

CONSULTATION PAPER

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ACCEPTABLE COLLATERAL AND CONTRACT FOR DIFFERENCES

MAS

Monetary Authority of Singapore

PREFACE

The Securities and Futures (Financial and Margin Requirements for Holders of Capital Markets Services Licences) Regulations 2002 (“the Regulations”) prescribe the types of collateral that a holder of a capital markets services (“CMS”) licence may take to meet margin requirements for its securities financing business. MAS proposes in this consultation paper to expand the list of acceptable collateral. This consultation paper also sets out proposed margin requirements for a CMS licensee that offers contracts in differences (“CFDs”), a product which is gaining popularity amongst investors and which exhibits similar risk characteristics to a single stock futures contract.

We invite comments from CMS licensees and other interested parties on the proposed amendments to the Regulations. Please note that all submissions received may be made public unless confidentiality is expressly requested for all or part of the submission. Electronic submission is encouraged.

Kindly submit your comments in writing by 28 October 2005 to:

Prudential Policy Department
Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 079117
Fax: 6220 3973
Email: policy@mas.gov.sg

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1 INTRODUCTION

1.1 Currently, a capital market services (“CMS”) licensee that provides securities financing is required to obtain collateral from its customers.¹ The Regulations prescribe that such collateral should be in the form of cash, Singapore Government Securities or marginable securities. Marginable securities include securities quoted on Singapore Exchange Securities Trading Limited (“SGX-ST”), CLOB International and recognised Group A exchanges² as well as IPO securities to be listed for quotation on SGX-ST which have been fully paid for by a customer. This requirement serves to mitigate the risks involved in securities financing by requiring such financing to be fully secured against acceptable collateral.

1.2 MAS proposes to expand the list of acceptable collateral, having regard to market feedback, international practices³, as well as the nature⁴ and liquidity of particular instruments. The proposed changes will offer greater flexibility for CMS licensees’ securities financing business.

1.3 In recent years, several CMS licensees have started offering contracts for differences⁵ (“CFDs”) in equity securities, augmenting the range of capital market instruments in Singapore. Interest and trades in CFDs have been growing among investors. To promote sound risk management among CMS licensees that offer CFDs, MAS proposes to set minimum margin requirements for CFDs.

¹ Regulation 24 of the Securities and Futures (Financial and Margin Requirements for Holders of Capital Markets Services Licences) Regulations (“SFR”).

² Securities listed on recognised Group A exchanges must meet the additional condition that they be issued by a corporation with shareholders’ funds of not less than \$200m or its equivalent in any foreign currency.

³ This includes taking into account the types of collateral that are acceptable for the purposes of credit risk mitigation under the Basel II capital framework for banks.

⁴ This includes considerations on whether security interest over the instrument can be perfected.

⁵ A CFD is essentially an agreement between two parties to exchange, at the close of the contract, the difference between the opening and closing prices of a referenced asset multiplied by the number of units specified. Investors in CFDs gain an exposure to the price movements of the referenced asset without actually owning the asset.

2 EXPANDED LIST OF ACCEPTABLE COLLATERAL

Collective Investment Schemes (“CIS”)

2.1 CIS, or more commonly known as unit trusts, are a common investment instrument. There are more than 700 authorised or recognised CIS being offered to retail investors in Singapore. MAS proposes to recognise CIS that meet certain conditions as acceptable collateral for securities financing.

2.2 As the investment mandates of CIS may vary considerably in terms of risk profile, asset classes as well as geographical and industry coverage, it would not be prudent to include all CIS as acceptable collateral without regard for the risks that they pose. One consideration would be whether the underlying investments of the CIS would have qualified as acceptable collateral in their own right. Another consideration is whether there are regular published prices to facilitate proper valuation of the CIS. Accordingly, we propose to recognise as acceptable collateral only CIS⁶ that meet the following criteria:

- (i) the CIS is authorised or recognised by MAS pursuant to Section 286 or 287 respectively of the Securities and Futures Act;
- (ii) the prices of the CIS are published on a daily basis; and
- (iii) at least 90% of the deposited property of the CIS is invested in instruments that qualify as acceptable collateral.

