

**The Singapore Guide
to
Conduct & Market Practices
for
Treasury Activities**

**SINGAPORE
FOREIGN
EXCHANGE
MARKET
COMMITTEE**

The Singapore Guide to Conduct & Market Practices for Treasury Activities

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INTRODUCTION

BACKGROUND

The smooth and efficient functioning of a financial market depends heavily on the professional standards and integrity of those who are engaged in it. As the market grows in size, diversity and complexity, the demands for higher ethical conduct and uniform practices increase correspondingly. In helping to foster Singapore's continual growth as a key international financial centre, the Singapore Foreign Exchange Market Committee ("**SFEMC**") reaffirms its belief that the centre's prosperity and viability is inextricably intertwined with its reputation for excellence and professionalism.

In keeping with this belief, the SFEMC regularly reviews market conduct and practices to ensure that they are in line with international best practices as well as safeguard the soundness of the system. Since "The Singapore Guide to Conduct and Market Practices for Treasury Activities" ("**Guide**"), also commonly referred to as "The Blue Book", was revised in 2007, further developments have taken place, notably increased regulatory scrutiny and the proliferation of new regulations. Against this backdrop, The Blue Book was subject to a full review in order to bring the Guide up to date with these developments and current market issues, as well as to strengthen the extent to which market participants can rely on its provisions as being an indicator of how other participants will behave and operate.

APPLICABILITY

This Guide is applicable to all wholesale dealings in the over-the-counter markets for:

1. Foreign Exchange (spot and forwards)
2. Money Market Instruments
3. Derivatives Products
4. Other Market Instruments

It sets out the principles which should govern the conduct of management and employees at all institutions engaged in these wholesale markets. These institutions include, without limitation, brokerage firms (both traditional money brokers and firms offering electronic broking services, hereinafter "**Brokers**") and banks or other entities acting in a principal capacity (including commercial banks, merchant banks and other recognized financial institutions acting in a principal capacity, hereinafter referred to as either "**Principals**" or "**Banks**"), which carry on a business in Singapore or with an institution in Singapore.

For the avoidance of doubt this Guide applies to **all** institutions engaged in these wholesale markets, specifically Principals, Banks and Brokers, **and** to the relevant employees of those institutions. In this context relevant employees of Banks are those staff who are directly involved in transacting business in these wholesale markets. This may include traders, sales people and structurers and are hereafter referred to collectively as "**Dealers**". In this Guide, unless the context otherwise requires, the terms Principals, Banks and Dealers are used interchangeably to mean management and staff of commercial banks, merchant banks and other recognized financial institutions that are directly engaged in the dealing of the treasury and OTC derivatives products covered by this Guide.

Furthermore in this Guide, as the context requires, the term 'Brokers' shall be construed as referring to either the brokerage institution itself or its relevant employees.

PURPOSE

This Guide is meant to foster a high standard of business conduct and good market practices for transactions in the relevant financial products and to ensure equitable and healthy relationships between market participants. By providing a benchmark, this Guide also seeks to facilitate market efficiency, minimize disputes between counterparties and set an objective basis for arbitration between disputing parties if that is necessary. Hence, it is imperative that the management of Brokers and Principals are well acquainted with this Guide and ensure the compliance with the same in respect of their Dealers and Brokers.

NATURE OF GUIDE

While every effort has been made to ensure that this Guide comprehensively addresses various aspects of conduct and market practices, it does not purport to be exhaustive. Where specific guidance is absent on a particular issue, market participants should draw on the broad principles upheld by the Guide and resolve such matters reasonably and in good faith.

In general, the Guide restricts its focus to market conduct, i.e. how market participants should conduct their business with each other. Hence, only risk management issues that bear systemic implications or might potentially affect the business of other market participants are included in this Guide. As a result, management of Brokers and Principals should not solely rely on this Guide to fulfil their risk management requirements.

Market participants should also comply with the legislative and regulatory requirements that affect their businesses. In addition, Banks should also abide by the guidelines and byelaws of the Association of Banks in Singapore ("**ABS**"). While the SFEMC has endeavoured to ensure that the content of this Guide is consistent with these legislations, regulations and guidelines, where in doubt, market participants should consult with their legal counsel.

Although it is acknowledged that this Guide does not have any formal contractual or legal effect, all members of SFEMC shall hereby consider themselves to be bound by its provisions. In addition all members of SFEMC expressly recognise that this Guide represents an industry code of conduct and its provisions are to be construed as accepted market practices. All members of SFEMC further acknowledge that any failure to comply with this Guide, on the part of any of its employees, may call into question whether that individual's professional behaviour in the market is appropriate and beyond reproach.

MAJOR CHANGES & CONTENT

This version of the Guide is the culmination of a thorough review conducted by a working group of industry practitioners in 2011. Substantial revisions were made to the 2007 version. Major revisions of note are as follows:

- Removal of the sections referring to Debt Securities, as these instruments are subject to formal regulatory requirements;
- Removal of the chapter on market terminology and definitions – going forward such market terminology will be covered in the study materials associated with relevant industry examinations;
- Introduction of Chapter I, Section 6 on Market Conduct to introduce standards of market conduct commensurate with comparable regulatory requirements for other markets;
- Consolidation of Chapter IX on NDF Dealing Practices into Chapter VI on Foreign Exchange Dealing Practices.

ACKNOWLEDGMENT

The SFEMC gratefully acknowledges the goodwill of the ACI – The Financial Markets Association in permitting its Model Code to be used as an invaluable reference source.

Chapter I ETHICS & BEHAVIORAL STANDARDS

Market participants are expected to demonstrate a high standard of personal and professional integrity in their conduct. This Chapter sets out the behavioural and ethical standards Dealers and Brokers should observe in the discharge of their functions.

1. CONFIDENTIALITY – GENERAL PRINCIPLE

1.1 Confidentiality and customer anonymity are essential for preserving a reputable and efficient market place.

1.2 Dealers and Brokers must preserve, and aid in preserving, confidentiality in all matters including information on customers and dealing counterparties coming to their knowledge in the performance of their duties. They share an equal responsibility for preserving the integrity of the market through the proper maintenance of confidentiality. No client information should be disclosed except in accordance with law, in particular and where applicable, section 47 and the Third Schedule to the Banking Act on banking secrecy and disclosure of information.

1.3 Where a Bank or Broker routinely shares client information with other branches / subsidiaries within its group, this information should only be shared in accordance with applicable laws or regulations and established procedures.

1.4 Management is responsible for ensuring that their staff have been trained to identify and to treat information that is sensitive and to deal appropriately with situations that require anonymity and discretion. Management must ensure that suitable policies and procedures are in place to ensure that confidential material is handled appropriately and not used by any staff for their personal benefit.

2. CONFIDENTIALITY – DEALING PRACTICE

2.1 Brokers shall not reveal the identity of their Principals to any deal unless when appropriate under the accepted terms of disclosing names or when expressly authorized to do so by the Principals. Dealers shall ensure that the identity of customers and counterparties is always kept confidential.

2.2 Banks' names should never be disclosed until the deal is closed. Brokers should not divulge the names of Principals or counterparties prematurely. Names should be revealed only when the Broker is satisfied that both sides seriously intend to transact.

2.3 A Dealer should not, in any way, pressure a Broker by inducement, threat or promise, for information, which would be improper for the latter to divulge. Pressure includes any statement to the effect of, or which could be construed as implying, that a failure to cooperate would lead to a reduction in the business given by the Dealer or other Dealers to the Broker. Dealers should similarly reject any request from their clients to divulge confidential information and should report any such incidents to their management.

2.4 Dealers and Brokers should not visit each other's dealing rooms except with the permission of their respective managements.

3. BETS AND GAMBLING

3.1 The making or arranging of bets or gambling with other market participants carries obvious dangers to the firm and individuals involved. Where it is allowed at all, it is strongly recommended that it is tightly restricted and abides by prevailing law and regulation.

