



RESPONSE TO FEEDBACK RECEIVED – CONSULTATION ON REVIEW OF REGULATORY FRAMEWORK FOR UNLISTED MARGINED DERIVATIVES OFFERED TO RETAIL INVESTORS

1 INTRODUCTION

1.1 On 28 May 2012, MAS issued a consultation paper [“Consultation Paper”] inviting comments on the enhanced regulatory requirements for holders of a capital markets services licence [“CMS licensees”] and financial institutions exempted from holding the CMS licence¹ [“EFIs”], such as banks and merchant banks, offering unlisted margined derivatives to retail investors [collectively referred to as “derivative dealers”]. The list of respondents can be found at **Annex A**.

1.2 MAS thanks all respondents for their feedback on the proposals. We have carefully considered the comments received and where appropriate, have incorporated them in the final rules and regulations for consultation. The consultation paper on the draft regulations can be found on the MAS’ website: <http://www.mas.gov.sg/News-and-Publications/Consultation-Paper/2014/CFD.aspx>. Comments of wider interest and MAS’ responses are set out below.

2 SCOPE OF APPLICABILITY OF THE PROPOSALS

2.1 In the Consultation Paper, where the proposals apply to derivative dealers who deal with retail investors, MAS had specified retail investors

¹ These entities are exempted under section 99(1)(a), (b) and (c) of the Securities and Futures Act from holding a capital markets services licence.

to refer to investors other than accredited investors [“AI”] or institutional investors [“II”] as defined under the Securities and Futures Act [“SFA”].

2.2 Several respondents commented that expert investors [“EI”] as defined under the SFA, and high net worth individuals served by specialised units [“Specialised Units”] under the Guidelines on Exemption for Specialised Units Serving High Net Worth Individuals under Section 100(2) of the Financial Advisers Act (FAA-G07), should not be considered as retail investors, and hence should not be subjected to the proposals in the Consultation Paper. They noted that EI and customers of Specialised Units are excluded from the requirement to conduct Customer Knowledge Assessment [“CKA”] and are generally sophisticated enough to evaluate the risks of transacting in unlisted margined derivatives. Some respondents also sought clarification on whether or not corporations are excluded from the definition of retail investors.

MAS’ Response

2.3 MAS agrees with the suggestion to exclude EI and customers of Specialised Units from the relevant proposals in the Consultation Paper, in view of the more sophisticated profile of such investors. MAS would like to clarify that corporations that do not qualify as AI, II or EI will not be excluded from the proposals in the Consultation Paper.

3 MARGIN REQUIREMENTS

(I) Minimum Margin Rate for Contract-for-Differences [“CFD”] on Foreign Exchange [“FX”] and Other Leveraged Foreign Exchange [“LFX”] Contracts

3.1 MAS proposed to impose a minimum margin rate of 5% for CFDs on FX and other LFX contracts transacted with retail investors. A few respondents were supportive of the proposal. Another group of

respondents commented that increasing the margin rate would inhibit the ability of customers to trade without necessarily preventing losses. They indicated that derivative dealers would provide customers with risk disclosure and risk management tools, such as stop loss orders, to assist them in managing their leverage and potential loss. The respondents also cited that the CKA requirement that was introduced for Specified Investment Products [“SIP”] in January 2012 would also ensure retail investors possess adequate knowledge or experience before they can trade in CFDs and LFX. Several respondents were also concerned that the higher margin rate would impact the competitiveness of the derivative dealers as Singapore customers could open offshore accounts with overseas CFD and LFX dealers that offer lower margin rates.

MAS’ Response

3.2 The proposal to impose a minimum margin rate of 5% for CFDs on FX and LFX transacted with retail investors serves as a safeguard to prevent excessive leveraging by customers. While capping the leverage does not necessarily prevent losses, it mitigates the risk of retail investors taking on excessive positions and provides a buffer for unexpected losses. The CKA requirement assesses a customer’s knowledge and experience in the trading of SIPs, to determine if advice needs to be provided before the customer enters into the transaction. Although the CKA may help mitigate the concern of investors not understanding the risks involved, it is not meant to manage the ongoing market exposure of investors.