2.3 For the purpose of computing the counterparty risk requirement under paragraph 3(25) of Third Schedule of the Regulations, we propose that a CIS be subject to a haircut equal to the highest haircut applicable to the deposited property of the CIS up to a maximum of 25%.

⁶ The requirements for recognising exchange traded funds and property funds as acceptable collateral are dealt with separately in paragraphs 2.4, 2.5 and 2.9.

Exchange Traded Funds (“ETFs”)

2.4 To the extent that we allow CIS that invest in securities quoted on SGX-ST or recognised Group A exchanges to be included as acceptable collateral, we propose to recognise ETFs that track those markets as acceptable collateral as well. ETFs must meet the following criteria to qualify as acceptable collateral:

- (i) the ETF is quoted on SGX-ST and/or a recognised Group A exchange; and
- (ii) the ETF tracks an index of SGX-ST and/or one or more recognised Group A exchanges, or a basket of stocks quoted on SGX-ST and/or one or more recognised Group A exchanges.

2.5 Consistent with the treatment for listed equities, MAS proposes a haircut of 25% for such ETFs.

Rated Debt Securities

2.6 MAS intends to include rated debt securities as acceptable collateral for alignment with the types of collateral that banks may recognise as credit risk mitigation when calculating their capital requirements. Long-term debt securities issued by governments, public authorities and recognised multilateral agencies must have a rating of at least BB-minus by Fitch Ratings, Ba3 by Moody’s or BB-minus by Standard & Poor’s. Long-term debt securities issued by any other entity must be rated at least BBB-minus by Fitch Ratings, Baa3 by Moody’s or BBB-minus by Standard & Poor’s. Short-term debt instruments must be rated at least F3 by Fitch Ratings, P3 by Moody’s or A3 by Standard & Poor’s to qualify as acceptable collateral.

2.7 In addition, we propose to include unrated and sub-investment grade debt securities that are listed on SGX-ST or recognised Group A exchanges, provided that the issuer’s shares are also listed on the same exchange. This recognises that the listed debt securities of such an issuer should be of lower risk than its equity securities, which are already acceptable collateral.

2.8 Table 1 sets out the proposed haircuts for debt securities.

Table 1: Standard Haircuts for Debt Securities

Issue Rating for Debt Securities (Long-Term / Short-Term)	Residual Maturity	Haircut (%)	
		Government, public authority or recognised multilateral agency	Other Issuers
Fitch : AAA to AA- / F1 Moody's : Aaa to Aa3 / P1 S&P : AAA to AA- / A-1	≤ 1 year	0.5	1
	> 1 year, ≤ 5 years	2	4
	> 5 years	4	8
Fitch : A+ to BBB- / F2 to F3 Moody's : A1 to Baa3 / P2 to P3 S&P : A+ to BBB- / A-2 to A-3	≤ 1 year	1	2
	> 1 year, ≤ 5 years	3	6
	> 5 years	6	12
Fitch : BB+ to BB- Moody's : Ba1 to Ba3 S&P : BB+ to BB-	All	15	25 *
Unrated or any other rating	All	Not permitted	25 *
* only if the debt security is listed on SGX-ST or a recognised Group A Exchange and the issuer's shares are also listed on the same exchange.			

Other Revisions to Existing Acceptable Collateral

2.9 Currently, all securities (e.g. equities, ETFs, REITs, debt, options, and warrants) quoted on SGX-ST or a recognised Group A exchange attract a standard 30% haircut. While simple to implement, this categorisation is not sufficiently risk sensitive to account for the volatility of the different securities. We propose differentiated haircuts for each type of securities. Table 2 sets out the revised haircuts, which are generally lower than the existing 30% haircut.