4. ENTERTAINMENT, GIFTS AND FAVOURS

4.1 While it is acknowledged that meeting over meals or drinks is a common and legitimate practice among market participants, the use of entertainment may be open to abuse. It is therefore essential for management of Banks and Brokers to formulate guidelines to guard against abuse and excess. Management should exercise judgment as to what constitutes other forms of acceptable entertainment and advise their staff accordingly. Particular care should be taken when dealing with sovereign entities and government officials.

4.2 Bank management should take special note of the form, frequency and cost of entertainment and gifts their Dealers receive or provide, and should require their staff to disclose all entertainment and gifts given or received, above applicable internal thresholds.

4.3 Brokers should not offer expensive gifts or favours to Dealers. Dealers should not solicit gifts for personal benefit. The solicitation of corporate gifts, other than for genuine and legitimate charitable purposes, is also discouraged.

4.4 Dealers and Brokers must notify their management and their compliance department when they are offered unusual favours.

4.5 Bank management should put in place internal gifts and entertainment value thresholds and these thresholds should be reasonable in the context of the relationships and activities to which they relate.

5. DEALING FOR PERSONAL ACCOUNT

5.1 Management should have clear guidelines on whether dealing staff are allowed to trade for their own account in any of the instruments and products their organization is dealing in. If this is allowed, management must ensure that adequate safeguards are established to prevent abuse. These controls should reflect the need to prevent insider trading in any form and ensure that the interests of the firm and its customers are adequately protected at all times.

5.2 Dealers who trade for their own account must be aware of their responsibilities to avoid any conflicts of interest with their professional roles.

5.3 In this respect, where dealing for personal account is permitted, management's written procedures should clearly stipulate the institution's control policy in relation to the unprofessional practice often referred to as "front running". This arises where an employee could execute a personal trade in advance of a client's or institutional order to benefit from an anticipated movement in the market price following the execution of a large trade.

6. MARKET CONDUCT

6.1 All Dealers and Brokers must observe proper standards of market conduct at all times. Banks and Brokers should implement internal policies and procedures which prohibit all forms of market misconduct.

6.2 Dealers and Brokers should exercise skill, care and diligence, and act in good faith, and in the best interests of clients. Dealers and Brokers shall not engage in manipulative or deceptive conduct or any form of conduct which would give other users of the market a false or misleading impression as to prevailing market conditions, including but not limited to price, supply or demand, etc.

6.3 Dealers and Brokers should not enter into any transaction which may conflict with a duty of care owed to a customer, unless such conflict is disclosed to the customer and the customer consents to the transaction. In particular where market participants are handling customer orders, these orders should be handled appropriately and with due regard to the best interests of the customer.

6.4 Dealers and Brokers must exercise extreme care when in possession of material non-public, price sensitive information in relation to the financial instruments covered by this Guide. Subject to applicable laws and internal policies and procedures, when in possession of such information Dealers and Brokers must ensure that they do not deal for their own account or the account of the institution which they represent, or induce another party to so deal, on the basis of such information. For the avoidance of doubt if a Dealer or Broker is working a pending order from a client in relation to a particular instrument covered by this Guide and which could have a significant impact on the price of that instrument, the knowledge of that order would constitute material non-public, price sensitive information for the purposes of this Guide.

6.5 Dealers and Brokers must not wilfully spread rumours or disseminate false or misleading information. In addition, care must be exercised when handling unsubstantiated market information. Client communications in particular should have a reasonable basis, be fair and balanced, and not contain any inaccurate or misleading information.

7. MARKET TERMINOLOGY

7.1 Dealers and Brokers should use clear and unambiguous language when dealing or negotiating transactions. Management of Banks and Brokers should ensure that their staff are aware of their responsibility to act professionally and are familiar with market terminology and conventions.

8. PROFESSIONAL KNOWLEDGE

8.1 It is important to maintain a consistently high level of awareness and understanding of market practices and conduct among Dealers and Brokers so as to reinforce the foundation for strengthening overall professional standards of the dealing community. To achieve this, ongoing standardized tests for new Dealers and Brokers are administered by relevant industry bodies as may be notified by SFEMC from time to time.

8.2 Management of Banks and Brokers commit to requiring their Dealers and Brokers to undergo and obtain the relevant official industry qualification, unless subject to an applicable exemption. Management of Banks and Brokers further commit to ensuring that their staff do not represent that institution in conducting the activities covered by this Guide until such time as they have obtained the relevant qualifications, unless subject to an applicable exemption. In addition management of Banks and Brokers undertake to provide details on which of their employees have taken and passed the relevant industry examinations, on request to SFEMC or a relevant regulatory body.

8.3 In a rapidly evolving environment, market participants must ensure that their overall professional knowledge is competently maintained so that the interests of their customers are protected and the reputation of the markets preserved.

9. OTHERS

9.1 Dealers and Brokers should at all times maintain conduct that reflects the highest personal integrity in their undertakings and contractual arrangements with their management and customers.

9.2 Institutions should share the responsibility of maintaining the smooth functioning of the Singapore financial market and therefore, should avoid adopting policies, which may lead to circumstances that contribute to disrupting the normal operations of another counterparty.

Chapter II RISK MANAGEMENT PRINCIPLES

It is the responsibility of each institution to manage the risks that arise from their market activities in accordance with regulatory guidelines and other policies or procedures. This Guide is concerned with risk management practices that could potentially undermine the smooth operation of the markets or the reputation of Singapore as a financial centre.

1. SEGREGATION OF DUTIES

1.1 Many trading-related scandals, which affect other market participants, have their roots in inadequate internal controls and segregation of duties. Management of institutions engaged in market activities are expected to manage their risks prudently and responsibly in accordance with regulatory guidelines, best practices and other established principles of risk management.

1.2 While risk management practices should be commensurate with the characteristics and scale of a firm's activities, at the minimum, there should exist proper segregation of duties and appropriate information barriers between:

- a. the trading, risk management and processing functions, commonly referred to as the front, middle and back offices;
- b. the own account or proprietary trading and customer facing functions; and
- c. the trading, research, and corporate finance functions.

2. MONEY LAUNDERING, FRAUD AND OTHER CRIMINAL ACTIVITIES

2.1 Banks must take steps to ensure that their transactions are not used to facilitate money laundering, fraud or other criminal activities. Brokers should also help to guard against market transactions being used for money laundering etc. In this regard, the Know-Your-Customer ("KYC") principle is of paramount importance. Management of Banks and Brokers should institute appropriate measures to enforce the KYC principle in their respective businesses.

2.2 In the event of any suspicious circumstances (e.g., unusual settlement instructions, interbank transactions with fund payment in favor of a third party etc.), Dealers should notify their management without delay. Banks in particular should develop proper procedures for handling any suspicious transactions and ensure that all dealing staff are well versed with these measures, keeping in mind their obligations and/or liabilities under laws and regulations such as:

- Corruption, Drug Trafficking & Other Serious Crimes (Confiscation of Benefits) Act (Cap 84A)¹

¹ See http://statutes.agc.gov.sg/non_version/cgi-bin/cgi_retrieve.pl?actno=REVED-65A&doctitle=CORRUPTION%2c%20DRUG%20TRAFFICKING%20AND%20OTHER%20SERIOUS%20CRIMES%20%28CONFISCATION%20OF%20BENEFITS%29%20ACT%0a&date=latest&method=part&sl=1

- Monetary Authority of Singapore (“MAS”) Notice 626 to Banks - Guidelines on Prevention of Money Laundering²
- The ABS’ Guidelines: Prevention Of The Misuse Of The Banking System In Singapore For Money Laundering Purposes

3. TRANSACTIONS WITH CUSTOMERS

3.1 Management should establish policies and procedures on the conduct of treasury and derivative transactions with customers, especially high-risk or highly leveraged ones, paying particular attention to credit evaluation and approval.

