SINGAPORE EXCHANGE LIMITED

PUBLIC CONSULTATION

PURSUANT TO SECTION 23(2) OF THE SECURITIES AND FUTURES ACT AND REGULATION 19(2) OF THE SECURITIES AND FUTURES (MARKETS) REGULATIONS 2005, THE SINGAPORE EXCHANGE SECURITIES TRADING HEREBY CONSULTS ITS PARTICIPANTS ON THE PROPOSED AMENDMENTS TO ITS BUSINESS RULES

PROPOSED AMENDMENTS TO THE SGX-ST RULES IN RELATION TO THE SGX-ST MARKET ERROR TRADE POLICY

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21 June 2007

1. INTRODUCTION

1.1 The Singapore Exchange Securities Trading Ltd ("**SGX-ST**") seeks public comment on:

(a) proposed revisions to the error trade policy for the Singapore securities market; and

(b) the introduction of a new error trade policy for the structured warrants[1] market.

The proposals aim to enhance efficiency and transparency in the management of error trades.

1.2 This paper outlines the key changes to the current error trade policy, as set out in the proposed amended Rule 8.6 (at **Appendix A**).

2. CURRENT ERROR TRADE POLICY

2.1 Current Rule 8.6 requires the erring Trading Member to seek the agreement of the counterparty to cancel an error trade. Both parties are under an obligation to report the error trade to SGX-ST.

2.2 Where the parties cannot agree to cancel the error trade, SGX-ST is empowered to intervene, upon request, and cancel the trade if it is considered appropriate to do so. In deciding whether to cancel the error trade, SGX-ST considers various factors outlined in Rule 8.6.3, and adopts the general approach that trades in the securities market should ordinarily stand.

2.3 Current Rule 8.6 does not distinguish between different securities products for the purposes of error trades.

3. PROPOSED REVISIONS FOR THE SINGAPORE SECURITIES MARKET

3.1 The current error trade policy applicable to all securities traded on SGX-ST has been reviewed and clarified. The substantive amendment is the imposition of time limits for reporting and referring error trades to SGX-ST. These time limits will increase efficiency in the management of error trades, and will enhance the predictability of actions taken under the policy.

3.2 The time limits imposed under the proposed policy are as follows:

(a) an error trade must be reported to SGX-ST within 30 minutes from the time the error occurred;

[1] "Structured warrants" include structured warrants, certificates and other structured products listed under Chapter 5 of the SGX-ST Listing Manual.

(b) the matter must be referred to SGX-ST for review within 60 minutes from the time the error occurred; and

(c) SGX-ST will endeavour to make its determination no later than 12 hours following the receipt of a request for a trade review.

3.3 The revisions also extend the definition of an error trade to include an error which is made in the entry of the quantity or volume of an order.

4. KEY FEATURES OF THE NEW ERROR TRADE POLICY FOR THE STRUCTURED WARRANTS MARKET

4.1 Under the proposed Rule 8.6, SGX-ST's authority to cancel an error trade is extended to include the capacity to adjust the trade price of an erroneous trade in a structured warrant. The trade price of an error trade in a structured warrant will only be adjusted where there is an error in the entry of its price or value.

4.2 In deciding whether to adjust the price of an error trade, SGX-ST will continue to have regard to the factors as outlined in current Rule 8.6.3. Where appropriate, the trade price will be adjusted to the Reference Price ascertained for that structured warrant.

Trade Adjustment

4.3 Given that structured warrants have an intrinsic theoretical value, the revisions uphold trade certainty and lend increased fairness by allowing SGX-ST to determine, in appropriate circumstances, that an error trade is to stand at an adjusted price (as opposed to the erroneous price).

Reference Price

4.4 Where a party has erroneously entered a bid or offer at a price which is substantially inconsistent with the last traded price of a structured warrant, other market participants may take advantage of the error and exploit the obviously erroneous price.

4.5 The Reference Price will primarily be determined with reference to the last quoted bid and offer price for a structured warrant immediately preceding the error trade.

No-Tolerance Range

4.6 Under the new policy, a no-tolerance (or 'no-bust') range will be specified for error trades in structured warrants. The no-tolerance range will be determined with regard to the Reference Price. Error trades done within the no-tolerance range will stand, and no further action will be taken.

