



Monetary Authority of Singapore

SECURITIES AND FUTURES ACT (CAP. 289)

COMPLIANCE WITH PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES

FREQUENTLY ASKED QUESTIONS

Disclaimer: These FAQs are meant to provide guidance to the industry on MAS' policy and administration of the Securities and Futures Act and regulations. They do not constitute legal advice. If in doubt, MAS expects industry participants to seek independent legal opinion on how they should comply with the requirements under the SFA.

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COMPLIANCE WITH PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES

FREQUENTLY ASKED QUESTIONS

Q1: Which capital markets financial market infrastructures are required to comply with the Principles for Financial Market Infrastructures (“PFMI”) issued by the Committee on Payment and Settlement Systems (“CPSS”) and the International Organization of Securities Commissions (“IOSCO”)?

A1:

In April 2012, the CPSS and IOSCO published the PFMI which are international standards for payment, clearing and settlement systems, including central counterparties and trade repositories. The principles are designed to ensure that the infrastructure supporting global financial markets is robust and well placed to withstand financial shocks. Full, timely and consistent implementation of the PFMI is fundamental to ensuring the safety, soundness and efficiency of key FMIs and for supporting the resilience of the global financial system.

Members of CPSS and IOSCO are expected to adopt and apply the principles and responsibilities contained in the PFMI. The Monetary Authority of Singapore (“MAS”) is both a member of CPSS and IOSCO, and as regulator of financial market infrastructures in Singapore, is responsible for implementing these principles.

In January 2013, MAS published the Monograph on Supervision of Financial Market Infrastructures. The Monograph identifies four types of capital markets financial market infrastructures (“CMFMI”):

- (a) *Central Securities Depositories* (“CSD”): A central securities depository provides securities accounts, central safekeeping services, and asset services, which may include the administration of corporate actions and redemptions. A CSD can hold securities either in physical form (but immobilised) or in dematerialised form (that is, they exist only as electronic records).

- (b) *Securities Settlement Systems* (“SSS”): A securities settlement system enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules.
- (c) *Central Counterparties* (“CCP”): A central counterparty interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts.
- (d) *Trade Repositories* (“TR”): A trade repository is an entity that maintains a centralised electronic record/database of transaction data.

As stated in the Monograph, MAS expects all CMFMIs in Singapore to comply with the PFMI.

A list of CMFMIs which MAS supervises can be found in Annex A of the Monograph.

Q2: What are the responsibilities of the CMFMIs?

A2:

CMFMIs, with the exception of CSDs¹, are required to comply with a set of ongoing obligations in the Securities and Futures Act (“SFA”), including obligations to operate safe and efficient facilities, manage business and operational risks prudently, and maintain sufficient financial, human and system resources. CMFMIs are also obliged to put in place governance arrangements that promote the safety and efficiency of the facility and support the stability of the broader financial system. These obligations generally encompass the PFMI requirements.

Primary responsibility for the safe and efficient operation of the facilities, and for compliance with the SFA and the PFMI, rests with the CMFMIs. CMFMIs have to assess and ensure the appropriateness of their governance and oversight structures, adequacy of resources, operational and technology capacity, and the robustness of their risk management processes and internal controls.

¹ There is currently only one commercial CSD in Singapore, operated by The Central Depository (Pte) Limited (“CDP”), which is also a CCP and SSS, the functions of which are regulated under the Securities and Futures Act. CDP as a CSD is regulated under the Companies Act and the Companies (Central Depository Systems) Regulations, which provide MAS with powers to conduct supervision over CDP’s CSD activities.

Of the CMFMIs, CCPs and SSSs also play the role of frontline regulator in setting and enforcing rules governing their operations vis-a-vis their respective members. The rules, which are subject to MAS' review, are extensive and cover areas including clearing and settlement of transactions, admission criteria and ongoing obligations on members, and default management to safeguard the integrity of the clearing and settlement of transactions against financial shocks caused by extraneous events. These CCPs and SSSs have additional regulatory obligations to subject their members to proper regulation and supervision, and to enforce compliance of the rules by their members.

Q3: How does MAS assess CMFMIs' compliance with the PFMI?

A3:

MAS supervises CMFMIs to ensure compliance with the SFA and the PFMI. In assessing compliance against obligations under the SFA, MAS also reviews the level of compliance against PFMI. Failure to comply with the PFMI is taken into account by MAS in determining whether a contravention of statutory obligations has occurred.

MAS performs its supervisory responsibilities by conducting onsite inspection and offsite reviews, as well as regular engagement with the CMFMIs. In its supervision of CMFMIs, MAS will review the corporate governance, internal controls and risk management arrangements of CMFMIs, with the aim of encouraging a system of sound management practices commensurate with the institution's type, scale and complexity of business activities, and their related risks.

Q4: What does MAS do as part of offsite reviews?

A4:

Offsite reviews of CMFMIs involve regular monitoring, meetings with senior management, and reviewing self-assessments.

MAS will review and approve CMFMIs' proposed appointments and changes to its board and key officers, changes in substantial shareholdings, and risk management frameworks (including methodology for margins, stress testing and valuation of collaterals). CMFMIs' proposed amendments to their rules and the introduction of new initiatives and products are also subject to MAS' review and comments.

CMFMIs are required to notify MAS immediately of matters that may have an adverse impact on the safe and efficient operations of their facilities. Such matters include any legal proceedings or disciplinary actions, financial irregularities and system disruptions. When notified, MAS will take appropriate follow-up actions, in calibration of the seriousness of the matter. For instance, in the event of a reportable system disruption, a CMFMI is required to provide a report detailing the circumstances relating to the occurrence, the remedial actions taken at the time of occurrence and the subsequent follow-up actions. MAS will review the adequacies of the measures of the CMFMI and if necessary, take appropriate regulatory action against the CMFMI.

CMFMIs are required to submit various reports on a periodic basis. These include internal and external audit reports, financial statements and annual self-assessment reports prepared by CMFMIs. MAS uses such periodic reports for regular monitoring.

MAS conducts regular discussions with CMFMIs at various levels, including the CMFMIs' board, board committees (particularly the Regulatory Conflicts Committee) and senior management, as well as the key functions such as internal audit, compliance and risk management teams. Such discussions provide opportunities for CMFMIs to clarify MAS' expectations on enhancements to regulatory frameworks that they would be expected to put in place to address risks from any new proposals that the CMFMIs may be considering.

Q5: How often does MAS conduct onsite inspections of CMFMIs?

A5:

MAS uses a risk assessment framework to assess the impact and risks of a CMFMI. Based on the risk assessment framework, MAS will rate the various functions of the CMFMI, taking into consideration the relative impact and risks of the various functions to the CMFMI. High risk areas will be inspected more frequently.

MAS generally conducts onsite inspections of a CMFMI on an annual basis, focusing on key areas identified through the risk assessment framework and offsite supervision. During the onsite inspection, MAS will check if the CMFMI has complied with its internal frameworks and processes which aid their compliance with the SFA and PFMI. MAS will share the supervisory

report that is generated after the onsite inspection with the CMFMI's board and senior management. MAS expects the CMFMI's board and senior management, with whom the primary responsibility for ensuring proper functioning of the CMFMI, including risk oversight lies, to address any issues of supervisory concern that are identified in the course of MAS' supervision.