2.10 As derivative contracts tend to be riskier than plain vanilla securities, MAS proposes a 40% haircut for options, warrants and any other derivative contract that is traded on SGX-ST or a recognised Group A exchange. For derivative contracts traded on a recognised Group A exchange, the issuer of the contract must have shareholders' funds of not less than \$200m or its equivalent in any foreign currency. In addition, if the referenced asset of the derivative contract is a security issued by a corporation, that corporation must

meet the same shareholders' funds requirement.

Table 2: Standard Haircuts for Acceptable Collateral

Proposed List of Acceptable Collateral	Proposed Haircuts (%)
Cash	0
Shares and convertible bonds that are listed and included in the STI, MSCI Singapore Index or a market index of a recognised Group A Exchange	15
Shares and convertible bonds listed on SGX-ST or a recognised Group A Exchange	25
Debt Securities (per description in Table 1)	0.5 to 25
CIS (other than exchange traded funds and property funds)	Per highest haircut applicable to the deposited property of the CIS, up to 25%
Exchange Traded Funds traded on SGX-ST or a recognised Group A Exchange	25%
Property funds (ie. REITs) listed on SGX-ST or a recognised Group A Exchange	25%
Any other contract (eg. options, warrants, etc) traded on SGX-ST or a recognised Group A Exchange	40%
IPOs to be listed for quotation or quoted on the SGX-ST which has been fully paid for by a customer	25%
Securities quoted on CLOB International	25%

Haircut for Currency Mismatch

2.11 For the purpose of computing counterparty risk requirements, MAS proposes to include a haircut of 8% for currency mismatch, i.e. when the collateral is denominated in a different currency from the amount financed. The haircut recognises the presence of foreign exchange risk in the event of default when the CMS licensee has to use the collateral to cover its counterparty exposure. The treatment is consistent with requirements for other financial institutions and the practices in other jurisdictions.

2.12 Tables 3 and 4 illustrate the computation of CRR, taking into account the haircut for currency mismatch.

Table 3: Example 1 on Computing CRR

Example 1 – Computing CRR with Currency Mismatch

A customer has pledged US\$10,000 worth of an equity security, which is listed on a recognised Group A exchange, as collateral to a CMS licensee for a securities financing facility. The amount borrowed is S\$12,000. The applicable haircut for the equity security is 25% as it is not a constituent stock of a market index. The spot exchange rate is S\$1.6/US\$, and the haircut for currency mismatch is 8%.

The computation of the CRR requirement is as follows:

Counterparty Exposure (CE)

$$\begin{aligned}
 &= \text{Amount borrowed} - (\text{Market value of collateral, subject to applicable} \\
 &\quad \text{haircuts for collateral and currency mismatch}) \\
 &= \text{S\$12,000} - \text{S\$} [(10,000 \times 1.6) \times (1 - 0.25 - 0.08)] \\
 &= \text{S\$12,000} - \text{S\$10,720} \\
 &= \text{S\$ 1,280}
 \end{aligned}$$

Counterparty Risk Requirement (CRR)

$$\begin{aligned}
 &= 100\% \times \text{CE} \\
 &= 100\% \times \text{S\$1,280} \\
 &= \text{S\$1,280}
 \end{aligned}$$

Table 4: Example 2 on Computing CRR

Example 2 – Computing CRR with Scaling Factor and Currency Mismatch Haircut

Assume a CMS licensee has 2 more customers that deposited collateral in the form of the same US\$-denominated equity security as in Example 1. The aggregate value of the collateral deposited by all 3 customers exceeded the specified value (i.e. binding threshold) as defined in paragraphs 3(28) to 3(28A) of the Third Schedule. Hence the CMS licensee needs to compute a scaling factor rather than using the standard haircut. The currency mismatch haircut is also applied to the scaling factor to arrive at an adjusted value of the collateral.

Computation of Scaling Factor:

At spot exchange rate of S\$1.6/US\$, the total current market value of the collateral is

S\$150,000. The specified value (i.e. binding threshold) is S\$100,000.

