

Regulatory Circular 2.20

LIMITS OF POSITIONS

Issue Date	Cross Reference	Enquiries
dd/mm/yy	Clearing Rules Rule 2.20	Please contact Risk Management : Ms Elaine Tang 6236 8142 Mr Peh Kok Heng 6236 8118

1 Introduction

- 1.1. This Circular is intended to provide clarification on the operational details for the implementation of Clearing Rule 2.20 – “Limits of Positions”, and is to be read in conjunction with the Rules. Any violation of the requirements set out in this paper deemed to be violation of Clearing Rule 2.20.

2 Objectives and Monitoring required

- 2.1 The objective of establishing these position limit requirements is to enable Member firms to manage their risk exposure to any single customer, and to facilitate their customers’ trading activities. For this purpose, “single customer” is defined as all the related corporations of the same group. The entire House origin, which carries accounts containing Members’ proprietary positions and the proprietary positions of their related corporations, shall also be treated as a single customer for purposes of compliance with and monitoring of the limits under the requirements.
- 2.2 Each Member firm shall be responsible for monitoring the position concentration of a single customer, computed in futures equivalent (FE)¹ term, which are carried in one or more accounts on the books of the Member firm. Details on the methodology of computation of position concentration are given in paragraphs 4 and 5.
- 2.3 Each Member firm shall be responsible for monitoring the total maintenance margins (MM) required to be deposited to secure all contracts booked in one or more accounts owned by the single customer, carried in the Member’s books. In computing the total MM, the Member firm should include the MM deposited by the single customer for non – SGX contracts, and any deposits collected for over – the – counter or principal – principal type transactions.

¹ Options would be converted to FE using the composite delta published daily by the Clearing House. For the purposes of computation of position concentration, a long call option, a short put option, and a long underlying futures contract are on the same side of the market; similarly, a short call option, a long put option, and a short underlying futures contract are on the same side of the market. The computation procedure laid down in paragraph 4.1 will be used to determine the FE position of the single customer.

3 Position Limit

- 3.1 Position limit, in FE terms, refers to positions in a single contract by a single customer that are carried by one Member firm, as prescribed under the respective contract specifications.
- 3.2 No position limit will be imposed for the Eurodollar (ED), Euroyen Tibor (EY) and Euroyen Libor (EL) 3 – month interest rate futures and options contracts. Instead, a position accountability rule shall apply to these contracts. Notwithstanding this, the Clearing House shall be entitled to call for additional information about a customer's account or accounts, nature of the positions, trading strategy, and hedging information if applicable.

4 Computation of Position Concentration

- 4.1 The computation of position concentration is performed in two steps. Firstly, the net position has to be computed for each entity in the group. For this purpose, different related companies within the group, and different branches of the same company within the group shall be considered different entities. Positions within each entity are netted to derive a net long or net short positions in terms of FE. If the entity's account is designated as an omnibus account, the positions within the entity's account may not be netted, and a gross long and gross short position should be derived from the position in the sub – accounts of the account.
- 4.2 Next, the net long or net short position of each entity (or gross long and gross short for omnibus accounts) of the single customer is added to derive an aggregate long and aggregate short position for the single customer. The higher of the aggregate long and aggregate short position for the single customer is then used to determine compliance with the requirements under paragraph 3 on position limits.
- 4.3 The treatment of omnibus accounts should follow the principles set out in paragraph 5.

5 Treatment of Customer Omnibus Accounts

- 5.1 Each sub – account of customer omnibus accounts in which the positions and identities of the customers in the sub – accounts are disclosed to the Member (through the omnibus sub – account reporting process) may be treated independently as separate customers (and aggregated with positions and the MM requirements for positions carried in direct accounts or other omnibus sub – accounts which are disclosed to the Member) for the purposes of compliance with the requirements of paragraph 3 and 8 on position limits and single customer limits, respectively.
- 5.2 However, positions and the MM requirements for the positions in undisclosed customer omnibus accounts should be aggregated with positions in proprietary accounts of the omnibus account holder, when monitoring for compliance with position limits and single customer limits for the single customer.

5.3 It should be noted that for purposes of determining position concentration, the long and short positions within omnibus accounts may not be netted, but should be aggregated with the long and short FE position of accounts of different entities of the group, along the lines stated in paragraph 4.

6 Computation of Total Maintenance Margins

6.1 The total MM for a single customer is obtained by adding the MM for all the entities (as defined in paragraph 4) in the group. This total MM figure should then be compared to the following:-

- (i) US\$70 million or 5% of the shareholders' funds of the single customer; and
- (ii) the FR of the Member firm.

The appropriate course of action described in paragraphs 7 and 8 should then be taken.