3.3 MAS would like to clarify that where a derivative dealer has risk management tools such as stop loss features in its trading system, it is currently allowed to set lower minimum margin rates as applicable under the Securities and Futures (Financial and Margin Requirements for Holders of Capital Markets Services Licences) Regulations [“SF(FMR) Regulations”]. This provision will similarly be applicable to the proposed margin requirements for CFDs on FX and LFX contracts.

3.4 In view of the foregoing and to mitigate the risks faced by retail customers during volatile market conditions, MAS will proceed with the proposal to impose a minimum margin rate of 5% for CFDs on FX and LFX contracts transacted with retail investors. Capping the leverage at 5% is in line with practices in other jurisdictions in the region such as Hong Kong (5%) and Japan (4%). MAS also notes that the 5% margin rate is comparable to the 6% initial margin requirement recommended for non-centrally cleared FX derivatives in the final policy framework on Margin Requirements for Non-Centrally Cleared Derivatives issued by the Basel Committee on Banking Supervision and the International Organization of Securities Commission in September 2013.

(II) Margin Requirements for Other Unlisted Margined Derivatives

3.5 MAS proposed to extend the minimum margin requirements that are currently applicable to CMS licensees dealing in CFDs on a referenced asset as set out in the SF(FMR) Regulations, to the margin trading of all other unlisted derivatives on the same referenced asset by retail investors. The proposal is intended to address potential regulatory arbitrage posed by any differential treatment between CFDs and other unlisted margined derivatives on the same referenced asset.

3.6 A group of respondents agreed with the proposal to prevent regulatory arbitrage. Another group suggested that MAS should adopt a more granular approach in setting the minimum margin rates for other unlisted margined derivatives, as the structure and risks inherent in CFDs may not be the same as those of other unlisted margined derivatives. One respondent sought clarification on whether a CFD which pairs a specific type of commodity, such as gold or silver against a currency, should be considered as a CFD on commodities or a CFD on FX.

MAS' Response

3.7 MAS appreciates the concern that there is potentially a wide spectrum of unlisted margined derivative products that have different pay-off and risk characteristics from those of CFDs and that the proposal may capture derivative products where margin requirements meant for CFDs are not appropriate. In this regard, MAS will not proceed with the proposal to extend the minimum margin requirement that are currently applicable to CMS licensees dealing in CFDs on a referenced asset to the margin trading of all other unlisted derivatives on the same referenced asset by retail investors. Instead, MAS will monitor the types of leveraged products that are offered to retail investors and assess if there is a need to introduce margin requirements to address regulatory concerns. MAS will consult the industry before introducing any changes.

3.8 MAS would like to clarify that a CFD on precious metals, such as gold or silver, is a CFD on commodities. MAS is not proposing to amend the current margin requirements under the SF(FMR) Regulations for CFDs on other underlying referenced assets (other than FX), as the margin levels for these CFDs are assessed to be adequate. MAS will continue to monitor and take into account international standards² on margin requirements for non-centrally cleared derivatives in determining the need to review the margin requirements. MAS will consult the industry before introducing any changes.

(III) Margin Requirements for EFIs

3.9 To address potential regulatory arbitrage, MAS proposed to impose the margin requirements for CFDs and LFX contracts that are applicable to CMS licensees on EFIs, in respect of the latter's dealings with retail investors. These requirements include the minimum margin

² The Basel Committee on Banking Supervision and the International Organisation of Securities Commission have issued their final recommendations on margin requirements for non-centrally cleared derivatives on 3 September 2013. MAS is currently reviewing the recommendations to determine their applicability for Singapore.

rates, the acceptable types of collateral and the period for customers to meet any margin shortfall.

