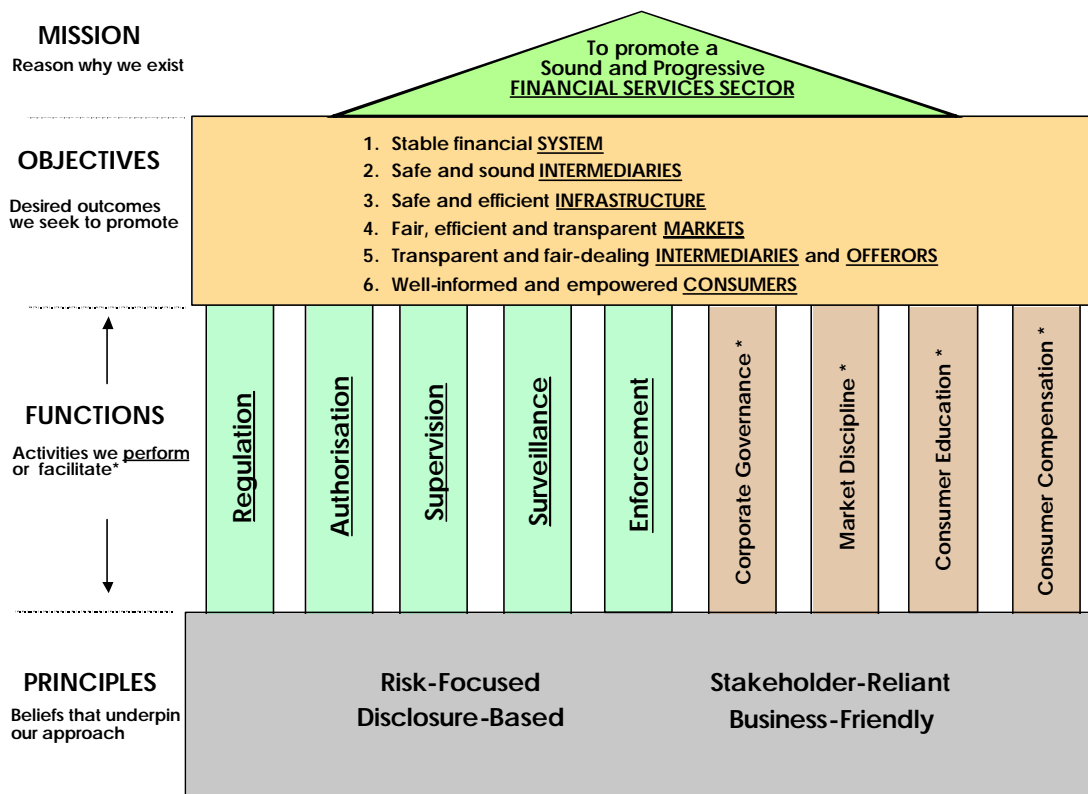


# OBJECTIVES AND PRINCIPLES OF FINANCIAL SUPERVISION IN SINGAPORE

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# 1 Introduction

- 1 The *mission* of the Monetary Authority of Singapore (MAS) is “to promote sustained and non-inflationary economic growth, and a sound and progressive financial services sector”. To carry out this mission, MAS conducts exchange rate policy, manages the official foreign reserves, regulates and supervises the financial sector, and works with the industry to develop Singapore as an international financial centre.
- 2 This document focuses on the supervisory aspect of MAS’ mandate, namely, to promote a sound and progressive financial services sector through regulation and supervision.<sup>1</sup> It sets out MAS’ *objectives* or desired outcomes of supervision, the *functions* it performs directly or facilitates to achieve these outcomes, and the *principles* that guide its supervisory approach.
- 3 The schematic representation below illustrates how the various functions of MAS, based on a foundation of guiding principles, help to support the achievement of MAS’ objectives and mission.



<sup>1</sup> *Regulation* refers to the establishment of specific rules of behaviour and *supervision* means the more general monitoring of the behaviour of financial institutions, including compliance with rules and regulations. When the term “supervision” is used in isolation in this note, we intend it to mean the broad oversight that includes both regulation and supervision.