6.2 The treatment of omnibus accounts should follow the principles established in paragraphs 5.1 and 5.2.

7 Exposure Threshold for Notification Purposes

7.1 A Member is required to notify the Clearing House by the next business day, when the total MM required to be deposited by a single customer exceeds US\$70 million as at the close of business on any business day. This is a once – off notification, and the Member need not notify the Clearing House again, even if the MM of the customer should dip below the notification level and subsequently breach it again. When providing such notification, the Member should provide the following information on the customer:-

- (i) the identity;
- (ii) total MM required to be deposited; and
- (iii) whether the customer had adequate funds on deposit with the Member, or, if a margin call was issued, when the funds were received or are expected.

7.2 In addition, customers, including holders of undisclosed omnibus accounts, are required to provide a letter of awareness to Clearing House if the exposure threshold specified by the Clearing House is breached. Where positions in the House Origin breach this exposure threshold, the Parent Company² of the Member is likewise required to provide the letter of awareness.

7.3 The exposure threshold is as follows:-

² The Parent Company of the Member firm shall be the related corporation of the Member which the Clearing House has, in consultation with the Member, approved as the one to provide the letter of awareness.

The total MM required to be deposited by the single customer with the Member firm exceeds US\$70 million³ or 5% of the shareholders' funds⁴ of the ultimate parent corporation or holding company of the customer⁵, whichever is higher, at the close of business of any business day.

- 7.4 The Member firm is required to monitor for compliance with this threshold and inform the customer about the necessary notification⁶. The letter of awareness (in the prescribed format attached at Appendix 1) shall be sent directly by the customer to the Clearing House, with a copy to the Member, within one week after the threshold is breached. Such letter of awareness shall have a validity period of one year from the date of issue. Thus, should the customer's total MM fall below the threshold and subsequently exceed the threshold again, no further notification is necessary as long as the previous notification is still valid. The letter of awareness need not be renewed if, at the time of expiry, the customer's MM are below the threshold. Otherwise, the customer would need to re – submit a new letter of awareness. It shall be the Member's responsibility to monitor for the validity of the customer's letter of awareness.

8 Single Customer Limit

- 8.1 Furthermore, the Member is required to take the following courses of action if the total MM⁷ of any single customer at the close of business on any business day should exceed the following number of times of the Member's Financial Requirements (FR), as stated in its latest Risk Based Capital (RBC) submission to the Clearing House:-

Customer's Total MM (Relative to FR)	Action to be Taken
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³ For the purpose of computing the single customer's total MM on deposit with the Member, all amounts shall be converted to US Dollar equivalent each day using the daily exchange rate published by Clearing House. For currencies where the exchange rates are not published by the Clearing House, the Member may use a current market rate which is reasonably and consistently derived.

⁴ The Member shall, in discussion with its customer, specify in its records a company within the customer's group (deemed the ultimate parent corporation) which shall be responsible for issuing the letter of awareness. For the purpose of computing shareholders' funds, the latest available audited annual accounts of the specified company should be used. All foreign currency amounts should be converted to US Dollar equivalent based on the calendar year – end rate as obtained from Bloomberg, and made known to Members by the Clearing House. Where the Member is uncertain as to which entity within the customer's group of companies should provide the letter of awareness, the Member may discuss this matter with the Clearing House.

⁵ In the case of undisclosed omnibus accounts (i.e. where the identities of the ultimate customers are unknown), the relevant entity giving the letter of awareness would be the account holder who has opened the omnibus account or its ultimate parent corporation where applicable. Positions in undisclosed omnibus accounts should be aggregated with those in other accounts of the account holder, and related corporations of the account holder to derive the position concentration and total MM figure for the single customer. This is explained in greater detail in paragraph 5.

⁶ Where the Parent Company has already provided a letter of awareness to the Clearing House under the requirements set out in paragraph 8 for the House Origin accounts, no letter of awareness would be required under this paragraph. Conversely, if a letter of awareness has been provided under this requirement before one is provided under the requirements of paragraph 8, then no letter of awareness would be required under paragraph 8.

⁷ For the purpose of comparison between the Member's FR and the customer's total MM, all amounts shall be converted to US Dollar equivalent each day using the daily exchange rates published by the Clearing House. For currencies where the exchange rates are not published by the Clearing House, the Member may use a current market rate which is reasonably and consistently derived.

Below two times	None
Two times but less than four times	Letter of Awareness from CEO of Member Firm
Above four times	Letter of Awareness from Member's Parent Company

8.2 Letter of awareness from the Member firm's CEO shall use the prescribed format at Appendix 2, and shall be sent to the Clearing House by the next business day after the relevant threshold is breached. Letters of awareness from the Member's Parent Company⁸ shall use the prescribed format at Appendix 3, and shall be sent to the Clearing House within one week after the day in which the relevant threshold is breached⁹. Letter of awareness shall have a validity period of one year. Thus, should the customer's MM fall below the threshold and subsequently exceed the threshold again, no further notification is necessary as long as the previous notification is still valid. The letter of awareness need not be renewed if, at the time of expiry, the customer's MM on deposit with the Member are below the threshold. Otherwise, the Member or its Parent Company would need to resubmit new letter of awareness, as the case may be.