3.10 A group of respondents supported the proposal, citing the importance of a level playing field for all derivative dealers serving retail investors. Another group suggested that MAS should continue allowing EFIs such as banks the flexibility to adopt their respective credit risk and collateral management policies, as they already have in place sophisticated systems and established controls over margining and collateral evaluation to mitigate the exposure to credit risks. One respondent suggested that MAS should differentiate the minimum margin requirements imposed on CMS licensees and banks, given that the latter are already subject to more rigorous capital requirements.

3.11 Where the market value of the collateral deposited in a customer's margin account falls below the prescribed minimum margin rate, MAS proposed that EFIs should call for additional margins from the customer, to be met within two business days. Several respondents sought clarification on whether the two-day requirement commences from the time of margin notification or from the pricing date. The respondents also sought clarification on MAS' expectation when customers are not able to provide the additional margin within the prescribed timeframe.

MAS' Response

3.12 MAS recognises that EFIs such as banks are subject to more stringent capital regulations and generally have more sophisticated counterparty risk management systems. However, the objective and effectiveness of mitigating the risk of over-leveraging by retail investors dealing in unlisted margined derivatives would be undermined if the margin requirements were not applied consistently to all derivative dealers, as customers could trade such products through the banks instead. On that account, MAS has decided to proceed with the proposal to impose the margin requirements consistently to all derivative

dealers for the applicable unlisted margined derivatives transacted with retail investors.

3.13 MAS would like to clarify that derivative dealers should make margin calls within the day or as soon as practicable when the market value of the collateral deposited in a customer's margin account falls below the prescribed minimum margin rate. The additional margins have to be met within two business days from the time the margin call is issued to the customer. In the event a customer fails to place margins within the prescribed timeframe, the derivative dealer is expected to have effective policies and procedures to address the counterparty risk arising from such customer, for example, by accepting only transactions which reduce the customer's exposure to market risk.

4 BASE CAPITAL AND GROUP SHAREHOLDERS' FUNDS REQUIREMENTS

4.1 MAS proposed to set a minimum base capital requirement of S\$5 million for CMS licensees dealing in unlisted derivatives with retail investors, and to specify as an admission guideline a minimum group shareholders' funds requirement of S\$200 million for CMS licence applicants applying to deal in unlisted derivatives with retail investors. Most respondents supported the proposals. Two respondents commented that the proposed base capital requirement was not necessary, as the risk-based capital framework for CMS licensees would ensure that licensees set aside capital that commensurate with their size and scale of operations.

MAS' Response

4.2 While CMS licensees are subject to risk-based capital requirements that are sensitive to the level of risks and scale of business activities undertaken, it is important for CMS licensees to have an appropriate minimum amount of base capital to ensure their business

viability as a going concern and in the event of failure, to facilitate a proper and orderly wind-up. In this regard, MAS will proceed with the proposal to impose a minimum base capital requirement of S\$5 million and to specify as an admission guideline a minimum group shareholders' funds requirement of S\$200 million for CMS licence applicants applying to deal in unlisted derivatives with retail investors.

5 TRUST ACCOUNT REQUIREMENTS

(I) Prohibition from Using Retail Customers' Moneys and Assets in Trust and Custody Accounts

5.1 To enhance the trust and custody account safeguards for retail customers trading in unlisted margined derivatives, MAS proposed to prohibit derivative dealers from using retail customers' moneys and assets in trust and custody accounts for the derivative dealer's margining purpose with hedging counterparties, or for meeting other obligations incurred by the derivative dealer in connection with the customer's unlisted margined derivative transactions.

5.2 Most respondents supported the proposal. One respondent commented that this proposal would lead to higher cost for the Direct Market Access ["DMA"] model as compared to the Market Making ["MM"] model of offering CFDs. The respondent indicated that the proposal would deprive customers of the benefit of one-for-one hedging practice that is inherent in a DMA model, and lead to the proliferation of the MM model, which may involve proprietary risk-taking.