3.2 Procedures should also define all effective controls over customer margin accounts. These include procedures on margin maintenance, margin call, top-up and close-out.

3.3 Where Dealers or Brokers are handling client orders, these orders should be handled appropriately and with due regard to the best interests of the client.

3.4 Banks and Dealers should, in particular satisfy themselves that the nature, complexity or risks of proposed transactions are appropriate for the financial objectives of their customers. It is important that Banks and Dealers ensure that their customers fully understand the nature and potential risks of the product offered to them, especially derivatives, before the transactions are done.

3.5 Dealers involved in such transactions should act honestly and in good faith when marketing these products and transacting with customers. They should avoid fraudulent, deceptive or manipulative practices. Dealers should also familiarize themselves with any applicable obligations under the Financial Advisers Act.

3.6 Dealers or other appropriate Bank personnel should take sufficient measures to satisfy themselves that the customers and their staff are duly authorized to deal in these products.

3.7 Transacting rollovers of FX transactions at off-market rates is not recommended, but where transacted, guidelines relating to these transactions should be closely adhered to. See Section 2 of Chapter VI.

4. SETTLEMENT RISK

4.1 Settlement risks not only pose a credit concern for the parties to a transaction, but could also present the market with a systemic risk. Banks are therefore strongly urged to institute prudent measures to manage and reduce their settlement risks, including the use of payment netting or other means. It is also essential that all settlement disputes or problems be resolved promptly and with utmost effort to minimize any disruption to trading activities.

4.2 As Singapore Dollars payments are settled on a Real Time Gross Settlement (“RTGS”) basis, Banks are expected to take all necessary steps to prevent a gridlock to

² See

http://www.mas.gov.sg/resource/legislation_guidelines/aml/626%20Revised%20Notice%20%28Banks%20-%20EXT%29%20GCO%202.pdf

the system by making payments promptly and minimizing operational errors in settling transactions.

5. ELECTRONIC TRADING ACTIVITIES

5.1 It is important for all market participants to adopt prudent risk management frameworks before embarking on such activities as well as to comply with regulatory standards issued by the MAS.

5.2 Institutions that offer electronic trading systems should ensure that those systems are robust and have adequate controls and security features. Any material breach of security to those systems such as through hacking or other intrusions, which affect other market participants or the institution's customers, should be promptly communicated where necessary to the relevant regulators and the affected parties.

5.3 For the avoidance of doubt all other provisions of this Guide apply equally to transactions and business conducted via electronic trading systems, including but not limited to the Market Conduct provisions in Chapter I, Section 6 above.

Chapter III

GENERAL DEALING PRINCIPLES AND MARKET CONDUCT

The efficient functioning of the market is dependent on the responsible conduct of every market participant. This Chapter spells out the basic principles for the conduct of market activities, duties and obligations of market participants as well as market dispute resolution channels.

1. PRICE/RATE QUOTATIONS

1.1 All market participants, whether acting as Principal or Broker, have a duty to make absolutely clear whether the prices they are quoting are firm or merely indicative. Prices quoted by Brokers should be taken to be firm in marketable amounts unless otherwise qualified.

1.2 A Principal, quoting a firm price/rate and stating his requirements to a Broker, is bound to deal at those terms with an acceptable name, regardless of the market level. For their part, a Broker is expected to confirm with his/her Principal at regular intervals on whether the latter's interests at specific prices/rates are still firm.

1.3 If a Principal has interest on one side of a two-way price and the other side is dealt away by other parties, the Broker should automatically put the price "under reference". The Broker should then check with the Principal to ascertain his original interest.

1.4 When Principals place orders with special conditions attached, Brokers must accurately relay the said conditions.

2. FRIVOLOUS QUOTES

2.1 Dealers and Brokers are strictly prohibited from making frivolous quotes which they have no intention of honouring and which are designed merely to mislead market participants.

2.2 Dealers and Brokers should not engage in practices, which may realize immediate gain (or avoid loss) but may compromise their employers' or their own reputation.

2.3 Dealers and Brokers should promptly report to their management whenever they spot other Brokers or Dealers acting in a way that jeopardizes the interests or reputation of the treasury market.

3. AFTER-HOURS & OFF-PREMISES DEALING

3.1 With the internationalization of the financial markets, problems can arise from dealing being conducted after normal business hours, particularly from premises other than the Banks' dealing rooms. There is the possibility that Dealers may subsequently deny, or simply forget having done a deal. Brokers may find themselves exposed in that a Bank may put in a claim for a difference where a counterparty denies having dealt. It is recommended, therefore, that dealings after-hours and/or off-premises should only be undertaken with the prior permission of management.

3.2 Management should issue clear guidelines to their staff on the extent of such dealings including names of persons authorized to deal, transaction limits, and so on.

3.3 Management should also institute a control system to enable prompt recording and confirmation of all after-hours and off-premises dealings.

3.4 Brokers, on their part, should satisfy themselves as to the identity of the Dealer. Brokers should refuse to quote to any party that they cannot identify on the phone.

3.5 Management must clearly identify those types of transactions that may be entered into as well as designate those individuals authorized to deal outside the office. Confirmations for deals arranged off-premises should be sent promptly to the appropriate staff at the office.

4. INTRADAY DEAL CHECKS

4.1 The practice of intra-day deal checks is strongly recommended as it can be an important means of helping to reduce the number and size of differences, particularly when dealing through voice Brokers, or for deals involving foreign counterparties. It can also be useful in the faster moving markets such as foreign exchange or when dealing in other instruments, which have short settlement periods.

4.2 It is for each firm to agree with their Brokers (or counterparties) whether or not it wishes to institute this practice; and if so, how many such checks a day it requires.

4.3 There should always be an acknowledgement between the parties on completion of the check that all deals have been agreed or, if not, that any identified discrepancies are resolved as a matter of urgency. Where the discrepancy involves a dispute resulting in an open risk for either counterparty, it is recommended that the position should be immediately closed out in the market without inference that either party is wrong pending final resolution of the dispute. Where either party first highlights an error or difference, lack of response from the other party should not be construed as an acknowledgement by the latter.

5. BROKER POSITIONS

5.1 A Broker must not engage, however temporarily, in taking positions by closing a deal without first having a counterparty to substantiate the price and assume a deal. A Broker must not quote a price, which he represents to be firm but which is not substantiated by a Principal.

5.2. Where a Broker quotes a firm price to a Principal, the latter is entitled to hold him to that price. Dealers are however prohibited from holding a Broker to a price, where the Broker is unable to substantiate a firm quote, provided that the Broker informs the Dealer immediately of the fact, and a good reason for the inability to substantiate a firm quote, is given.

5.3 If holding a Broker to a price is deemed justifiable in accordance with section 5.2 above, the management of the Bank and Broker must be informed. In addition, a Dealer should not insist on a replacement deal at the price or with the counterparty originally proposed by the Broker. The Broker is permitted and the Dealer is obliged to settle the difference between the price quoted and the replacement price by way of a cheque or wire transfer payable to the Bank. Settlement by any other means where accountability and transparency is impaired must be avoided. It is recommended that such settlements be clearly documented by both the Broker and Bank.

6. POINTS & POSITION PARKING

6.1 Under no circumstances should Banks or Brokers engage in artificial transactions for the purpose of concealing positions or transferring profits and losses as such activities, sometimes referred to as “points” or “position” parking, not only undermine the integrity of the markets but may also attract legal liability for the individuals or firms concerned.

7. STOP-LOSS ORDERS

7.1 Parties giving or receiving stop-loss orders shall ensure that both parties mutually understand the terms under which such orders are made. In accepting these orders, whilst an institution assumes an obligation to make every reasonable effort to execute the order promptly, there is no guarantee of fixed price execution to the counterparty.

