

MAS consults on proposed new Securities and Futures (Markets) Regulations 2017

The Securities and Futures (Amendment) Act 2017 passed by Parliament on 9 January 2017 introduces wide-ranging amendments to the Securities and Futures Act (SFA) and provides the Monetary Authority of Singapore (MAS) with legislative powers to complete its implementation of over-the-counter (OTC) derivatives reforms. MAS intends to implement the amendments to the SFA by 2018. To support this, MAS will consult the public on consequential amendments to key draft regulations in two phases.

For the first phase, on 28 April 2017, MAS published a consultation paper on, amongst others, the new Securities and Futures (Markets) Regulations 2017 (SFMR). MAS will issue the second consultation paper on other draft regulations later this month.

Proposals outlined in the consultation paper

The SFMR will replace the existing Securities and Futures (Markets) Regulations 2005, and is intended to implement the new Part II of the SFA, which provides for the regulation of approved exchanges (AEs) and recognised market operators (RMOs).

The new regulations will apply the regulatory regime to operators of all "organised markets", including those for the trading of OTC derivatives.

We set out below a high-level overview of the key proposals relating to the SFMR.

Minimum Admission Requirements

MAS proposes to set out the minimum requirements for approval or recognition as an AE or RMO in the SFMR. These requirements include the requirement that an applicant has demonstrated to MAS' satisfaction that the applicant is able to meet the obligations of, and comply with the requirements imposed on, an AE or RMO under the SFA, as well as the requirement that the applicant is able to maintain the minimum base capital requirements. Currently, the base capital requirements are imposed as

conditions on the approval or recognition as an AE or RMO

Execution in the Customer's Interests

MAS proposes to formalise the requirement that a market operator has in place measures to ensure that its handling and execution of bids and offers is conducted on a fair and objective basis, and takes into account the interests of market participants.

In addition, MAS proposes to require that a market operator have in place measures to facilitate its members' execution of customer orders in the

customer's interests. Such facilitation could be in the form of disclosure of post-trade data on transactions executed on its organised market, allowing intermediaries and customers to assess matching outcomes.

Exemption for entity broking "block futures" or "negotiated large trades" for exchange-traded derivatives contracts

It is not MAS' intention to regulate as AEs or RMOs entities that facilitate the transactions of OTC derivatives as market intermediaries without operating an organised market.

In this connection, MAS' view is that entities providing facilities which engage with customers to broke "block futures" or "negotiated large trades" for the purposes of registering such trades on an established organised market operated by an AE or RMO should not constitute organised markets for the trading of OTC derivatives, but should rather be regarded as providing intermediation services in relation to exchange-traded derivatives.

As such, MAS proposes to exempt an entity from Part II (*Markets*) of the SFA if it is subject to Part IV (*Holders of Capital Markets Services Licence and Representatives*) of the SFA in

respect of its activity of broking of "block futures" or "negotiated large trades" for exchange-traded derivatives contracts. Accordingly, such an entity would only need to be regulated as a capital markets service licence holder.

Transitional arrangements

MAS proposes a three-month period from the commencement of the Securities and Futures (Amendment) Act 2017 (T) for an entity to assess if it operates an organised market and to notify MAS of its intention to apply for AE or RMO status. The entity will then have a further nine months to submit its application to MAS.

An entity that operates an organised market, but does not notify MAS by T+3 months, or does not then submit a completed application by the end of T+12 months, will have to cease operations by T+12 months.

Feedback on the consultation paper

The consultation paper and the draft SFMR are available on MAS' website. The closing date for the public to submit comments and feedback is **2 June 2017**.

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