MAS' Response

5.3 MAS notes that most respondents support the proposal. As mentioned in the Consultation Paper, customer moneys and assets that are taken out of segregated trust accounts to service the derivative dealer's hedging activities may not be protected or easily recoverable should the derivative dealer and or its hedge counterparty become

insolvent. We consider that the benefit of the proposed safeguard outweighs the business risks associated with the MM model. In addition, regardless of whether the derivative dealer adopts a DMA or MM model, it is required to put in place appropriate controls and systems to manage its risk exposure. MAS also notes that this proposal is unlikely to have a major cost impact on CMS licensees, as they already do not in practice use customers' moneys and assets as collateral for their hedging transactions. We will therefore proceed with the proposal.

(II) Maintenance of Trust and Custody Accounts in Singapore

5.4 MAS proposed to require derivative dealers, in respect of their dealing in unlisted margined derivatives with retail customers, to maintain retail customer moneys and assets in trust accounts and custody accounts, respectively, with a bank or an authorised custodian in Singapore. Most respondents were in support of the proposal. One respondent commented that offshore trust accounts were useful to facilitate the receipt of overseas customers' moneys.

MAS' Response

5.5 Under regulation 16 of the Securities and Futures (Licensing and Conduct of Business) Regulations ["SF(LCB) Regulations"], derivative dealers are permitted to receive moneys from overseas customers via offshore bank accounts, and to transfer the customer moneys to a Singapore trust account by the next business day. In this regard, the proposal does not hinder the remittance of moneys of overseas customers. To enhance the protection of customers' moneys and to facilitate a quick recovery of customer moneys in the event of insolvency of a derivative dealer, MAS will proceed with the proposal to require derivative dealers to hold customer moneys with licensed banks in Singapore.

5.6 However, on further review, MAS has decided not to apply the proposal in respect of assets denominated in a foreign currency pledged

by customers as collateral with derivative dealers. This is in consideration of the fact that assets such as securities that are traded in foreign markets are generally required to be custodised in the relevant jurisdiction in accounts maintained by the Singapore broker with the foreign central depository or foreign authorised custodian. In this regard, the existing segregation safeguards with respect to non-cash collateral under the SFA will continue to apply.

(III) Daily Computation of Trust Accounts

5.7 MAS currently requires CMS licensees that trade in futures contracts or carry out LFX trading to perform daily computation of customer moneys and assets which are deposited in a trust account. MAS proposed to extend the daily trust account computation requirement in respect of moneys and assets belonging to all customers to other regulated activities, where applicable.

5.8 All respondents were supportive of the proposal. Several respondents commented that they have already been performing daily computation of customer moneys and assets kept in trust accounts for securities traded by their customers. One respondent understood the proposal to apply only to retail investors and was of the view that such a good practice should be applied equally to all customers (i.e. retail and non-retail investors).

MAS' Response

5.9 MAS would like to clarify that the proposal is intended to apply to all retail and non-retail investors. Given the positive feedback and industry practice, MAS will proceed with the proposal to extend the daily trust account computation requirement to moneys and assets in respect of the regulated activity of trading in futures contracts and LFX trading, to dealing in securities.

(IV) Structure of Trust Account

5.10 To facilitate the implementation of the enhanced trust account requirements, MAS consulted on four structures for the maintenance of trust accounts, as set out in **Annex B**.

5.11 Most respondents preferred Option 1, commenting that the other options of segregating customer moneys for listed and unlisted products would lead to operational inconvenience and inefficiencies for both derivative dealers and their customers. The respondents also highlighted that options 2, 3 and 4 would necessitate system enhancements and additional manpower to ensure proper segregation between customer moneys for the purpose of their trading in listed and unlisted products, leading to higher operational costs. In addition, customers would have to maintain separate trading accounts for their transactions in listed and unlisted products. As customers' margins under options 2, 3 and 4 would be separately computed for their transactions in unlisted and listed products, customers would not benefit from portfolio margining across listed and unlisted products and may need to put in additional funds in order to transact in a similar range of products.