## **2 A Sound and Progressive Financial Services Sector**

- 1 A sound and progressive financial services sector is a vital part of any modern economy. This is particularly so in the case of a small and open economy like Singapore. Apart from its direct and significant contribution to gross domestic product, the financial services sector intermediates between savers and borrowers, allocates financial resources efficiently, and thereby enhances economic growth and job creation. Promoting a sound and progressive financial services sector is an integral part of ensuring the success and resilience of the Singapore economy.
- 2 Confidence and stability are fundamental to a well-functioning financial system. Only when there is confidence in the system would corporates and individuals transact in the financial markets to invest and to raise capital. Without confidence and stability, the economy's ability to mobilize savings for economic use will be compromised.
- 3 Experience has shown that, left to themselves, financial systems and institutions can be prone to bouts of instability and loss of confidence. The social and economic costs of such instability can be significant, as demonstrated by the economic fallout from the 1997/98 Asian financial crisis. Even advanced economies are not immune to financial system crises or instability.
- 4 MAS is concerned with both the stability of the financial system as a whole and the soundness of individual institutions. Working with other stakeholders, principally the boards and managers of financial institutions, MAS encourages the effective management and mitigation of risks taken by financial institutions. We aim to do so in a way that does not unnecessarily hinder the competitiveness and dynamism of financial institutions, or the efficiency of financial markets. While we seek to detect excessive risk-taking and apply the brakes in a sensible manner, we must do so in a way that avoids moral hazard and does not smother innovation and enterprise.
- 5 MAS seeks to promote a sound and progressive financial services sector through both financial supervision and developmental initiatives. We supervise the banking and insurance industries, as well as the capital markets. At the same time, we work in partnership with the private sector to identify and implement strategies for developing Singapore as an international financial centre.

### *Are supervision and development compatible?*

Are MAS' dual roles as supervisor and promoter of the financial sector compatible? On the surface, there appear to be inherent tensions between the two. Supervision is concerned with the effective monitoring and mitigation of risks. Promotion focuses on facilitating business innovation and enterprise, which often entails the taking of risk.

But in a deeper sense, supervision and development are not incompatible. In fact, they are complementary. A well-regulated and supervised financial services sector is not an end in itself. We promote financial soundness because it is a vital component of economic growth and development. Financial institutions come to Singapore to do business in large part because of the well-regulated, stable and sound financial system Singapore offers. Supervision and development work hand in hand to promote a sound and progressive financial services sector.

At the same time, MAS recognises that there could well be tensions between the supervisory and developmental roles in some situations. This is why there is clear separation between these two functions within MAS.

Officers involved in prudential or market conduct supervision are not charged with initiating and implementing developmental initiatives. There are separate and dedicated departments within MAS for financial supervision and financial centre development. Any potential tensions or trade-offs between supervision and development are resolved at the senior management level which has collective responsibility for MAS' dual mandate.

This arrangement has worked well in practice, as evidenced by the financial reforms launched since 1998 amidst challenging economic and financial conditions. The reforms have helped promote greater competition, efficiency and growth in the financial sector without compromising the safety and soundness of institutions or the resilience and stability of the system.

Our experience has been that effective cooperation between the supervisor and developer is vital, so that our rules or regulations can be business friendly without compromising industry best practices or undermining the basic tenets of good supervision. We believe that the delicate balance between the supervisory and developmental roles is best achieved within one organisation with a shared purpose rather than separate agencies with possibly conflicting goals.

### 3 Objectives of Supervision

1 We believe that fulfilling our mission of a sound and progressive financial services sector requires achieving six distinct objectives. The objectives or desired outcomes of MAS' supervisory activities are:

- a stable financial *system*;
- safe and sound financial *intermediaries*;
- safe and efficient financial *infrastructure*;
- fair, efficient and transparent organised *markets*;
- transparent and fair-dealing *intermediaries* and *offerors*; and
- well-informed and empowered *consumers*.

#### *Objective 1*

#### **Stable financial system**

2 Stability is fundamental to a well-functioning financial system. It provides the basis for participants to trade in the financial markets and use the services of financial institutions with confidence. Promoting a *stable* system is thus the overarching objective of MAS' financial supervision. It requires MAS to meet the other five objectives with respect to intermediaries, infrastructure, markets, offerors and consumers.