7.2 Anyone accepting such an order should have adequate lines of communication with the giver of the order so that contact can be made in the event of extremely volatile market conditions or other unusual situations.

7.3 Where a dispute arises as to whether the market reached the level required to trigger the execution of the order, it should be borne in mind that whichever source is used to verify the market range, a totally accurate definitive record may be difficult to obtain.

7.4 Any one source such as an individual Broker who may be asked to indicate market highs and lows may not always have the full trading range for the day and can only indicate the highs and lows which it has seen. Consequently, such information should be treated with professional discretion and caution.

7.5 Dealers should not deliberately enter into transactions with the sole intention of triggering stop losses or barriers left with them by their own clients.

8. TELEPHONE RECORDING

8.1 For investigating and resolving differences and disputes, quick resolution is facilitated by tape recordings of telephone conversations. The use of recording equipment in the offices of Banks and Brokers is strongly recommended. Firms should inform their counterparties and clients that conversations will be recorded upon installation of recording equipment. Firms should have internal policies to ensure they comply with appropriate data and tape recording retention requirements. In general, tapes should be kept for at least two months. Those dealing in longer term instruments such as interest rate swaps, forward rate agreements or similar other instruments where

errors or discrepancies may only be discovered on the date when the first movement of funds is due to take place, should retain tapes relevant to these transactions for longer periods for the sake of prudence. Management should ensure that access to tapes whether in use or in store, is strictly controlled so that they cannot be tampered with. Firms should implement policies to ensure that appropriate confidentiality of taped conversations is maintained.

8.2 Management should recognize that mobile phones could be used to circumvent telephone recording and compromise confidentiality. They should adopt appropriate policies to restrict the usage of mobile phones in their dealing rooms.

9. DIRECT DEALING

9.1 It is felt that certain guidelines should be adhered to when dealing directly between Principals. Banks are not obliged to quote when called upon. However, the answering party should respond and indicate quickly when it is unwilling to quote. Banks are not obliged to deal on any pre-determined amount.

9.2 Dealers should not place partial orders with Brokers with the intention of identifying the counterparty, so as to conclude the full amount of the order, in a direct transaction.

10. DEALING AMOUNTS

10.1 For the markets to function smoothly, there must be a consensual understanding of minimum dealing amounts between participants when an amount is not specified with a quoted price. Such minimum dealing amounts vary by product and currency. Where there is any doubt between two participants about what constitutes such a dealing amount, it is strongly recommended that a clear understanding be established before attempting to transact with each other.

10.2 Principals who wish to deal in odd amounts should specify their conditions to their counterparties at the outset. The price quoter has the right to reject odd amounts if no prior indication of amount is given.

11. COMPLAINTS PROCEDURE

11.1 If the management of a Bank or broking firm believes that an institution it has dealt with has breached the letter or spirit of the Guide, it should escalate appropriately and seek to settle this amicably with the other party. If this is not possible, either party to the complaint may bring the matter to the attention of the Secretary, SFEMC, with notification to the other party. In addition if a Bank or Broker observes serious misconduct or material breaches of this Guide it should notify the Secretary, SFEMC.

11.2 Management of Banks or Brokers should ensure that all complaints are promptly and fairly investigated by independent parties in its organization, and documented where possible.

12. ARBITRATION PROCEDURE

12.1 Where disputes arise, it is essential that the management of the parties involved take prompt action to resolve or settle the matter fairly and with utmost integrity and mutual respect. The SFEMC shall provide a forum for resolution of any dispute between market participants on dealing ethics or current market practices in relation to specific transactions in the wholesale markets, after the parties have exhausted their own efforts to resolve the matter directly. All parties must however agree to the SFEMC's role and accept its decision in full and final settlement of the dispute.

12.2 Requests for arbitration should be addressed to the Secretary, SFEMC. A request shall be concise but shall contain all necessary information to facilitate the SFEMC's actions.

13. ACU & DBU TRANSACTIONS

13.1 Dealers and Brokers should satisfy themselves whether they are dealing with a Domestic Banking Unit ("**DBU**") or an Asian Currency Unit ("**ACU**"). Unless otherwise stated, it should be assumed that transactions in foreign currencies are for ACUs. Transactions involving the Singapore Dollar shall be booked in the DBU.

14. ERROR TRADES

14.1 While SFEMC wholly accepts that trades executed substantially away from the prevailing market price may impact participants' confidence in the market, SFEMC also considers it essential to the integrity of the market that trades, once executed, will stand and not be adjusted or cancelled arbitrarily. Trades, once executed, may trigger further trades and the subsequent cancellation of the trigger may cause confusion and loss to other market participants who have acted in good faith.

14.2 Under normal circumstances, trades should only be cancelled on the basis that the price traded is not representative of the prevailing market price. Any trade where the only error is the notional value or the number of contracts traded, should **not** ordinarily be subject to cancellation, unless in exceptional circumstances.

14.3 A Bank or Broker that is seeking to have a trade cancelled on the basis that the price traded is not representative of the prevailing market price, should notify its counterparty as soon as possible.

14.4 Trades will only ever be subject to cancellation where both parties to the trade agree to the cancellation. Parties should always act in a reasonable manner in such situations.

Chapter IV Back Office Practices

Back office constitutes an important part of any treasury operation not only in ensuring that deals are processed and settled efficiently but also in strengthening risk control that is essential for the overall health of the financial markets. Practices in the back office thus have a major bearing on the conduct of market activities. As such, a common understanding of the relevant issues is set forth in this Chapter to minimize disruption to market activities.

1. CONFIRMATION PROCEDURE

1.1 All transactions have to be confirmed in writing. The issue and checking of confirmations is a back office responsibility, which should be carried out independently of those who initiate deals.

1.2 Confirmations should be sent out as quickly as possible by both counterparties through an efficient and secure means of communication (preferably electronic) after a deal has been done and should be addressed to the back office or settlements department of the counterparty.

1.3 The format and content of a confirmation will vary according to the instrument dealt in and reference should be made to any applicable terms and conditions published in order to ascertain the correct content and format for any particular instrument. As a minimum, however, all confirmations should include the following information:

- Date of transaction,
- By which means effected (Broker, phone, dealing system, etc.),
- Name and Location of Counterparty,
- Rate, amount and currency,
- Type and size of deal,
- Value date, maturity date and all other relevant dates (e.g. exercise date, etc.),
- Standard terms/conditions applicable as set out in the relevant master agreement,
- All other important, relevant information.

1.4 Brokers should confirm all transactions to both counterparties immediately by fax or other acceptable electronic means. Where after a transaction, a Broker fails to send a confirmation and the Principal misses out the deal entirely, liability for any financial losses will be shared equally.

1.5 It is vital that Principals check confirmations carefully and immediately upon receipt so that discrepancies can be quickly revealed and corrected. If the counterparty confirmation is considered incorrect, the counterparty must immediately be informed (preferably in writing or by electronic means). A new confirmation (or written agreement to a correction) must be requested from and be provided by the Bank or counterparty whose original confirmation was incorrect.

1.6 It is not uncommon in some derivatives markets, and perfectly acceptable if the two Principals involved agree, for only one party to the deal (rather than both) to send out a confirmation. But where this is so, it is imperative not only that the recipient checks it promptly, but that it also in good time responds to the issuer of the confirmation agreeing/querying the terms. It is also essential that the issuer of the confirmation has in place procedures for chasing a response if one is not forthcoming within a reasonable time.

1.7 Many automated dealing systems produce confirmations automatically. Provided these are verified in the back office, no additional confirmation need be sent.

2. PAYMENT INSTRUCTIONS

2.1 It is the fundamental duty of each party to a deal to specify clearly and promptly where their funds should be paid. Failure to do so can result in costly overdraft costs and other compensation.