5.12 A few respondents were indifferent between options 2 and 3, while several respondents preferred Option 2, commenting that it would achieve the best mix of cost effectiveness and protection of customers' interests. Most respondents were not in favour of Option 4, as it was viewed as being too onerous and costly.

MAS' Response

5.13 MAS is of the view that Option 1 of maintaining an omnibus trust account for the customers of derivative dealers trading in listed and unlisted products does not support the objective of facilitating the recovery of customer moneys in the event a derivative dealer becomes insolvent.

5.14 Customers of derivative dealers may transact in unlisted derivatives as well as derivatives listed on an exchange. This is typically the case if the derivative dealer is also an exchange clearing member. As a clearing member, the derivative dealer may advance customer moneys as margins to the clearing house or overseas clearing brokers (in the case of derivatives listed on overseas exchanges) as necessary to initiate and maintain trading positions with the clearing house³. This presents two issues:

(a) Pooling of losses. In the normal course of a clearing member's futures trading business, the clearing house calls for settlement variations from the clearing member's customer trust account (which may comprise moneys of customers transacting in both listed and unlisted derivatives) maintained with the settlement bank. In the event the derivative dealer (as a clearing member) defaults due to a default by a customer, moneys belonging to its other non-defaulting customers can be pooled and used by the clearing house to meet the obligations of the derivative dealer. Thus, for customers trading in unlisted derivatives, they are at risk of losing their moneys in the same pool.

(b) Difficulty in recovery of customer moneys. In the event the overseas trading counterparty of the derivative dealer defaults, the recovery of customer margins that are placed with the overseas clearing broker may be protracted. As the moneys of customers transacting in listed and unlisted derivatives are commingled, should there be a shortfall of customer moneys in Singapore arising from the moneys withheld overseas, the shortfall would be pooled, and customers trading in unlisted derivatives may not recover their moneys in full.

³ Under regulation 18 and 30 of SF(LCB) Regulations, customer margins are permitted to be placed with a clearing house or clearing member to facilitate or settle the customer's exchange-traded transactions.

5.15 In the Consultation Paper, MAS indicated that it would consider Option 2 or Option 3 as a balanced approach between enhancing safeguards for customers and minimising regulatory burden on the industry.

5.16 Under Option 2, the derivative dealer maintains a single omnibus trust account, but separately accounts for customer moneys received for the purpose of trading in listed and unlisted derivatives at all times. Customer margins that are onward placed with the clearing broker or clearing house will be identified and taken only from the pool of customer moneys meant for transacting in listed derivatives. In the event of default of the derivative dealer's overseas clearing broker (paragraph 5.14(b) refers), any shortfall in customer moneys can be attributed to the pool of customers trading in listed derivatives. This will facilitate the return of moneys of customers transacting in unlisted derivatives. However, in a situation where the derivative dealer operates as a clearing member (paragraph 5.14(a) refers), because the customer moneys remain commingled in one omnibus account, customers that transact in unlisted derivatives are still exposed to the risk of the clearing house pooling and using their moneys to meet the obligations of the derivative dealer.

5.17 To address this risk, Option 3 requires separate trust accounts for listed and unlisted products. MAS notes that operating multiple customer trust accounts will be more costly (for example, handling of single receipts that have to be deposited in different accounts). Nevertheless, Option 3 will ensure that the clearing house does not have access to moneys of customers transacting in unlisted derivatives, and facilitates the early return of customer moneys in the event of default of the derivative dealer who is also a member of the clearing house.

5.18 Internationally, with the G-20 reforms and regulatory developments following the failure of MF Global, major jurisdictions have shifted towards providing greater customer protection in respect of

portability and recovery of customer moneys in the event of default of a financial firm. For instance, under the G-20 proposals for the clearing of OTC derivatives, clearing houses are required to employ a trust account structure that enables the identification and segregation of the positions and collateral belonging to each individual customer of a clearing member.