#### ***Can and should MAS seek to prevent failure?***

Our desired outcome is financial stability. But in seeking to promote and preserve stability in the financial system, we do not aim to prevent the failure of any financial institution. Such a "zero failure" regime is neither feasible nor desirable.

Risk is the life-blood of the financial system. It is the business of financial institutions to intermediate risks and to take on risks. Institutions can incur substantial losses if risks are not well-managed, or if risk events turn out to be more severe than anticipated. Regulation or supervision cannot completely prevent losses without making it impossible for financial institutions to operate effectively.

MAS requires institutions to have sound risk management systems and adequate internal controls. It also requires institutions to maintain prudent levels of capital to buffer against possible losses. With these measures, we seek to minimise the risk of a failure. But we cannot and should not guarantee the soundness of individual financial institutions.

This is especially true in Singapore, where most financial institutions, banks in particular, operate as branches of organisations incorporated in other jurisdictions. Their global operations are influenced by factors beyond MAS' control. Our supervision of these institutions is limited to their operations in Singapore, even though the risks to their viability may arise from any part of their global network. While MAS has a rigorous admission policy that seeks to allow only well-managed and reputable institutions to operate in Singapore, it is difficult for us to detect and resolve problems or mishaps occurring in the global operations of these institutions. With respect to locally-incorporated institutions, MAS has greater supervisory influence. Even so, given the growing scope and complexity of financial business, it is impossible for MAS to prevent financial distress or collapse in all circumstances.

Even if it were possible to prevent failure in all instances, it would be undesirable to seek to do so. Any such supervisory and regulatory regime would be excessively burdensome for financial institutions and severely undermine their competitiveness, innovation and enterprise. This would be inconsistent with MAS' mission of promoting a progressive financial services sector.

A "zero-failure" regime would also be inconsistent with the principle that owners and managers of institutions, together with consumers, must be responsible for their own actions. Considerable moral hazard would arise if consumers and market participants believed that no institution would ever be allowed to collapse or go out of business, or no investor would lose his savings through imprudent investment. The incentive for boards of directors and managers to take due care in managing the risks of institutions under their charge would be eroded. The best defence against financial instability is to maximise the incentives for boards, management and market participants to identify and pre-empt problems rather than provide an official guarantee against failure of any single institution.

## ***Objective 2***

### **Safe and sound financial intermediaries**

- 3 The focus of much of MAS' regulation and supervision is on the *safety* and *soundness* of financial intermediaries such as banks, insurance companies, and broker-dealer and fund management firms. There are two reasons for this.
- 4 Firstly, the distress or collapse of key financial institutions, especially large banks, can have potentially damaging consequences for systemic stability by transmitting problems from one institution to another or undermining confidence in general. Secondly, depositors, policyholders and retail investors are usually not in a position to make fully informed judgments about the risks facing the institutions with which they enter into financial contracts. This information asymmetry can be reduced through greater disclosure, but it cannot be eliminated entirely. MAS, therefore, has a role in actively encouraging financial institutions to identify, monitor and mitigate the risks facing them.
- 5 At the same time as it supervises the safety and soundness of financial institutions, MAS also requires institutions to have in place robust systems and procedures to combat money laundering and terrorism financing. This is because financial institutions are vulnerable to abuse for criminal purposes, such as money laundering and terrorism financing. Besides helping to perpetuate crimes that generate illegal monies and terrorist activities, such abuse poses significant legal and reputational risks to the institutions and could affect Singapore's standing as an international financial centre.

## ***Objective 3***

### **Safe and efficient financial infrastructure**

- 6 Financial infrastructure refers to the platforms that provide the services and facilities underpinning financial market activities, such as exchanges, clearing houses, and payment and settlement systems.<sup>2</sup>
- 7 These platforms are important nodes in the financial system. Their failure may amplify systemic risks by seizing up financial flows, undermining the fulfilment of obligations and transmitting shocks from one institution to another. The *safe* operation of financial infrastructure is therefore essential for preserving stability in the financial system.