The scaling factor is computed as follows:

$$\text{ScalingFactor} = \frac{X}{T} \times [1 - 2(\text{Haircut})] + \frac{U}{T} \times (1 - \text{Haircut})$$

where X = Amount of Security in Excess of Threshold

U = Amount of Security within Threshold

T = Total Amount of Security (ie. X + U)

Haircut = Standard Haircut for Collateral

Therefore, Scaling Factor

$$\begin{aligned} &= (50,000/150,000) \times [1 - 2 \times (0.25)] + (100,000/150,000) \times (1 - 0.25) \\ &= 0.67 \end{aligned}$$

Computation of CRR:

For the same customer as in Example 1, the computation of CRR is as follows:

Counterparty Exposure (CE)

$$\begin{aligned} &= \text{Amount borrowed} - (\text{Market value of collateral, subject to scaling factor} \\ &\quad \text{and haircut for currency mismatch}) \\ &= \text{S\$12,000} - \text{S\$} [(10,000 \times 1.6) \times (0.67 - 0.08)] \\ &= \text{S\$12,000} - \text{S\$9,440} \\ &= \text{S\$ 2,560} \end{aligned}$$

Counterparty Risk Requirement (CRR)

$$\begin{aligned} &= 100\% \times \text{CE} \\ &= 100\% \times \text{S\$2,560} \\ &= \text{S\$2,560} \end{aligned}$$

Draft Amendments to Regulations

2.13 Annexes 1 and 2 set out the draft amendments to the Regulations to effect the above proposed changes.

3 MARGIN REQUIREMENTS FOR CONTRACT FOR DIFFERENCES

3.1 As an investment product, equity CFDs have pay-off characteristics that are comparable to a single stock futures, except that they are traded over-the-counter rather than on an exchange. A CMS licensee that enters into a CFD with its customer faces counterparty risk to the customer, and would usually impose initial and maintenance margins on the customer to mitigate such risk. The margin requirements also serve as a safeguard to prevent excessive gearing by customers.

3.2 With CFDs gaining popularity among investors, MAS proposes to formalise minimum margin requirements to foster sound risk management among CMS licensees that offer CFDs. The proposed minimum margin requirements are:

- (i) where a comparable contract is traded on the SGX-ST, Singapore Exchange Derivatives Trading ("SGX-DT") or a recognised Group A exchange, 100% of the initial and maintenance margins prescribed by the exchange for the comparable contract; or
- (ii) where no comparable contract is traded on SGX-ST, SGX-DT or a recognised Group A exchange, at least 20% for initial margin and at least 15% for maintenance margin based on the notional amount of the contract.

3.3 For the purpose of paragraph 3.2, a comparable contract is defined as an exchange-traded contract that satisfies the following conditions:

- (i) the contract shall have the same underlying security as the CFD. In the case of a CFD on an index, the underlying security of the contract shall be the same index or a basket of securities with the same composition as the index;
- (ii) the maturity of the contract shall not be shorter than the maturity of the CFD;

- (iii) the contract shall have the same terms of delivery as the CFD;
and
- (iv) where the CFD factors corporate actions (eg. dividends and stock splits) into its pricing, the contract shall also incorporate such corporate actions into its pricing.

3.4 For example, if CMS Licensee B offers a CFD in XYZ shares, a comparable contract would be a single stock futures contract on XYZ shares traded on SGX-DT or a recognised Group A exchange that meets the conditions in paragraph 3.3. Accordingly, the initial and maintenance margins that CMS Licensee B collects from its customer must be no lower than those set by SGX-DT or the recognised Group A exchange for the single stock futures contract on XYZ shares.

3.5 The CMS licensee is required to ensure that the margin requirements are met at all times. Should the current market value of the collateral deposited in the customer's margin account fall below the requirements, the CMS licensee must immediately call for additional margins from the customer, which shall be met no later than the next business day.

Draft Amendments to Regulations

3.6 Annex 3 sets out the draft amendments to the Regulations to effect the proposed minimum margin requirements for transactions in CFDs.