5.19 Having carefully considered the feedback received, the cost-benefit trade-off of the different options and international developments towards greater protection of customer moneys, MAS will proceed with Option 3, which requires derivative dealers to maintain separate trust accounts for customers' transactions in listed and unlisted products. The proposal will only apply in respect of cash collateral deposited with the derivative dealer, given the operational considerations mentioned in paragraph 5.6 in relation to non-cash collateral. In this regard, existing segregation safeguards with respect to non-cash collateral under the SFA will continue to apply.

6 RISK DISCLOSURE REQUIREMENTS

6.1 To ensure that the specific features and risks of unlisted margined derivatives are better disclosed in a clear, concise and consistent manner, MAS proposed requiring derivative dealers to provide retail investors with a prescribed set of baseline information in an Additional Risk Fact Sheet ["Fact Sheet"]. MAS invited suggestions on the form⁴ and content of the Fact Sheet. MAS also proposed to apply certain relevant parts of the Fact Sheet to the trading of futures contracts.

6.2 A group of respondents were in favour of the Fact Sheet and its proposed form and content, and suggested that MAS engage derivative dealers in drafting the detailed form and content of the Fact Sheet.

⁴ The Fact Sheet should contain disclosure of specified information and risks in plain language in a "Question and Answer" format, have no more than three A4-size pages and have information presented in a font size of at least 10-point Times New Roman.

Another group of respondents were concerned that the Fact Sheet may discourage customers from reviewing the detailed risks set out in the trading agreements and product documents.

6.3 Several respondents suggested that given the prevalent use of the internet and online trading, customers should be allowed to acknowledge that they have reviewed and understood the Fact Sheet electronically without the requirement for physical signature. Some respondents suggested that the Fact Sheet should provide a balanced view by including not only the risks, but also the benefits of the product. Several respondents also suggested that MAS streamline the Fact Sheet with the risk disclosure statement in Form 13 of the SF(LCB) Regulations that is currently applicable to the regulated activity of trading in futures contracts and LFX contracts. One respondent suggested that the Fact Sheet could be made more accessible to customers by publishing an online version on the website of the derivative dealer.

6.4 Several respondents sought clarification on whether the Fact Sheet would apply at the product class level or to each individual product.

MAS' Response

6.5 The Fact Sheet serves to better highlight the key risks of trading in unlisted margined derivatives such as CFDs and LFX contracts in a way that can be easily understood by retail customers. The Fact Sheet should not separately preclude the derivative dealer from disclosing other relevant risks as typically set out in the dealer's trading agreement and product information documents. Given the objective of the Fact Sheet, MAS is of the view that the content should be confined to the risks of unlisted margined derivatives and should not include the benefits of such products. MAS will engage the industry and consumer associations in the development of the Fact Sheet to ensure that it is useful and relevant for retail investors.

6.6 On the suggestion to allow customers to acknowledge that they have reviewed and understood the Fact Sheet electronically, MAS recognises the operational efficiencies involved. MAS also notes that for existing customers of derivative dealers who are already transacting in unlisted margined derivatives, there will be practical difficulties and inconvenience to the customers if written acknowledgement of the Fact Sheet has to be obtained before they can continue trading. MAS therefore agrees with the suggestion to allow derivative dealers to obtain customers' acknowledgement that they have reviewed and understood the Fact Sheet in electronic form, subject to proper audit trail and record keeping. To facilitate easy access and review of the Fact Sheet by customers of the derivative dealer, MAS also agrees with the suggestion to have the Fact Sheet posted on the website of the derivative dealer.

6.7 Form 13 of the SF(LCB) Regulations provides a generic disclosure to all types of investors (i.e. retail and non-retail investors) of the risks in trading margined products including futures contracts. In contrast, the Fact Sheet is targeted at retail investors and provides more specific disclosure of the features and risks in trading unlisted margined derivatives. For example, the proposed Fact Sheet will include numerical examples of potential losses in trading unlisted margined derivatives for better understanding of the risks involved. Given the different regulatory objectives and coverage of product disclosures between Form 13 and the Fact Sheet, MAS is of the view that there is merit in maintaining Form 13. Nevertheless, where there are areas of overlap, MAS notes that there is scope to review and streamline the disclosure requirement currently set out in Form 13. In amending Form 13, MAS will engage the industry and consumer associations to ensure that it continues to be useful and relevant for investors.