2.2 The use of standardized settlement instructions (“**SSIs**”) is strongly recommended as their use can significantly reduce mistakes in settlement instructions. SSIs should be established or amended by way of an authenticated Swift message or an authorized letter. The use of Swift broadcast for such purposes is not recommended. Principals should also state clearly the type of transactions these SSIs cover and their effective dates. It is an accepted practice to assume that SSIs are valid till they are superseded or cancelled by the counterparty concerned.

2.3. When an SSI is to be changed, sufficient grace period should be provided for counterparties to implement the change.

2.4 The Bank should immediately notify the counterparty (in the case of a direct deal) or the Broker (in the case of a brokered deal) about alterations to the original payment instructions, including the paying agent. This notification should be supported by written or similar confirmation of the new instructions, receipt of which should be acknowledged by the counterparty concerned. If the Principal fails to inform the Broker of a change in its instructions, this could result in the liability for any ensuing difference with the Principal.

2.5 Unless otherwise stated, it shall be assumed that settlement in Singapore dollars between Banks in Singapore shall be made through accounts maintained with the Monetary Authority of Singapore.

2.6 In the interbank markets, the use of third party payment instructions, i.e. where the beneficiary of a transaction is a third party, is deemed unusual. Such instructions can only be accepted with the expressed approval of the management of both parties to the deal.

3. PENALTIES FOR LATE PAYMENT

3.1 Where difference in payment arises because of errors in the payment of funds, Principals are reminded that they should not benefit from undue enrichment by retaining the funds.

3.2 Where a Bank suffers penalties for overdrawing an account arising from late payment of funds, it is entitled to seek reimbursement from the party responsible for the late payment.

3.3 In the case of local currency transactions, late payments should be settled in accordance with Section K2 of the Association of Banks in Singapore's Bye-laws and Regulations.

Chapter V Handling Market Disruptions

From time to time, market activities might be disrupted by unforeseen events. Under such circumstances, both dealing and settlement operations might be adversely affected. Unfortunately, each disruption event bears its own characteristics and as such it is not possible to set out in advance the manner in which market participants should conduct their business. However, in this Chapter, we believe it is useful to outline some key principles based on recent experiences.

1. GENERAL DESCRIPTION

1.1 Market disruption events refer to circumstances where normal trading or settlement of financial transactions are inhibited or have become impossible or illegal due to governmental actions, natural catastrophes, civil disorders or other causes beyond the control of any individual institution. The exact period of disruption may or may not be determinable.

2. ROLE OF SFEMC

2.1 The role of the SFEMC in a market disruption event depends on the nature of the event and the magnitude of its impact on the wholesale treasury and debt markets in Singapore. It is generally envisaged that the SFEMC would work closely with market participants, related industry bodies both locally and overseas as well as regulators to minimize uncertainties and impact on trading and settlement operations. In particular in the event of significant market disruptions SFEMC will, where appropriate, endeavour to make clear recommendations on market fixing arrangements. All members of SFEMC agree to comply with such recommendations to the fullest extent possible, taking into consideration all relevant circumstances.

2.2 Notwithstanding the aforementioned, the SFEMC's role is limited to offering practical recommendations to market participants in order to minimize the risks created by a disruption event. While it is acknowledged that in order to achieve a satisfactory resolution to any affected transactions or obligations, market participants must negotiate bilaterally with their counterparts, in accordance with any contractual terms agreed to between them, market participants are at the same time strongly encouraged to adopt the SFEMC's recommendations.

3. COMMUNICATION DURING DISRUPTION

3.1 To the extent possible, it is the duty of all market participants to maintain effective communication with their counterparts and other related parties such as settlement agents, customers and the MAS throughout a disruption event. This is regardless of whether an operation remains in Singapore or has to be relocated elsewhere due to the nature of the disruption event.

3.2 The SFEMC would endeavour to disseminate its recommendations or other information to market participants through the most efficient means available, including but not limited to announcements through its website, broadcasts through MASNET or

direct telephone contacts with senior management of Banks and financial institutions in Singapore. However, market participants are also encouraged to establish contacts with the Secretary of the SFEMC where needed.

4. ETHICAL STANDARDS

4.1 Market participants are expected to uphold the highest standard of professionalism not only under normal market conditions but more so during a crisis situation.

4.2 All negotiations between market participants must be carried out in utmost good faith and by persons who are properly authorized by their respective management. It is deemed bad practice for any party to withdraw from an agreement on the ground of a representative not having sufficient authority during the negotiation.

5. SETTLEMENT DURING MARKET DISRUPTION

5.1 The relevant master agreements and other contractual documentation between market participants will typically prescribe settlement arrangements to be applied during market disruptions. In general, settlements during market disruptions should therefore always be guided by the relevant contractual obligations laid down by master or other documentations between parties to the transactions.

5.2 Since FX transactions require the settlement of two currencies on the same value date, in the event of one currency's settlement being affected by a disruption event, the settling parties should as far as possible establish a clear understanding of each other's intention before the value date in respect of settlement of the unaffected currency. Unilateral suspension of settlement not only increases credit risks but might also trigger systemic risks, and as such should be avoided.

5.3 Where SGD settlement is disrupted by an unforeseen event, market participants should follow closely the instructions issued by MAS.

6. CONTINGENCY PLANNING

6.1 The ability of the market to effectively manage market disruptions depends heavily on each participant's level of preparedness. Contingency planning is thus critical. Bank managements are strongly urged to establish and implement a contingency plan for treasury operations in the front, middle and back offices to ensure that these operations will continue in the event of a disaster or crisis. If such a plan is already in place, management should review and test it regularly to keep it updated and relevant.

6.2 Where transactions have been registered with a CCP for clearing the relevant rules of that CCP in relation to market disruptions in general and contingency arrangements in particular, should be followed as necessary.

Chapter VI

FOREIGN EXCHANGE / NON-DELIVERABLE FORWARD DEALING PRACTICES

This Chapter provides guidance for the conduct of spot and forward foreign exchange and non-deliverable forward transactions.

Part A

FOREIGN EXCHANGE

1. MARKET TRADING HOURS

1.1 While it is recognised that markets trade continuously, market convention in the foreign exchange markets is that the market is open from 5:00am Sydney time, on a Monday morning to 5:00pm Friday New York time on a Friday. For the purposes of working customer orders these times may be varied by contractual agreement.

2. ROLLOVERS OF FX TRANSACTIONS AT OFF-MARKET RATES

2.1 As deals done at off-market rates may be used as a means to conceal profit or loss, or to perpetuate a fraud, the use of off-market rates is strongly discouraged, particularly the extension or rollover of a maturing forward contract. The current market spot rate should be used to liquidate the maturing contract and used as a base from which the new forward rate is derived. The resulting gains/losses on the maturing contract should be taken up by clients.

2.2 However, there may also be clients who request for the rollover of maturing contracts using off-market rates for various reasons. Such requests should not be accommodated as normal practice and they should remain exceptional.

2.3 Banks should have internal policies and procedures regarding off-market transactions and these must be complied with. In particular the express approval of the Bank's senior management should be obtained before offered transaction may be conducted at a off-market rate. Banks should ensure that the express authorization of the senior management of the corporate clients is in place before transacting off-market transactions with the clients. Bank management should ensure that proper systems are established for the monitoring, recording and control of such transactions. Credit exposure and funding cost should be reflected in the transaction when they occur. When extending contracts at off-market rates, unrealized losses should be booked as a credit extension to the client against established credit lines and subject to the Bank's normal appraisal of the client's creditworthiness.

3. VALUE DATES

3.1 Quotations for foreign exchange are for value spot, which is defined as **two** business days from the date of transaction. There are exceptions to this including USD/CAD and USD/PHP, for which by market convention value spot is defined as **one** business day from the date of transaction.

3.2 Misunderstandings can arise over the definition of “value date” and “business day”, given the observance of different holidays in various financial centres. In quoting prices, market participants are therefore strongly urged to make clear to their counterparties the precise dates for settlement of transactions.