Annex 1

Proposed SFR Amendments for Revisions to Acceptable Collateral

Reference	Current Text	Proposed Text [DRAFT]
SF (Financial and Margins Requirements) Regulations		
Regulation 24(5)	For the purpose of this regulation, margins deposited by customers with the holder in accordance with this regulation shall be in the form of cash, Singapore Government securities, marginable securities or such other instrument as the Authority may specify in a guideline issued by the Authority.	For the purpose of this regulation, margins deposited by customers with the holder in accordance with this regulation shall be in the form of acceptable collateral or such other instrument as the Authority may specify in a guideline issued by the Authority.
Regulation 24(6)	<p>In this regulation, unless the context otherwise requires –</p> <p>...</p> <p>“equity”, in relation to a customer’s margin account, means the sum of –</p> <p>(a) the current market value of marginable securities bought and carried in the margin account; and</p> <p>(b) the current market value of Singapore Government securities and current market value of marginable securities deposited as collateral by the customer in the margin account;</p> <p>...</p> <p>“marginable securities” means –</p> <p>(a) securities quoted on the Singapore Exchange Securities Trading Limited;</p> <p>(b) in the case of an initial public offer, securities to be listed for quotation or quoted on the Singapore Exchange Securities Trading Limited which has been fully paid for by a customer of the holder of a licence;</p> <p>(c) securities quoted on the Central Limit Order Book (CLOB) International;</p> <p>(d) securities quoted on a recognised group A exchange and issued by a corporation with shareholders’ funds of not less than \$200 million or its equivalent in any foreign</p>	<p>In this regulation, unless the context otherwise requires –</p> <p>...</p> <p>“equity”, in relation to a customer’s margin account, means the current market value of acceptable collateral bought and carried, or deposited as collateral, by a customer in its margin account.</p> <p>...</p> <p><i>[Delete the definition of “marginable securities” and replace with the following definition]</i></p> <p>“acceptable collateral”, in relation to securities financing, means –</p> <p>(a) cash;</p> <p>(b) a share or convertible bond listed on the Singapore Exchange Securities Trading Limited;</p> <p>(c) a share or convertible bond listed on a recognised group A exchange and issued by a corporation with shareholders’ funds of not less than \$200 million or its equivalent in any foreign currency;</p>

Reference	Current Text	Proposed Text [DRAFT]
	<p>currency; or</p> <p>(e) such other securities as the Authority may specify in a guideline issued by the Authority.</p>	<p>(d) a debt security–</p> <p>(i) that is issued by a government or public authority of any country or territory, or a recognised multilateral agency specified in Table 3 of the Fourth Schedule, with a long-term rating of –</p> <p>(A) not less than BB-minus by Fitch Ratings;</p> <p>(B) not less than Ba3 by Moody’s Investors Service; or</p> <p>(C) not less than BB-minus by Standard & Poor’s;</p> <p>(ii) that is issued by any other entity with a long-term rating of –</p> <p>(A) not less than BBB-minus by Fitch Ratings;</p> <p>(B) not less than Baa3 by Moody’s Investors Services; or</p> <p>(C) not less than BBB-minus by Standard & Poor’s;</p> <p>(iii) that is a short-term debt instrument with a rating of –</p> <p>(A) not less than F3 by Fitch Ratings;</p> <p>(B) not less than P3 by Moody’s Investors Services; or</p> <p>(C) not less than A3 by Standard & Poor’s; or</p> <p>(iv) that is listed on the Singapore Exchange Securities Trading Limited or a recognised group A exchange, provided that the issuer’s shares are listed on the same exchange;</p> <p>(e) a collective investment scheme authorised or recognised by the Authority pursuant to section 286 or 287 of the Act respectively (other than exchange traded funds and property funds) –</p> <p>(i) for which prices are published daily; and</p> <p>(ii) which invests at least 90% of the deposited property of the collective investment scheme in instruments being any or all of such instruments</p>