6.8 MAS would like to clarify that the Fact Sheet may apply to a class of products, to the extent that they have similar risk and pay-off characteristics. Where a particular unlisted margined derivative product is assessed to have risks that are specific and unique, the derivative dealer should disclose them in a separate Fact Sheet as applicable.

7 CARVE-OUT FOR BANKS WHO CARRY ON LFX TRADING

7.1 Banks licensed under the Banking Act and merchant banks approved under the MAS Act are currently not caught under the SFA for the regulated activity of LFX trading. Several respondents asked if MAS intends to amend the SFA to remove this carve-out. They suggested that should MAS proceed with this amendment, MAS should allow the banks to continue being exempted from the relevant business conduct rules under the SFA in respect of their LFX dealings with non-retail investors.

MAS' Response

7.2 In the Consultation Paper on Proposed Regulations of OTC Derivatives issued in February 2012, MAS proposed to regulate intermediaries which deal in over-the-counter derivatives, including LFX trading. Consequently, the conduct of LFX trading by banks, which is currently not regulated under the SFA, will be brought into the ambit of the SFA. This is to ensure that the current business conduct rules under the SFA is applied consistently to banks, and between banks and non-bank intermediaries, for all types of foreign exchange derivatives as well as other derivative contracts, in respect of their dealings with retail investors.

7.3 The applicability of the business conduct rules for LFX trading by banks with non-retail investors will be consulted at a later stage, as part of the development of the regulatory regime for intermediaries dealing in OTC derivatives.

MONETARY AUTHORITY OF SINGAPORE

14 March 2014

LIST OF RESPONDENTS

1. City Index Asia Pte Ltd
2. DBS Vickers Securities (S) Pte Ltd
3. G.K. Goh Financial Services (S) Pte Ltd
4. Gekko Global Markets
5. GFT Global Markets Asia Pte Ltd
6. IG Asia Pte Ltd
7. LCH Clearnet Group Limited
8. OANDA Asia Pacific Pte Ltd
9. Phillip Futures Pte Ltd
10. Phillip Securities Pte Ltd
11. Securities Association of Singapore
12. Singapore Consortium Investment Management Ltd
13. The Association of Banks in Singapore
14. The Royal Bank of Scotland
15. UOB Bullion and Futures Limited
16. Mr Adrian Bek
17. Mr Robin Langdale
18. Ms MK Khoo

Seven other respondents requested for their comments to be kept confidential.

OPTIONS ON MAINTENANCE OF TRUST ACCOUNTS

Option 1: The derivative dealer maintains an omnibus trust account for all customers in all investment products (i.e. funds for customers' trades in futures contracts listed on an exchange as well as unlisted margined derivatives are kept in one single/consolidated account), but has a system to monitor and account for each customer's positions and entitlement to their moneys and assets at all times.

Option 2: Similar to Option 1, the derivative dealer maintains an omnibus trust account for customer funds, which includes margins for both unlisted and listed products. However, the trust moneys for unlisted derivatives are segregated (accounting-wise) from trust moneys for listed products at the customer level, i.e. a particular customer who trades both unlisted and listed products would have to put up the margins for each separately, as though they were for two separate trust accounts. At all times, the trust moneys for unlisted margined trades would be accounted for and maintained in Singapore.

Option 3: The derivative dealer maintains separate omnibus trust accounts for unlisted and listed products. Margins of customers who trade in unlisted products will be commingled in one omnibus account while margins for listed products will be commingled in another omnibus account.

Option 4: The derivative dealer maintains separate trust accounts for unlisted and listed products for each individual customer. This ensures operational and legal segregation at the individual customer level.