3.3 Since the interpretation of date conventions might differ (e.g. DDMM versus MMDD), in direct dealing, in order to avoid confusion, it is recommended that the month be spelt out.

4. MARKET DISRUPTION & UNFORESEEN HOLIDAYS

4.1 In unexpected circumstances of general disruption, which result in settlement and payment delays, the SFEMC would endeavour to recommend appropriate settlement prices and/or mechanism for the affected transactions. Parties to such deals are encouraged to use these recommendations to facilitate rapid and efficient resolutions to such delays.

4.2 On unforeseen market holidays, subject to relevant contractual documentation, it is market practice to extend contracts maturing on a non-business day to the next business day. In principle, there would be no adjustment of exchange rates on account of such an extension unless expressly provided for in any bilateral agreements between the parties concerned.

5. TRANSACTION DISPUTE

5.1 Where a trade dispute results in one of the two parties concerned having an “unmatched” position, it is strongly recommended that action should be immediately taken by one party (preferably with the agreement of the other) to neutralize the position. Such action should be seen as an act of prudence to eliminate the risk of further loss resulting from the dispute and should not be construed as an admission of liability by that party.

5.2 Such disputes should be referred to management for prompt resolution. Where arbitration is deemed necessary, please refer to Chapter III, Section 12.

6. HANDLING CREDIT ISSUES

6.1 If a Bank is unable to trade, in whole or in part, with a counterparty due to credit reasons, the Broker and Bank may agree to allow the Broker to go “choice” for a reasonable period of time. A “name switch” may also be allowed in such situations.

6.2 In situation 6.1 set out above, the Broker cannot be held for any amount by either party.

6.3 If a Bank does not have sufficient limits to accommodate the counterparty’s full amount, but is trying to raise limits, the Bank should indicate the minimum amount that can be done. If raising limits takes too long in a fast market, the Broker cannot be held for the balance if the counterparty has executed the balance elsewhere.

7. FX SWAP DEALING

7.1 Whilst a foreign exchange swap transaction usually involves the same name on both maturity dates, transactions involving two different names should be accepted unless previously stated.

7.2 Dealers should specify the price being dealt. For example, “yours at X”, “mine at Y”. This is to avoid confusion between overseas and local terminology.

8. RATE SETTING ON FX SWAPS

8.1 The setting of the spot rate in a FX swap transaction should be done immediately after a price has been hit and before clearing of counterparty's name.

8.2 The price quoter has the right to set the spot rate in a FX swap transaction. However, the price quoter is responsible for setting a fair and unbiased rate within the current spread.

8.3 Clearing of the counterparty's name should be done within a reasonable period of time. Where a reply is not forthcoming, the awaiting party can enquire through the Broker on the outcome. Where, in spite of this, there is still no definite answer, the awaiting party is allowed to cancel the deal.

9. DEALING AMOUNTS

9.1 Dealers should avoid the challenging of amounts. If a Dealer says “Your amount”, “All yours” or “All mine”, he is committed to honour the counterparty's full amount.

9.2 If the quoter's price is dealt simultaneously by two or more Brokers, he must honour, subject to limit, the minimum dealing amount with each Broker.

9.3 A Dealer should specify his amount immediately after dealing on a price and the price quoter must immediately state the amount which he is honouring.

9.4 In instances where a Dealer hits a Broker's quote for an amount in excess of the minimum dealing amount, and the Broker can honour the full amount, the Dealer should not insist that the whole amount be in one deal but rather should accept split amounts done reasonably.

10. Confirmations

10.1 It is recommended that market participants, both principals and Brokers follow established confirmation format and terminology in order to reduce the risk of misunderstandings. For instance, the 1998 FX and Currency Options Definitions, or any successor, as published by the International Swaps and Derivatives Association, Inc. (ISDA), the Emerging Markets Traders Association (EMTA) and The Foreign Exchange Committee (FXC), should be used.

10.2 Confirmation or master confirmation formats as published by ISDA should also be used.

10.3 For novations and assignments the industry standard agreements, substantially in the form as published by ISDA should be used.

Part B

NON-DELIVERABLE FORWARDS

11. PRODUCT DEFINITION

Non-deliverable forwards (“**NDF**”) refer to forward foreign exchange transactions, which are cash-settled in a settlement currency based on the differentials between the contracted price and settlement price, the determination of which is agreed to between the parties to the transaction at the point of entering into the deal.

12. SETTLEMENT PROCEDURE AND FIXING

12.1 The difference between the contracted forward exchange rate and prevailing spot exchange rate on the valuation date will be settled in the settlement currency, usually USD on the maturity date. Fixing convention and reference rates used are unique to the different NDF currencies. Dealers and Brokers should familiarize themselves with the specific convention before transacting. Where doubts exist, clarification should be sought before transacting.

12.2 If the reference rates cannot be obtained as specified, the parties will use the fallback mechanism set out in the NDF contract to determine the rate. The SFEMC together with ISDA, the Emerging Markets Trade Association (“**EMTA**”) and the Foreign Exchange Committee (“**FXC**”) has published an updated standard template terms for non-deliverable foreign exchange transactions (commonly referred to as the “2004 Templates”) for seven Asian currencies CNY, IDR, INR, KRW, PHP, MYR and TWD. These template terms are reviewed and updated periodically and market participants should familiarize themselves accordingly.

12.3 When dealing non-standard NDFs the parties to the transaction must agree the fixing methodology with proper documentation.

13. TRADING HOURS

13.1 Although market hours generally follow that of the respective local currency markets, NDF markets continue to trade outside these hours when other currency markets are open.

14. SETTLEMENT DATES & FIXING DATES

14.1 Market participants are urged to make clear both the settlement date and fixing dates for deals given the observance of different holidays for the different NDF currencies. Calculation of fixing date from settlement date should only use local currency

holidays and not settlement currency holidays. In addition, where the fixing is published on Reuters page ABSIRFIX01, fixing date should not be on a Singapore holiday.

15. MARKET DISRUPTION & UNSCHEDULED HOLIDAY

15.1 In the event of the occurrence of a market disruption and/or unscheduled holiday, the contractual terms governing the transaction should be followed. It is recommended that parties adopt the 2004 Template Terms which details efficient settlements across the market for non-deliverable foreign exchange transactions in the event of a disruption in a local market.

16. TRANSACTION DISPUTE

16.1 Where a trade dispute results in one of the two parties concerned having an “unmatched” position, it is strongly recommended that action should be immediately taken by one party (preferably with the agreement of the other) to neutralize the position. Such action should be seen as an act of prudence to eliminate the risk of further loss resulting from the dispute and should not be construed as an admission of liability by that party.

16.2 Such disputes should be referred to management for prompt resolution. Where arbitration is deemed necessary, please refer to Chapter III, Section 12.

17. HANDLING OF LIMIT ISSUES

17.1 If a Bank is unable to trade, in whole or in part, with a counterparty due to credit reasons, the Broker and Bank may agree to allow the Broker to go “choice” for a reasonable period of time. A “name switch” may also be allowed in such situations.

17.2 In situation 7.1 set out above, the Broker cannot be held for any amount by either party.

17.3 If a Bank does not have sufficient limits to accommodate the counterparty’s full amount, but is trying to raise limits, the Bank should indicate the minimum amount that can be done. If raising limits takes too long in a fast market, the Broker cannot be held for the balance if the counterparty has executed the balance elsewhere.

18. QUOTING CONVENTION

18.1 Depending on the specific NDF currency, prices may be quoted in the form of “outright forward” or “spot FX and swap pips”. Market participants should familiarize themselves with the convention for each currency before transacting.

19. LIQUIDITY SWAP

19.1 This is essentially a forward/forward transaction made up of two NDF transactions. Whilst a NDF liquidity swap transaction usually involves the same name on both maturity dates, transactions involving two different names should be accepted unless stated otherwise before a price is placed or hit.