Reference	Current Text	Proposed Text [DRAFT]
		<p style="text-align: center;">specified in sub-paragraphs (a) to (k);</p> <p>(f) an exchange traded fund quoted on the Singapore Exchange Securities Trading Limited or a recognised group A exchange, which tracks an index of or a basket of stocks quoted on –</p> <p style="padding-left: 20px;">(i) the Singapore Exchange Securities Trading Limited; or</p> <p style="padding-left: 20px;">(ii) a recognised group A exchange;</p> <p>(g) a property fund listed on the Singapore Exchange Securities Trading Limited or a recognised group A exchange;</p> <p>(h) any other contract traded on -</p> <p style="padding-left: 20px;">(i) the Singapore Exchange Securities Trading Limited; or</p> <p style="padding-left: 20px;">(ii) a recognised group A exchange, where the issuer of the contract and the issuer of the underlying security each has shareholders' funds of not less than \$200 million or its equivalent in any foreign currency;</p> <p>(i) in the case of an initial public offer, securities to be listed for quotation or quoted on the Singapore Exchange Securities Trading Limited which have been fully paid for by a customer of the holder of a licence;</p> <p>(j) securities quoted on the Central Limit Order Book (CLOB) International; or</p> <p>(k) such other securities or financial instrument as the Authority may specify in a guideline issued by the Authority.</p> <p><i>[Insert the following definitions of “exchange traded fund” and “property fund”.]</i></p> <p>“exchange traded fund” means a collective investment</p>

Reference	Current Text	Proposed Text [DRAFT]
		<p>scheme concerned with the acquisition, holding, management or disposal of a portfolio of predetermined constituent assets in predetermined proportions, which constituent assets principally comprise securities listed for quotation on any securities exchange or overseas securities exchange.</p> <p>“property fund” has the same meaning as in the Code on Collective Investment Schemes issued by the Authority</p>
Third Schedule of SF (Financial and Margins Requirements) Regulations		
Para 3(8)	<p><i>Acceptable Collateral</i> The holder may reduce its counterparty exposure to a counterparty by the amount of any acceptable collateral held by the holder and valued in accordance with sub-paragraph (9).</p>	<i>[No Change]</i>
Para 3(9)	<p>Except for sub-paragraphs (29), (30), (31) and (37), an acceptable collateral shall have a value equal to –</p> <ul style="list-style-type: none"> (a) in the case of cash, 100% of face value; (b) in the case of eligible securities issued by a government or a public authority as a securities exchange, futures exchange or clearing house may approve, 95% of the current market value of the securities; (c) in the case of securities issued by a recognised multilateral agency, 90% of the current market value of the securities; (d) in the case of securities listed on the Singapore Exchange Securities Trading Limited, or on a recognised group A exchange, 70% of the current market value of the securities; and (e) in any other case, nil value. 	<p>Except for sub-paragraphs (29), (30), (31) and (37), an acceptable collateral shall have a value determined in accordance with Table 17 of the Fourth Schedule, and where the counterparty exposure and acceptable collateral are denominated in different currencies, shall include any currency mismatch adjustment determined in accordance with Table 17 of the Fourth Schedule.</p>
Para 3(25)	<p><i>Securities Financing</i> Subject to sub-paragraph (28), the holder shall calculate a counterparty exposure to a customer to whom it has extended securities financing by deducting the amount of equity in the customer’s margin account from the debit balance in the customer’s margin account.</p>	<i>[No change]</i>