4.7 This no-tolerance range will be determined as the wider of the following:

(a) +/- 20 Minimum Bid Sizes from the Reference Price; and

(b) +/- 25% of the Reference Price.

Processing fee

4.7 A trade review fee of $2,000 for each error will be imposed on the Trading Member who is requesting the intervention of SGX-ST in an error trade dispute. Members must continue to take adequate measures to guard themselves against making erroneous trades, and where possible, mutually agree to cancel an error trade.

5. REQUEST FOR COMMENTS

5.1 **Revision to Error Trade Policy for Securities Market**

Are the proposed time limits to report and refer error trades to SGX-ST appropriate? If not, why?

5.2 **New Error Trade Policy for Structured Warrants Market**

Do you agree with the new error trade policy with respect to:

(i) Trade Adjustment; and

(ii) No-Tolerance Range of +/- 20 Minimum Bid Sizes or +/- 25% of the Reference Price?

If not, why?

6. AMENDMENTS TO SGX-ST RULES

6.1 The proposed amended Rule 8.6 of the SGX-ST Rules is attached as **Appendix A**.

7. PROCEDURE AND DEADLINE TO SUBMIT COMMENTS

7.1 Written submissions are to be sent to the Exchange through email ***and*** either by post/courier or by fax:

Email: [*rules@sgx.com*]

AND

Post/Courier: Singapore Exchange Limited
2 Shenton Way, SGX Centre 1
#19-00, Singapore 068804
Attn: Sibylla Muecke
Fax: +65 6535 5573

7.2 Comments should be organised in the following manner:

(a) cover page (including the information specified in paragraph 5.4 of this Section);

(b) statement of interest;

(c) table of contents;

(d) summary of major points;

(e) comments; and

(f) conclusion.

7.3 Supporting material may be placed in an annex. All submissions should be clearly and concisely written, and should provide a reasoned explanation for any proposed revision to the rules. Where feasible, participants should identify the specific rule on which they are commenting. In any case in which a participant chooses to suggest revisions to the text of the rules, the participant should state clearly the specific changes to the text that they are proposing.

7.4 All submissions should be made on or before **12 JULY 2007**. Submissions must be submitted in both hard and soft copies (in Microsoft Word format) and font size should be no smaller than Times New Roman 11pt. Participants submitting comments should include their personal/company particulars as well as their correspondence address, contact numbers and email addresses on the cover page of their submissions.

7.5 The Exchange reserves the right to make public all or parts of any written submission and to disclose the identity of the source. Participants may request confidential treatment for any part of the submission that the participant believes to be proprietary, confidential or commercially sensitive. Any such information should be clearly marked and placed in a separate annex. If the Exchange grants confidential treatment, it will consider but will not publicly disclose the information. If the Exchange rejects the request for confidential treatment, it will return the information to the party that submitted it and will not consider the information as part of its review. As far as possible, participants should limit any request for confidential treatment of information submitted. The Exchange will not accept any submission that requests confidential treatment of all, or a substantial part, of the submission.

APPENDIX A

8.6 ERROR TRADES

8.6.1 A Trading Member must take all necessary steps and exercise due diligence in monitoring transactions effected on CLOB for any errors.

8.6.2 An error trade refers to a transaction effected on CLOB as a result of an error in:

(1) the entry of the volume or quantity of an order; or

(2) the entry of the price or value of an order.

8.6.3 Where an error trade occurs:

(1) the Trading Member who made the error must immediately contact the counterparty Trading Member and seek its agreement to cancel the trade;

(2) both Trading Members must immediately take all necessary actions to minimise any potential repercussions caused by the error trade; and

(3) both Trading Members must inform SGX-ST of the error as follows:

(a) by telephone within thirty (30) minutes from the time the error trade occurred; and

(b) in writing on the same day that the error trade occurred. Written notification must include details of the security product, price, trade number and time of the error trade. The Trading Member who made the error must also provide reasons for the error.

8.6.4 Where the Trading Members agree to the cancellation of an error trade, SGX-ST retains the discretion to determine that the error trade will stand where it is considered necessary for the proper maintenance of a fair and orderly market.