19.2 Methodology for Rate Setting for NDF Liquidity Swaps - The setting of the start rate for NDF Liquidity Swaps should be guided by the principles in the method applicable to deliverable FX swaps (refer to Chapter VI, Sections 8.1, 8.2, 8.3).

20. SWAPS AGAINST FIX

20.1 Swaps pips against the fix are normally quoted on the day of fixing before the respective fixing time for each NDF currency. Rates are set after official fixing rate is published and deal is confirmed like a normal NDF deal. Alternatively two NDF Liquidity Swap deals can be booked immediately once the swaps pips against the fix, is agreed between the two counterparties. This is usually the case when the deal is done one day before the fixing day.

21. DEALING AMOUNTS

21.1 Dealers should avoid the challenging of amounts. If a Dealer says "Your amount", "All yours" or "All mine", he is bound to honour the counterparty's full amount.

21.2 If the market maker's price is dealt simultaneously by two or more Brokers, he must honour, subject to limit, the minimum standard amount with each Broker.

21.3 A Dealer should specify his amount immediately after dealing on a price and the market maker must immediately state the amount which he is honouring.

21.4 In instances where a Dealer hits a Broker's quote for an amount in excess of the minimum dealing amount defined in Chapter III, Section 10.1 of this Guide, and the Broker can honour the full amount, the Dealer should not insist that the whole amount be in one deal but rather should accept split amounts done reasonably.

22. Confirmations

22.1 It is recommended that market participants, both principals and Brokers follow established confirmation format and terminology in order to reduce the risk of misunderstandings. For instance, the 1998 FX and Currency Options Definitions, or any successor, as published by the International Swaps and Derivatives Association, Inc. (ISDA), the Emerging Markets Traders Association (EMTA) and The Foreign Exchange Committee (FXC), should be used.

22.2 Confirmation or master confirmation formats as published by ISDA should also be used.

22.3 For novations and assignments the industry standard agreements, substantially in the form as published by ISDA should be used.

Chapter VII

MONEY MARKET DEALING PRACTICES

This Chapter provides guidance for the conduct of money market transactions.

1. VALUE DATES

1.1 Unless specified, quotations for all money market transactions are for value spot. Parties who wish to trade on a different basis should specify when quoting or asking for a price.

1.2 Misunderstandings can arise over the definition of “value date” and “business day”, given the observance of different holidays in various financial centres. In quoting prices, market participants are therefore strongly urged to make clear to their counterparties the precise dates for settlement of transactions.

1.3 Since the interpretation of date conventions might differ (e.g. DDMM versus MMDD), in direct dealing, in order to avoid confusion, it is recommended that the month be spelt out.

2. NAME DISCLOSURE

2.1 The name of the borrower should not be disclosed until the Broker has ascertained that the potential lender seriously intends to do business at the quoted price. Once a lender has asked the key question “who pays”, he is considered committed to do business at the price quoted with a name acceptable to him.

2.2 When a borrower’s name provided by a Broker is unacceptable to the lender, especially when it is a borrower taking on the offer of a lender, the borrower may sometimes question the existence of a lender at the price quoted by the Broker. In this instance, the Broker should obtain approval from the lender that his name be disclosed to the borrower. The lender is encouraged to accede to the request. In exceptional circumstances where the lender disagrees, the Broker may seek the assistance of the Secretary of the SFEMC to facilitate in the process of verifying the authenticity of the price quoted and inform the borrower of the outcome of the process.

2.3 When a potential lender asks, “who pays”, the Broker is to provide one name at a time. Only after the lender has finished his business with one borrower and intends to check another name may another name be shown. Brokers should avoid putting up more than one name when asked the question “who pays”.

3. CLOSING DEALS

3.1 Clearing of the borrower’s name by a lender should be done within a reasonable period of time. Where a reply is not forthcoming, the Broker is to enquire with the lender of the outcome. Where, in spite of this, there is still no definite answer, the Broker is allowed to take the order off.

3.2 It is generally accepted that a borrower borrowing money has the right to decline the name of the lender after the name is passed. Such rejections must have either verbal or written confirmation of a senior representative of the borrowing institution.

3.3 After closing a deal, a lender may discover that he has exceeded the limits to a borrower. The Chief Dealer of the lending bank should immediately, upon discovery of the excess, advise both the Broker and the borrower of the oversight. The borrower should not insist on the original lender as the counterparty if another acceptable lender can be found. Both the original lender and Broker must endeavour to find a third party to take over the transaction. Any cost incurred shall be borne by the original lender. If no alternative lender can be found, the original deal must stand.

3.4 Dealing a minimal amount through a Broker with the intention of ascertaining the name of the counterparty in order to make direct contact to deal is unethical and should not take place.

3.5 If a Bank is unable to trade, in whole or in part, with a counterparty due to credit reasons, the Broker and Bank may agree to allow the Broker to go "choice" for a reasonable period of time. A "name switch" may also be allowed in such situations. Brokers must however exercise care that lending rates are different for different classes of counterparties.

3.6 In situation 3.5 set out above, the Broker cannot be held liable for any amount by either party.

Chapter VIII

OTC Derivatives Dealing Practices

This Chapter provides guidance for the conduct of dealing in Forward Rate Agreements, Interest Rate Swaps, Currency Options and Interest Rate Options. For the avoidance of doubt this section applies to deliverable and non-deliverable products. When dealing with non-deliverable products please also refer to Part B of Chapter VI.

Part A

INTEREST RATE SWAPS (IRS) / NON-DELIVERABLE SWAPS (NDS) / CROSS-CURRENCY SWAPS (CCS) / FORWARD RATE AGREEMENT (FRA)

1. PRODUCT DESCRIPTION

1.1 This Code applies to direct IRS, NDS, CCS and FRA transactions between Banks and to those through Brokers.

2. DEALING THROUGH BROKERS

2.1 Unless otherwise provided for in any applicable broker agreement, Principals should specify to the Broker where a deal for less than the minimum dealing amount is involved. Where a Principal cannot deal with another Principal on grounds of credit limit, this information must be given to the Broker at an early stage of the IRS, NDS, CCS or FRA negotiation.

3. TERMS AND CONDITIONS

3.1 For IRS, NDS, CCS and FRA transactions institutions should use internationally recognised master agreements such as the master agreements published by ISDA.

4. DEALING PROCEDURES

5.1 When transacting in OTC derivatives Dealers and Brokers should ensure all material terms of the trade such that there is no ambiguity over those terms.

5.2 It is recognised as market practice for all market participants to obtain their own legal, tax and accounting advice.

5. SETTLEMENT OF DIFFERENCES

5.1 When a Broker cannot substantiate his quotation and a difference is payable to the Principal, the Broker should close the IRS, NDS, CCS or FRA deal at the next available price and settle the difference by sending a cheque for the amount to the Principal setting out the details of the deal.

5.2 Principals should not insist that the deal be contracted at the original rate but should accept a cheque in settlement of the difference.

5.4 In the absence of prior arrangements, differences are payable on spot date.

6. CONFIRMATIONS

6.1 It is recommended that Principals, Banks and Brokers follow established confirmation format and terminology in order to reduce the risk of misunderstandings. For instance, for IRS, NDS, CCS and FRA the 2006 ISDA Definitions, or any successor, should be used.

6.2 Confirmation or master confirmation formats as published by ISDA should also be used.

6.3 For novations and assignments the industry standard agreements, substantially in the form as published by ISDA should be used.

Part B **CURRENCY OPTIONS**

7. TERMS AND CONDITIONS

7.1 Institutions should use internationally recognised master agreements such as the master agreements published by ISDA.

8. DEALING PROCEDURES

8.1 When transacting in OTC derivatives Dealers and Brokers should ensure all material terms of the trade are stated clearly such that there is no ambiguity over those terms.