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<sup>2</sup> *Clearing* is broadly concerned with the establishment and risk management of contractual obligations while *settlement* is concerned with the discharge of obligations.

- 8 Financial infrastructure should also be *efficient* in helping to reduce friction, lower costs, and maximise the economic benefits of financial intermediation. Improvements to the safety and reliability of financial infrastructure must be judiciously balanced against the costs of doing so.

#### ***Objective 4***

#### **Fair, efficient and transparent organised markets**

- 9 Confidence in the financial system and effective intermediation of financial flows require that capital markets be fair, efficient and transparent.
- 10 A *fair* market is characterised by proper trading practices, fair access to market facilities and information, and structures that do not tilt the playing field in favour of some market users over others. As part of its mandate, MAS seeks to deter, detect and penalise market rigging, market manipulation, insider trading, fraud, deceit and other unfair trading conduct.
- 11 Price formation and discovery are intrinsic to any well-functioning market that matches buyers and sellers. An *efficient* market is one where this process is reliable and unhindered. This requires material information likely to affect market prices to be disseminated in a timely and organised manner.
- 12 Information asymmetries are at the root of most market inefficiencies and misconduct. A *transparent* market is one where information about trading is made publicly available on a real-time basis. Pre-trade information, such as bids and offers, should be made available to enable investors to know whether they can deal and at what prices. Post-trade information on executed trades should be similarly publicised to reflect the market price of concluded transactions.

#### ***Objective 5***

#### **Transparent and fair-dealing intermediaries and offerors**

- 13 MAS' market conduct supervision focuses on promoting *transparency* and *fair-dealing* by financial institutions and offerors in the conduct of their business with customers. This involves prescribing disclosure requirements, conducting fit and proper tests to promote honesty and integrity among financial institutions and their representatives, setting competency requirements for those providing financial services in the capital markets, and instilling fair business practices in the marketing and distribution of financial services and products.

- 14 Market intermediaries are expected to uphold high professional standards when dealing with customers. MAS penalises, through criminal and civil sanctions, instances of market misconduct (e.g. front running, insider trading, market rigging, market manipulation and misleading disclosure). Offerors are required to make full, prompt and continuing disclosure of material information, to help ensure market transparency and equip investors with the necessary knowledge to make informed decisions.
- 15 While MAS expects financial institutions to adopt fair business practices and high standards of disclosure when dealing with consumers, matters such as commercial service standards and pricing of products and services are normally outside MAS' purview. But institutions should provide consumers with the necessary information on these matters to enable them to make well-informed decisions.

### ***Objective 6***

#### **Well-informed and empowered consumers**

- 16 Consumers bear the principal responsibility for protecting their own interests. They should exercise due care in their selection of financial products and service providers. MAS does not and cannot protect consumers from the risk that their investments will not deliver anticipated returns.
- 17 MAS does play a role, however, in helping to ensure that consumers are *well-informed* and *empowered* to assume principal responsibility for their own protection. MAS seeks to address risks to consumers stemming from insufficient, false or misleading disclosure, conflicts of interest, mis-selling and mis-representation.
- 18 MAS requires financial institutions and offerors of investments to make full, prompt and accurate disclosure of material information to consumers. But a disclosure-based regime cannot work if consumers do not know how to make good use of the information disclosed to them. Consumer education helps to empower consumers to make informed choices. MAS works with other public sector agencies and industry associations in helping to equip consumers with basic money management, financial planning and investment skills.
- 19 It is also important that in the event of market misconduct or improper behaviour, consumers have recourse to an impartial and efficient dispute resolution mechanism. MAS facilitates the setting up of fair, efficient and affordable industry dispute resolution mechanisms as alternatives to resolutions through court litigation.

## 4 Principles of Good Supervision

- 1 MAS is guided by twelve key principles which collectively characterise our supervisory approach as one that is *risk-focused*, *stakeholder-reliant*, *disclosure-based* and *business-friendly*.

