

Notice No.: SFA 02-N04
Issue Date: 28 February 2022

NOTICE ON CAPITAL REQUIREMENTS FOR RECOGNISED MARKET OPERATORS THAT ARE FORMED OR INCORPORATED IN SINGAPORE

1 INTRODUCTION

1.1 This Notice applies to all recognised market operators formed or incorporated in Singapore (“Specified RMOs”) and is –

- (a) in relation to Specified RMOs that are recognised by the Authority pursuant to section 9(1)(b) of the Securities and Futures Act 2001 (“SFA”) on or after 28 March 2022, issued pursuant to section 9(4) of the SFA; and
- (b) in relation to Specified RMOs that are recognised by the Authority pursuant to section 9(1)(b) of the SFA before 28 March 2022, issued pursuant to section 9(5) of the SFA.

1.2 This Notice establishes the liquidity and solvency requirements for a Specified RMO and the methodology which a Specified RMO must use for calculating its liquid assets and eligible capital and its liquidity and solvency requirements.

1.3 This Notice shall take effect on **28 March 2022**.

2 GENERAL REQUIREMENTS

2.1 A Specified RMO must –

- (a) not cause or permit its liquid assets to fall below its liquidity requirement as calculated in accordance with paragraph 3;
- (b) not cause or permit its eligible capital to fall below its solvency requirement as calculated in accordance with paragraph 4; and
- (c) immediately notify the Authority if its liquid assets or eligible capital fall below 120% of the respective requirement in (a) and (b).

2.2 A Specified RMO must calculate its liquid assets and eligible capital for each business day no later than the end of the following business day.

3 LIQUIDITY REQUIREMENT

Overview

3.1 A Specified RMO must calculate its liquid assets and liquidity requirement in accordance with paragraphs 3.2 to 3.5, unless otherwise specified by the Authority by notice in writing to the relevant Specified RMO concerned.

Calculation of liquidity requirement

3.2 A Specified RMO must calculate its liquidity requirement as 25% of its annual operating expenses.

3.3 A Specified RMO must calculate its liquid assets as the sum of the following items in the latest available accounts of the Specified RMO:

- (a) cash and cash equivalents;
- (b) debentures of the Government;
- (c) negotiable certificates of deposit; and
- (d) money market funds.

3.4 For the purposes of paragraph 3.2 and subject to paragraph 3.5, “annual operating expenses” means the sum of –

- (a) the total operating expenses as stated in the latest audited financial statements of the Specified RMO, submitted pursuant to regulation 22 of the Securities and Futures (Organised Markets) Regulations 2018 (“Regulations”) (called in this paragraph and paragraph 3.5 “audited financial statements”); and
- (b) any lease payments that have been made in the financial year for which the audited financial statements were submitted, to the extent that such payments are not included in the total operating expenses mentioned in paragraph (a);

less the sum of –

- (c) expense items that are not incurred from the ordinary activities of the Specified RMO and are not expected to recur frequently or regularly¹ (as stated in the audited financial statements); and
- (d) depreciation and amortisation expenses as stated in the audited financial statements.

¹ This may include costs from one-time events such as write-offs, purchases of or losses from the sale of the Specified RMO’s fixed assets, or extraordinary events such as earthquakes or other natural disasters.

3.5 Where the audited financial statements are not available, or the Specified RMO fails to submit its audited financial statements for the latest financial year within the time prescribed, or such longer time as permitted by the Authority, under regulation 22 of the Regulations, the Specified RMO must consult with the Authority on the appropriate values to be used for the purpose of calculating its annual operating expenses.

3.6 For the purpose of paragraph 3.3, “cash equivalent” means any deposit placed with a banking institution or deposit-taking institution, or any cheque, draft or other item drawn on a banking institution or merchant bank that is either payable immediately upon presentation or that is in the process of collection.

4 SOLVENCY REQUIREMENT

Overview

4.1 A Specified RMO must calculate its eligible capital and solvency requirement in accordance with paragraphs 4.2 to 4.6, unless otherwise specified by the Authority by notice in writing to the relevant Specified RMO concerned.

Calculation of solvency requirement

4.2 A Specified RMO must calculate its solvency requirement as the higher of the following:

- (a) 25% of its annual operating expenses; or
- (b) \$250,000.

4.3 A Specified RMO must calculate its eligible capital as the sum of the following items in the latest available accounts of the Specified RMO:

- (a) base capital;
- (b) paid-up irredeemable and cumulative preference share capital;
- (c) paid-up redeemable preference share capital provided that the redeemable preference share has a redemption period of not less than 2 years from when the preference share is issued and paid-up;
- (d) revaluation reserves;
- (e) other reserves; and
- (f) interim unappropriated profit,

less the sum of the following items in the latest available accounts of the Specified RMO –

- (g) intangible assets;
- (h) future income tax benefits;
- (i) pre-paid expenses;
- (j) charged assets, except to the extent that the Specified RMO has not drawn down on the credit facility if the charge is created to secure a credit facility; and
- (k) treasury shares, if they are not already excluded from the base capital of the Specified RMO.

4.4 For the purpose of paragraph 4.3,

“base capital” means the sum of –

(a) the following items in the latest available accounts of the Specified RMO:

- (i) paid-up ordinary share capital; and
- (ii) paid-up irredeemable and non-cumulative preference share capital; and

(b) any unappropriated profit or loss in the latest audited accounts of the Specified RMO,

less the sum of –

- (c) any interim loss in the latest available accounts of the Specified RMO; and
- (d) any dividend that has been declared since the latest audited accounts of the Specified RMO;

“charged asset” means an asset which is subject to a charge under which a third party has a right of retention or sale of the asset upon default of the Specified RMO;

“irredeemable and non-cumulative preference share capital” means preference share capital consisting of preference shares that satisfy all of the following requirements:

- (a) the principal of the shares is perpetual;
- (b) the shares are not callable at the initiative of the issuer of the shares or the shareholders, and the principal of the shares is never repaid outside of liquidation of the issuer, except in the case of a repurchase or other manner of reduction of share capital that is initiated by the issuer and permitted under written law; and

- (c) the issuer has full discretion to cancel dividend payments, and –
- (i) the cancellation of dividend payments is not an event of default of the issuer under any agreement;
 - (ii) the issuer has full access to cancelled dividend payments to meet its obligations as they fall due; and
 - (iii) the cancellation of dividend payments does not result in any restriction being imposed on the issuer under any agreement, except in relation to dividend payments to ordinary shareholders.

4.5 For the purpose of paragraph 4.2 and subject to paragraph 4.6, “annual operating expenses” means the total operating expenses as stated in the latest audited financial statements of the Specified RMO, submitted pursuant to regulation 22 of the Regulations, less the sum of expense items that are not incurred from the ordinary activities of the Specified RMO and are not expected to recur frequently or regularly² as stated in the audited financial statements.

4.6 Where the audited financial statements are not available, or the Specified RMO fails to submit its audited financial statements for the latest financial year within the time prescribed, or such longer time as permitted by the Authority, under regulation 22 of the Regulations, the Specified RMO must consult with the Authority on the appropriate values to be used for the purpose of calculating its annual operating expenses.

² This may include costs from one-time events such as write-offs, purchases of or losses from the sale of the Specified RMO’s fixed assets, or extraordinary events such as earthquakes or other natural disasters.