8.2 It is recognised as market practice for all market participants to obtain their own legal, tax and accounting advice.

8.3 In the wholesale market generally FX options are quoted in implied volatility terms. In such instances a delta hedge (i.e. an FX contract) is simultaneously entered into between the parties. In cases where the price is quoted in premium terms generally there will be no separate delta hedge.

Note: it is generally acknowledged that an option is not a legally binding contract until, among other things, the premium has been agreed. Therefore, to ensure the ongoing viability of the Volatility method of dealing, it is incumbent on the counterparties to agree that the calculation of the premium accurately reflects the agreed Volatility and market conditions at the time Volatility was agreed. If the counterparties cannot resolve a

dispute through good faith negotiation, prompt reference to mutually acceptable third party arbitration is suggested.

9. CONFIRMATIONS

9.1 It is recommended that Principals, Banks and Brokers follow established confirmation format and terminology in order to reduce the risk of misunderstandings. For instance, the 1998 FX and Currency Options Definitions, or any successor, as published by the International Swaps and Derivatives Association, Inc. (ISDA), the Emerging Markets Traders Association (EMTA) and The Foreign Exchange Committee (FXC), should be used.

9.2 Confirmation or master confirmation formats as published by ISDA should also be used.

9.3 For novations and assignments the industry standard agreements, substantially in the form as published by ISDA should be used.

Part C

INTEREST RATE OPTIONS

10. PRODUCT DESCRIPTION

11.1 Interest rate options referred to in this section are Interest Rate Swaptions, Interest Rate Caps and Floors, and Bond Options.

11. TERMS AND CONDITIONS

11.1 Institutions should use internationally recognised master agreements such as the master agreements published by ISDA.

12. DEALING PROCEDURES

12.1 When transacting in OTC derivatives Dealers and Brokers should ensure all material terms of the trade are stated clearly such that there is no ambiguity over those terms.

12.2 It is recognised as market practice for all market participants to obtain their own legal, tax and accounting advice.

12.2 For all interest rate option transactions, it is assumed that a simultaneous delta hedge would not be entered into unless clearly stated otherwise.

13. CONFIRMATIONS

13.1 It is recommended that Principals, Banks and Brokers follow established confirmation format and terminology in order to reduce the risk of misunderstandings. For instance the ISDA 2006 Definitions, or any successor, should be used.

13.2 Confirmation or master confirmation formats as published by ISDA should also be used.

13.3 For novations and assignments the industry standard agreements, substantially in the form as published by ISDA should be used.

Chapter XI Other Market Instruments

This Chapter sets out issues pertaining to activities for which codified and/or uniform market practices are still evolving, such as Islamic Derivatives, transactions in offshore Reminbi, Property Derivatives, Inflation Derivatives, Weather Derivatives and other emerging products for which market standards and dealing practices have not been standardized or codified.

1. GENERAL CHARACTERISTICS & STANDARDS

1.1 In response to rapidly changing customer needs and market conditions, new products are constantly introduced in the financial markets. Unlike mature products, dealing practices in these emerging market activities are often not uniform or codified. However, all participants in such activities are expected to abide by the general principles enunciated in the preceding chapters of this Guide.

1.2 No party should endeavour to leverage on the absence of coded practices to deal in bad faith or exert unreasonable demands on other market participants.

2. IMPORTANCE OF CLARITY

2.1 When dealing through Brokers, Principals have an obligation to provide clear instructions in respect of their orders. On the other hand, Brokers are advised to seek clarifications from Principals whenever necessary. This is especially crucial when both parties are working together for the first time in a particular product.

2.2 When dealing with another Principal directly, the proposed terms of a transaction should be similarly clarified and confirmed before a deal is done.

2.3 At an early stage of negotiating a transaction, parties not acting for themselves are to identify the capacity in which they are acting, e.g. for a subsidiary or another branch.

3. HANDLING TECHNICALITIES

3.1 Some emerging products may embody legal and other technical terms that require comprehensive knowledge and understanding. All parties to a deal should ensure that a common understanding of these terms exist before concluding a transaction.

3.2 Special care must be taken by both Principals and Brokers to ensure that persons handling such technicalities at each stage of the negotiation or processing are fully competent. Ignorance is not a justifiable plea when a mistake is made or discovered.

4. RISK MANAGEMENT RESPONSIBILITIES

4.1 All parties engaging in emerging market activities are generally expected to have fully understood the risks that they are assuming and have the means to manage these

risks. Such responsibilities include, inter alia, the means to execute prompt confirmations as well as to carry out all its other obligations to its counterparts.

4.2 Some participants, especially new entrants, might however find it necessary to depend on other firms for some form of risk management support, such as third-party revaluation of a transaction or revaluation rates. In such instances, it must be understood that unless these services are contractually governed, the party rendering support is not expected to assume any specific responsibility. The onus is on the party seeking support to ensure that appropriate steps are taken to manage its own risks when relying on another party for support.

5. ARBITRATION

5.1 Where two parties to a deal cannot resolve a dispute after exhaustive effort, they may with mutual consent seek the assistance of the SFEMC. Please refer to Chapter III, Section 12 for details.

5.2 In the absence of uniform practices, each case shall be dealt with on its own merits based on the test of reasonableness.

Chapter XII BROKING AND BROKERAGE

1. APPROVAL OF BROKERS

1.1 Brokers continue to play an important role in facilitating interbank transactions. With the significant increase in transaction size and volume, the Brokers' role is important for the maintenance of a sound and efficient financial system. Banks should conduct Broker KYC, examine the reputation and market standing of Brokers, and if they will be taking a principal position in certain circumstances, also conduct their credit evaluation. It is suggested that banks should set up their own credit evaluation and approval policy relating to the appointment of authorized Brokers by their senior management before Dealers transact with them. Banks should determine if the Broker will only be an intermediary or could also take a principal role in certain circumstance, and if a principal role is envisaged, to focus on credit standing and capital adequacy.

2. ELECTRONIC BROKING

2.1 Transactions executed through an electronic broking system should be handled in accordance with the provisions of individual vendor's terms and conditions and all documents and agreements relating to a customer's utilization of the services. These should stipulate clearly, amongst other things, the procedures and responsibilities that apply in relation to:

- ❑ A communication breakdown at the point of or during the consummation of trades
- ❑ Off-market discrepancies
- ❑ Software inadequacies or limitations ("bugs")
- ❑ Measuring and monitoring credit limits
- ❑ Confidentiality terms

The terms of engagement should be agreed prior to commencement of dealings.

2.2 A deal is considered "Done" whether it is intentionally or unintentionally "Hit". In the event of a wrong hit where the rate dealt is deemed to be way off the existing market price owing to input error or otherwise, the hitting Bank should contact the counterparty involved immediately to get the deal nullified.

2.3 In the event of a line failure "connection lost", immediate attempt should be made to contact the counterparty involved in order to clarify on the transaction.

2.4 On matters not provided for in the applicable terms and conditions, or any other document or agreement relating to a customer's utilization of the services, this Guide will apply.

2.5 Dealers must be prepared to honour any and all orders which they key into the Dealing System.

2.6 Management of Banks should institute control measures to prevent unauthorized access to any electronic broking system or any other undesirable practice involving such a system. This is to prevent any possible fraudulent deals or input of off-market rates.

2.7 Dealers and Banks should satisfy themselves that there are processes in place for monitoring credit limits, and mechanisms/procedures are in place for changing or modifying credit limits for end counterparties in a timely manner.

3. BROKERAGE

3.1 Brokerage is subject to negotiation between Brokers and Banks. Such charges should be agreed upon by appropriate staff of each side in writing. Revisions should follow the same procedure.

3.2 While the settlement of brokerage bills is a commercial matter between a Bank and its Broker, it is recommended that such settlements should not be delayed on account of isolated disputed transactions. It is recommended that undisputed amounts should be settled expeditiously.