### *Risk-Focused*

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#### *Principle 1*

#### **Emphasise risk-focused supervision rather than one-size-fits-all regulation**

- 2 Our emphasis is on risk-focused supervision, rather than prescriptive one-size-fits-all rules. The latter approach, whereby a supervisor prescribes activities and risks that institutions can and cannot take, is increasingly ineffective in a rapidly changing environment, and also unnecessarily restrictive for the stronger institutions. With risk-focused supervision, MAS evaluates the risk profile of an institution, taking into account the quality of the institution's internal risk management systems and processes. This approach allows us to give greater business latitude to well-managed institutions while retaining higher requirements or tighter restrictions for weaker ones.

#### *Principle 2*

#### **Assess the adequacy of an institution's risk management in the context of its risk and business profiles**

- 3 MAS takes a proportionate approach to assessing an institution's risks. Rather than having a fixed view of what constitutes an acceptable level of business risks or risk management standards, MAS assesses whether risk management systems and internal controls are commensurate with the institution's risk and business profiles. Institutions engaging in complex financial businesses must be able to demonstrate that their risk management capabilities match their risk appetite and operations, while institutions engaging in less complex or risky financial activities may find simpler risk management processes adequate for their purpose.

### ***Principle 3***

#### **Allocate scarce supervisory resources according to impact and risks**

- 4 We allocate supervisory resources among financial institutions according to the potential impact they would have on Singapore's financial system, economy and reputation in the event of a significant mishap (e.g. financial failure and prolonged disruption), and also the likelihood of these significant mishaps occurring. Institutions are placed in distinct supervisory categories which are differentiated in terms of the scope and intensity of our supervision. More resources are channelled towards supervising systemically-important institutions and institutions with higher risk profiles.

### ***Principle 4***

#### **Ensure institutions are supervised on an integrated (across industry) and consolidated (across geography) basis**

- 5 As the home supervisor of local financial groups, MAS takes an integrated supervisory approach, evaluating them on a whole-of-group basis across their banking, insurance and securities activities. We also supervise these financial groups on a consolidated basis, taking into account both their Singapore and overseas operations. For foreign banks operating in Singapore, we ensure that they are subject to consolidated supervision by their home regulators. We also incorporate home supervisor information in setting supervisory plans for the Singapore operations.
- 6 Insurers that are part of a wider insurance group or conglomerate are monitored on a solo and group-wide basis to assess the potential impact on the Singapore insurance operations. We also cooperate and share information with foreign supervisors for effective supervision of internationally-active insurers and insurance groups.

### *Principle 5*

#### **Maintain high standards in financial supervision, including observing international standards and best practices**

- 7 MAS continually strives to maintain high standards in financial supervision, benchmarking itself against international standards and best practices. As an international financial centre with a strong stake in global financial stability, MAS participates actively in regional and international initiatives to enhance regulatory standards and supervisory training.

### *Principle 6*

#### **Seek to reduce the risk of failure rather than prevent the failure of any institution**

- 8 MAS does not aim to prevent all failures. We require financial institutions to observe prudential standards, such as appropriate capitalisation, liquidity and exposure limits. We have the power to intervene if we believe that the interests of depositors, policyholders or investors are at risk. But we cannot (due to the complexity of financial activities) and should not (due to moral hazard and the undesirable consequences of excessive regulatory burden) guarantee the soundness of financial institutions.
- 9 Consumers should recognize that there are risks involved in dealing with financial institutions. One challenge that MAS faces, like other regulators, is to educate the public about this reality and to manage their expectations. Deposit insurance and policy owners' protection schemes will make explicit the level of protection available to depositors and policy owners. They will also help to make consumers realise that risks are inherent in financial transactions.
- 10 While we cannot prevent failures, we are conscious of the systemic impact that failures can have and the damage they can do to consumers and Singapore's reputation as a financial centre. MAS will seek to reduce the risk of failure of institutions through increased supervision where it is appropriate and effective. In the case where increased supervision is ineffective, we will take measures to limit the impact of a failure.

## *Stakeholder-Reliant*

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### *Principle 7*

#### **Place principal responsibility for risk oversight on the institution's board and management**

- 11 The primary responsibility for the prudential soundness and professional market conduct of a financial institution lies with its board of directors and senior management. Our supervisory approach seeks to reinforce the responsibility of the board and management to deal fairly with customers, ensure compliance with regulatory standards, and maintain adequate risk oversight of its business activities. By working to encourage best practices by boards and management, we minimise the need to interfere with institutions' business decisions.