8.6.5 Where the Trading Members cannot agree to the cancellation an error trade, a Trading Member may request SGX-ST to review the alleged error trade. The following procedures apply:

(1) the matter must be referred to SGX-ST within sixty (60) minutes from the time the error trade occurred, or before 17:00 hours on that trading day, whichever is earlier;

(2) the requesting Trading Member must inform the counterparty Trading Member that it has referred the matter to SGX-ST; and

(3) where the alleged error trade occurs in the structured warrants market, the requesting Trading Member must pay a trade review fee of $2,000 for each error trade which is referred to SGX-ST, regardless of the outcome of its review.

8.6.6 Notwithstanding Rule 8.6.5, SGX-ST may review the validity of any transaction effected on CLOB where SGX-ST:

(1) considers that an error trade has occurred; and

(2) deems that the cancellation or price adjustment of the error trade is necessary for the proper maintenance of a fair and orderly market.

8.6.7 Upon the receipt of a request to review an alleged error trade, SGX-ST will consider the validity of the alleged error trade having regard to Rule 8.6.9. SGX-ST may, in its discretion, make a determination that:

(1) the error trade is to be cancelled; or

(2) the trade price of an error trade in a structured warrant is to be adjusted in accordance with Rules 8.6.10 and 8.6.11.

For the avoidance of doubt, the trade price of an error trade in a structured warrant will only be adjusted where there is an error in the entry of its price or value.

8.6.8 SGX-ST will endeavour to make its determination no later than twelve (12) hours following the receipt of a request for a trade review. SGX-ST will notify the Trading Members who are counterparties to the error trade of its determination by telephone and in writing.

8.6.9 SGX-ST may consider the following factors when deciding whether to cancel a trade, or to adjust a trade price under Rule 8.6.7:

(1) the difference between the price at which the error trade was done and the preceding traded price of the security;

(2) the market liquidity in the security at the time the error trade occurred;

(3) the trading behaviour of the underlying securities;

(4) the monetary loss involved if the trade is or is not cancelled;

(5) the difference between the time the erroneous order was entered and the time it was matched;

(6) the number of counterparty customers involved;

(7) whether the force key was used when entering the erroneous order into CLOB;

(8) the reason(s) given for the error; and

(9) any other factors which SGX-ST thinks relevant.

8.6.10 SGX-ST will only exercise its discretion under Rule 8.6.7 to adjust a trade price if the error trade occurs in respect of structured warrants listed for trading on SGX-ST. The adjusted trade price for the structured warrant will be its Reference Price. The Reference Price will be determined as follows:

(1) the average of the last quoted bid price and the last quoted offer price for the structured warrant immediately preceding the error trade; or

(2) if sub-paragraph (1) of this Rule is not considered by SGX-ST to reflect a fair market price, the Reference Price will be determined by calculating the average of three (3) fair market prices as quoted by three Designated Market-Makers of structured warrants in accordance with the following procedures:

(a) the Designated Market-Makers will be selected randomly by SGX-ST, but will not include a Designated Market-Maker who is involved in the alleged error trade which is under review; and

(b) if SGX-ST has reason to believe that a quote provided by a Designated Market-Maker is not a fair market price, SGX-ST may, at its discretion, randomly select any other Designated Market-Maker to quote a fair market price for the structured warrant.

8.6.11 In order to determine whether the price established under Rule 8.6.10(1) is considered to be a fair price, SGX may give consideration to the following factors:

(1) the value of the underlying securities at the time the error trade occurred;

(2) the timing of the last bid or ask price relative to the time the error trade occurred;

(3) the volatility of the market conditions during the period under review; and

(4) any factors which SGX-ST thinks relevant.

8.6.12 SGX-ST will not consider requests to cancel or adjust error trades in structured warrants if the alleged error trade falls within the upper and lower limits of a no-tolerance range. The no-tolerance range for structured warrants is determined as the wider of the following:

(1) a lower limit of twenty (20) minimum bid sizes less than the Reference Price, and an upper limit of twenty (20) minimum bid sizes higher than the Reference Price; or

(2) a lower limit of 75% of the Reference Price, and an upper limit of 125% of the Reference Price.

8.6.13 Notwithstanding Rule 8.6.12, SGX-ST retains the discretion to cancel or adjust an error trade in respect of structured warrants within the no-tolerance range if it is considered necessary for the operation of a fair and orderly market.