⁸ The Parent Company of the Member firm shall be the related corporation of the Member which the Clearing House has, in consultation with the Member, approved as the one to provide the letter of awareness.

⁹ Where the Parent Company has already provided a letter of awareness to the Clearing House under the requirements set out in paragraph 7 for the House Origin accounts, no letter of awareness would be required under this paragraph. Conversely, if a letter of awareness has been provided under this requirement before one is provided under the requirements of paragraph 7, then no letter of awareness would be required under paragraph 7.

Appendix 1

[LETTERHEAD OF ULTIMATE PARENT CORPORATION OF COLLECTIVE CUSTOMER]

[Date]

Head of Risk Management
Singapore Exchange Derivatives Clearing Limited
[Address]

Dear Sir

LETTER OF AWARENESS – [SGX- DC Clearing Member’s Customer’s Name]

We write to confirm that we, [name of ultimate parent corporation of collective customer], have allowed, [name of SGX – DC Clearing Member’s customer] and the following entities:

- (a) _____
- (b) _____
- (c) _____

each of which is a related corporation to each other (collectively referred to as the “Collective Customer”) to open and maintain accounts with [name of SGX – DC Clearing Member] for the purposes of, inter alia, trading in contracts cleared by SGX – DC.

We are aware that the Collective Customer has, as at [date] established in the aggregate through [name of SGX – DC Clearing Member] on the SGX – DC, positions whose aggregate maintenance margins requirements in respect thereof exceed a relevant amount as notified by the Board of Directors of SGX – DC thereby triggering the requirement for a letter of awareness under Rule 2.20 of the SGX-DC Clearing Rules to be issued by us in favour of SGX – DC.

Notwithstanding the foregoing, we are not aware of any reason for any concern that any default to SGX – DC attributable to the positions of the Collective Customer may or will result (and we will monitor the situation to ensure that this will remain so).

Yours faithfully

[Name, signature and designation
of officer authorized to sign for
and on behalf of the ultimate parent
corporation of the Collective Customer]

Appendix 2
[LETTERHEAD OF CLEARING MEMBER]

[Date]

Head of Risk Management
Singapore Exchange Derivatives Clearing Limited
[Address]

Dear Sir

LETTER OF AWARENESS – [Customer’s Name]

We write to confirm that we, [name of SGX – DC Clearing Member], have allowed, [name of customer] and the following entities:

- (a) _____
- (b) _____
- (c) _____

each of which is a related corporation to each other (collectively referred to as the “Collective Customer”) to open and maintain accounts with us for the purposes of, inter alia, trading in contracts cleared by SGX – DC.

We are aware that the Collective Customer has, as at [date] established in the aggregate through us on SGX – DC, positions whose aggregate maintenance margins requirements in respect thereof exceed a relevant amount as notified by the Board of Directors of SGX – DC thereby triggering the requirement for a letter of awareness under Rule 2.20 of the SGX-DC Clearing Rules to be issued by us in favour of SGX – DC.

Notwithstanding the foregoing, we are not aware of any reason for any concern that any default to SGX – DC attributable to the positions of the Collective Customer may or will result (and we will monitor the situation to ensure that this will remain so).

Yours faithfully

[Name, signature and designation
of CEO of Clearing Member]

Appendix 3

[LETTERHEAD OF PARENT COMPANY OF SGX – DC CLEARING MEMBER]

[Date]

Head of Risk Management
Singapore Exchange Derivatives Clearing Limited
[Address]

Dear Sir

LETTER OF AWARENESS – [Customer’s Name]

We write to confirm that we, [name of Parent Company of SGX – DC Clearing Member], are aware that our subsidiary / related corporation [name of SGX – DC Clearing Member] (the “Company”), a Clearing Member of the Clearing House, has allowed, [name of customer] and the following entities:

- (a) _____
- (b) _____
- (c) _____

each of which is a related corporation to each other (collectively referred to as the “Collective Customer”) to open and maintain accounts with the Company for the purposes of, inter alia, trading in contracts cleared by SGX – DC.

We are aware that the Collective Customer has, as at [date] established in the aggregate through the Company on SGX – DC, positions whose aggregate maintenance margins requirements in respect thereof exceed a relevant amount as notified by the Board of Directors of SGX – DC thereby triggering the requirement for a letter of awareness under Rule 2.20 of the SGX – DC Clearing Rules to be issued by us in favour of SGX – DC.

We are further aware that if the positions of the Collective Customer continue to increase and the aggregate maintenance margins increase correspondingly, the requirement under Rule 2.20 for a letter of guarantee may arise and that we may be required by the Board of Directors of SGX – DC to provide the required letter of guarantee for the Company.

Notwithstanding the foregoing, we are not aware of any reason for any concern that any default to SGX – DC attributable to the positions of the Collective Customer may or will result (and we will monitor the situation to ensure that this will remain so).

Yours faithfully

[Name, signature and designation
of officer authorized to sign for
and on behalf of the Parent Company]