Reference	Current Text	Proposed Text [DRAFT]
Para 3(26)	<p>In sub-paragraph (25) – “debit balance” has the same meaning as in regulation 24(6);</p> <p>“equity”, in relation to a customer’s margin account, means the sum of –</p> <ul style="list-style-type: none"> (a) the value of marginable securities (determined in accordance with sub-paragraph (9)(a) to (e), as appropriate) bought and carried, or deposited as collateral, by a customer in his margin account; and (b) the value of Singapore Government securities (determined in accordance with sub-paragraph (9)(a) to (e), as appropriate) deposited by a customer as collateral in his margin account. 	<p>In sub-paragraph (25) – “debit balance” has the same meaning as in regulation 24(6);</p> <p>“equity”, in relation to a customer’s margin account, means the aggregate value of acceptable collateral (as determined in accordance with Table 17 of the Fourth Schedule) bought and carried, or deposited as collateral, by a customer in its margin account.</p>
Para 3(27)	<p>The holder shall calculate an individual counterparty risk requirement on a counterparty exposure calculated in accordance with sub-paragraph (25) as 100% of the counterparty exposure.</p>	<p><i>[No change]</i></p>
Para 3(28)	<p>Where the holder causes or permits the absolute value of the net position of the same type of security issued by an issuer, bought and carried, or deposited as collateral, in the margin accounts of all customers to whom it has extended securities financing to exceed the specified value, the value of each of such type of security deposited in the margin account of every customer shall be multiplied by a scaling factor for the purpose of computing counterparty exposure to the customer.</p>	<p><i>[No change]</i></p>
Para 3(28A)	<p>For the purposes of sub-paragraph (28) –</p> <ul style="list-style-type: none"> (a) “specified value” -- <ul style="list-style-type: none"> (i) in relation to equity securities issued by the same issuer, means 10% of the holder’s financial resources, or 5% of the issue size (being the market capitalisation of the issue); and (ii) in relation to debt securities, means 10% of the holder’s financial resources in all series of debt securities issued by the same issuer, or 10% of the issue size of an individual series of debt securities issued by an issuer; and 	<p>For the purposes of sub-paragraph (28) –</p> <ul style="list-style-type: none"> (a) “specified value” -- <ul style="list-style-type: none"> (i) in relation to equity securities issued by the same issuer, means 10% of the holder’s financial resources, or 5% of the issue size (being the market capitalisation of the issue); and (ii) in relation to debt securities, means 10% of the holder’s financial resources in all series of debt securities issued by the same issuer, or 10% of the issue size of an individual series of debt securities issued by an issuer; and

Reference	Current Text	Proposed Text [DRAFT]
	<p>(b) the scaling factor shall be derived from the following formula:</p> <p style="text-align: center;"><i>Scaling</i></p> $\text{Factor} = \frac{X}{T} \times [1 - 2(\text{Haircut})] + \frac{U}{T} \times (1 - \text{Haircut})$ <p>where X is the amount of security in excess of the thresholds set out in sub-paragraph (28);</p> <p>U is the amount of security within the thresholds set out in sub-paragraph (28);</p> <p>T is the total amount of security (being the sum of X and U); and</p> <p>Haircut is the percentage by which the value of the security is adjusted to have a value determined in accordance with sub-paragraph (9)(a) to (e), as appropriate.</p>	<p>(b) the scaling factor shall be derived from the following formula:</p> <p style="text-align: center;"><i>Scaling</i></p> $\text{Factor} = \frac{X}{T} \times [1 - 2(\text{Haircut})] + \frac{U}{T} \times (1 - \text{Haircut})$ <p>where X is the amount of security in excess of the thresholds set out in sub-paragraph (28);</p> <p>U is the amount of security within the thresholds set out in sub-paragraph (28);</p> <p>T is the total amount of security (being the sum of X and U); and</p> <p>Haircut is the percentage by which the value of the security is adjusted to have a value determined in accordance with Table 17 of the Fourth Schedule, as appropriate.</p>
Fourth Schedule of SF (Financial and Margins Requirements) Regulations		
Table 17 [NEW]		[See Annex 2]