### *Principle 8*

#### **Leverage on relevant stakeholders, professionals, industry associations and other agencies**

- 12 MAS is not the only party interested in the safety and soundness of financial institutions. There are other stakeholders such as their shareholders, creditors, counterparties, depositors, policyholders and home supervisors who also have an interest in the institutions' continued financial health and stability. Likewise, professionals such as external auditors, internal auditors and actuaries, as well as credit rating agencies, are specialists in assessing the risks inherent in the institutions and the adequacy of risk management and internal control systems. In addition, many financial institutions here are members of their respective industry associations.
- 13 MAS leverages on these relationships and the work of some of these parties. We interact and work closely with some of them, including the home supervisors, SGX, auditors and industry associations, to complement our own supervision of the institutions. MAS also works in cooperation with other agencies, such as the Council on Corporate Disclosure and Governance, the Ministry of Finance, and the Accounting and Corporate Regulatory Authority, to strengthen corporate governance and disclosure standards.

## *Disclosure-Based*

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### *Principle 9*

#### **Rely on timely, accurate and adequate disclosure by institutions rather than merit-based regulation of products to protect consumers**

- 14 MAS has moved from prescriptive, merit-based regulation to a more disclosure-based regime. Under the merit-based regime, the regulator assesses the suitability of a product before it is allowed to be introduced in the marketplace. Under a disclosure-based regime, the consumer makes well-informed decisions when purchasing financial products and services based on material information being made available to the consumer. A disclosure-based regime encourages innovation and facilitates the development of a more sophisticated body of consumers. The role of MAS is therefore to put in a place a regulatory framework that facilitates timely, accurate and meaningful disclosure of material information that consumers could reasonably rely on in making financial decisions.

### *Principle 10*

#### **Empower consumers to assess and assume for themselves the financial risks of their financial decisions**

- 15 A disclosure-based regime is meaningless if consumers do not know how to make use of disclosed information in making financial decisions. Consumers should understand the nature of different financial products and the considerations that they should look out for in making their financial decisions. MAS works in partnership with other public sector agencies and industry bodies on consumer education to facilitate this.

## ***Business-Friendly***

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### ***Principle 11***

#### **Give due regard to competitiveness, business efficiency and innovation**

- 16 MAS seeks to undertake supervision in a way that does not unnecessarily impair the competitiveness and dynamism of individual institutions and Singapore's financial services sector. We take into account the business and operational concerns of the institutions and industry, so as not to hinder growth and innovation as long as the risks are adequately managed. In our dealings with institutions, we seek to be professional and to respond to their requests in a timely manner.

### ***Principle 12***

#### **Adopt a consultative approach to regulating the industry**

- 17 MAS adopts a consultative approach to regulating the industry. We actively seek feedback from market practitioners and the public, so as to help us develop regulations that take into account market realities and industry practices. Consultation also helps to pre-empt implementation problems, minimise unintended consequences, and foster better industry understanding and support. In the end, it is the combined efforts of MAS and the industry that contribute to financial stability and resilience while promoting enterprise and innovation.

## 5 Oversight Functions of MAS

- 1 MAS performs five distinct oversight functions to achieve its objectives, namely *regulation*, *authorisation*, *supervision*, *surveillance* and *enforcement*.
- 2 But MAS' oversight in itself is insufficient for achieving the mission of a sound and progressive financial services sector. Sound *corporate governance*, effective *market discipline*, a high level of *consumer education* and a basic safety net for *consumer compensation* are also necessary. These are functions principally carried out by other entities, with MAS playing a facilitating role.

### *Regulation*

- 3 As a regulator, MAS determines the scope of financial services activities that should be regulated, and sets the rules and standards governing the behaviour of financial markets and institutions. MAS' prudential regulation focuses on the safety and soundness of financial institutions, seeking to safeguard the value of the assets that underpin the ability of these institutions to fulfil their financial contracts, such as bank deposits and insurance policies. It involves setting risk-based capital and prudential requirements. MAS' market conduct regulation focuses on how financial firms and their representatives carry out business dealings with consumers, and seeks to promote fair dealing. It involves setting requirements and standards for sound business conduct practices.