Annex 2

FOURTH SCHEDULE

TABLE 17 – APPLICABLE HAIRCUTS FOR ACCEPTABLE COLLATERAL

LIST OF ACCEPTABLE COLLATERAL		HAIRCUT (%)	
Issue Rating for Debt Securities (Long-Term / Short-Term)	Residual Maturity	Government or public authority of any country or territory, or recognised multilateral agency specified in Table 3 of this Schedule	Other Issuers
Fitch : AAA to AA- / F1	≤ 1 year	0.5	1
Moody's : Aaa to Aa3 / P1	> 1 year, ≤ 5 years	2	4
S&P : AAA to AA- / A-1	> 5 years	4	8
Fitch : A+ to BBB- / F2 to F3	≤ 1 year	1	2
Moody's : A1 to Baa3 / P2 to P3	> 1 year, ≤ 5 years	3	6
S&P : A+ to BBB- / A-2 to A-3	> 5 years	6	12
Fitch : BB+ to BB-	All	15	25
Moody's : Ba1 to Ba3			
S&P : BB+ to BB-			
Unrated or any other rating	All	Not permitted	25
Cash		0	
Shares and convertible bonds that are listed and included in the Straits Times Index, MSCI Singapore Index or a market index of a recognised Group A Exchange		15	
Shares and convertible bonds listed on Singapore Exchange Securities Trading Limited (referred to in this Table as "SGX-ST") or a recognised Group A Exchange		25	
Collective investment schemes (other than exchange traded funds and property funds)		Per highest haircut applicable to the deposited property of the collective investment scheme, up to 25%	
Exchange Traded Funds quoted on SGX-ST or a recognised Group A Exchange		25	
Property funds listed on SGX-ST or a recognised Group A Exchange		25	
Any other contract traded on SGX-ST or a recognised Group A Exchange		40	
Initial public offerings to be listed for quotation or quoted on the SGX-ST, which has been fully paid for by a customer		25	
Securities quoted on Central Limit Order Book (CLOB) International		25	
CURRENCY MISMATCH		HAIRCUT (%)	
Where the counterparty exposure and the acceptable collateral are denominated in different currencies		8	

Annex 3

Proposed SFR Amendments on Margin Requirements for Contracts for Differences

Reference	Current Text	Proposed Text [DRAFT]
SF (Financial and Margins Requirements) Regulations		
Regulation 24A (1) [NEW]		<p><i>Margin requirements for contracts for differences</i></p> <p>The holder of a licence that offers contracts for differences to its customers shall obtain from its customers, margin in the form of acceptable collateral, for trading in contracts for differences.</p>
Regulation 24A (2) [NEW]		<p>The margin requirements shall be –</p> <p>(a) in a case where a comparable contract is traded on the Singapore Exchange Securities Trading Limited, Singapore Exchange Derivatives Trading or a recognised group A exchange –</p> <p>(i) 100% of the initial and maintenance margins prescribed by the exchange for the comparable contract; and</p> <p>(ii) such other requirements as the Authority may from time to time specify by notice in writing.</p> <p>(b) in a case where no comparable contract is traded on the Singapore Exchange Securities Trading Limited, Singapore Exchange Derivatives Trading or a recognised group A exchange –</p> <p>(i) a minimum of 20% of the notional amount of the contract for the initial margin; and</p> <p>(ii) a minimum of 15% of the notional amount of the contract for the maintenance margin; and</p> <p>(ii) such other requirements as the Authority may from time to time specify by notice in writing.</p> <p>(c) in any other case, such other requirements as the Authority may from time to time specify by notice in writing.</p>

Reference	Current Text	Proposed Text [DRAFT]
Regulation 24A (3) [NEW]		<p>Where the current market value of acceptable collateral deposited in the customer's margin account for the purpose of trading in contracts for differences falls below the margin requirements referred to in paragraph (2), the holder of the licence shall immediately require the customer to provide additional margin by the next business day.</p>
Regulation 24A (4) [NEW]		<p>In this regulation –</p> <p>“acceptable collateral” has the same meaning as in Regulation 24(6);</p> <p>“comparable contract” means an exchange-traded contract that satisfies the following conditions:</p> <ul style="list-style-type: none"> (a) the contract shall have the same underlying security as the contract for differences, and in the case where the underlying security of the contract for differences is an index, the underlying security of the contract shall be the same index or a basket of securities with the same composition as the index; (b) the maturity of the contract shall not be shorter than the maturity of the contract for differences; (c) the contract shall have the same terms of delivery as the contract for differences; and (d) where the contract for differences factors corporate actions into its pricing, the contract shall also incorporate such corporate actions into its pricing. <p>“corporate action”, in relation to a corporation, means an event that will lead to a change in the share capital of the corporation or any declaration or payment of dividend by the corporation.</p>



Monetary Authority of Singapore