### *Authorisation*

- 4 MAS is the "gatekeeper" for institutions that wish to offer financial services in Singapore. MAS assesses these institutions to ensure that they satisfy the necessary authorisation or licensing criteria. These include having the relevant track record, adequate financial resources and sound operational processes to ensure orderly and fair conduct of business. MAS also assesses whether financial institutions and their representatives are of sound repute, and meet the fit and proper criteria to conduct regulated activities. Offerors seeking to raise funds in the capital markets are also required to register prospectuses that provide full and fair disclosure of material information to potential investors.

## ***Supervision***

- 5 MAS is responsible for the prudential supervision of financial institutions. We seek to have a good understanding of an institution's business to identify potential risks that may impact the safety and soundness of the institution and to assess the suitability of various supervisory actions. We rely on a variety of supervisory tools to carry out this work. These include on-site inspections as well as continuous off-site supervision such as holding regular meetings with the institutions, reviewing audit reports on the institutions and regulatory returns, and monitoring key indicators and business developments.
- 6 MAS also supervises the conduct of business by financial institutions and their representatives, to ensure that they adhere to sound market conduct practices, including furnishing adequate information about their products, and providing customers with appropriate advice to purchase products that suit the customers' needs and risk appetite.

## ***Surveillance***

- 7 MAS undertakes various kinds of financial surveillance. From the prudential perspective, we seek to identify non-sustainable trends and potential vulnerabilities in the financial system, as well as transmission linkages within the system that could impair the safety and soundness of financial institutions. From the market conduct perspective, we monitor the efficiency and fairness of market operations, seek to identify market misconduct, and assess financial institutions' compliance with market conduct rules.

## ***Enforcement***

- 8 MAS is empowered to take action against those institutions and individuals who breach prudential and market conduct requirements. Where there is a regulatory breach, MAS may impose administrative sanctions or refer the matter to criminal authorities. We also investigate and initiate civil penalty actions against those who engage in market misconduct in the capital markets.

## ***Corporate Governance***

- 9 The primary responsibility to oversee and manage the risks arising from an institution's activities, as well as to ensure compliance with regulatory standards and requirements rests with the institution's board of directors and senior management. MAS therefore seeks to promote effective and sound corporate governance practices by institutions.

MAS also works with other agencies in promoting sound corporate governance practices by listed companies.

### ***Market Discipline***

- 10 MAS promotes timely, adequate and accurate disclosure by financial institutions and offerors to allow consumers and investors to make informed decisions about the products they purchase or invest in. A transparent market fosters market discipline. We also encourage markets to perform effective self-regulatory functions. In addition, MAS seeks to foster effective market discipline by facilitating the establishment of dispute resolution schemes.

### ***Consumer Education***

- 11 The liberalisation of financial markets and shift towards a disclosure-based regime mean that consumers are faced with a growing array of financial products and services. Consumers need to understand the implications of the different financial contracts they enter into when purchasing or investing in financial products and services in order to choose wisely. Under the MoneySENSE national financial education programme, MAS acts as a catalyst for consumer education in Singapore by working closely with industry associations, consumer groups and other public sector organisations to identify the main areas of focus for consumer education efforts and to encourage greater collaboration between the private and public sectors.

### ***Consumer Compensation***

- 12 MAS facilitates the establishment of various consumer compensation schemes such as the deposit insurance scheme and the policy owners' protection fund. Both will be privately funded by the participating banks and insurance companies, respectively. The establishment of such compensation schemes is important given that MAS cannot prevent all failures. Consumers can then know exactly how much of their money will be fully protected or whether their losses arising from insured perils will be compensated if an institution fails. This will help to strengthen market discipline and dispel any public misperception of a government guarantee in the event of a failure. MAS requires SGX to maintain a fidelity fund to give a certain level of protection to investors trading on SGX against acts of defalcation and default on the part of the broker/dealers.