



DECEMBER 2024

Market operator obligations review

SGX-DT

Findings from the FMA's review of how well SGX-DT is meeting its licensed market operator obligations, for the period 1 July 2023 to 30 June 2024

This copyright work is licensed under the Creative Commons Attribution 3.0 New Zealand licence. You are free to copy, distribute and adapt the work, as long as you attribute the work to the Financial Markets Authority and abide by the licence terms. To view a copy of this licence, visit [creativecommons.org](https://creativecommons.org/licenses/by/3.0/nz/)

Contents

Executive summary	3
About this report	3
How we approached this review	3
Overall assessment	4
Focus areas	5
Compliance and oversight	5
Market suitability	5
Operational performance of the market	6
Appendix: Our role in reviewing SGX-DT	7
Our role	7
Market operator obligations	7
Our approach to oversight of SGX-DT	8

Executive summary

About this report

Singapore Exchange Derivatives Trading Limited (SGX-DT) is based in Singapore. It is licensed by the Financial Markets Authority – Te Mana Tātai Hokohoko (FMA) under section 317 of the Financial Markets Conduct Act 2013 (FMC Act) as an overseas regulated market. The Monetary Authority of Singapore (MAS) is SGX-DT's primary regulator.

SGX-DT is licensed to operate the SGX-DT Dairy Derivatives Market. On 21 November 2021, the New Zealand dairy derivatives contracts were migrated from the NZX Limited (NZX) to SGX-DT.

The FMC Act requires the FMA to carry out a review and report on how well SGX-DT is meeting its licensed market operator obligations.¹ We may carry out this review at any time but must do so at least annually.

This report covers the FMA's review of SGX-DT for the period 1 July 2023 to 30 June 2024 ('the review period'). This is our third review of SGX-DT since its licence came into effect on 13 September 2021.

How we approached this review

SGX-DT is primarily regulated by MAS, and we did not receive notification of issues or changes to the financial products during the review period. For these reasons we have relied on MAS's oversight and its ongoing satisfaction with SGX-DT's compliance.

We have considered feedback from MAS, a self-assessment report from SGX-DT, governance and risk management arrangements at SGX-DT, reporting received from SGX-DT during the review period, and the operation of the market in general.

We employ a risk-based approach to monitoring, and while this review is of SGX-DT's overall compliance with its licensed market operator obligations, we have exercised judgement in selecting the areas of focus, and the level and detail of work performed in each. This report highlights our main findings and observations from the review and, as with any risk-based approach, has inherent limitations.

¹ A market operator's full obligations are set out in the Appendix.

Overall assessment

We are satisfied that SGX-DT continued to comply with its licensed market operator obligations during the review period. Our conclusion is largely based on MAS's oversight, which found no information to suggest non-compliance.

Some key observations of the review period include:

- no material changes to the arrangements under which the market is operating
- ongoing compliance with respect to regulatory obligations
- the market remains fit for purpose, and trading volumes continued to increase
- continued operational performance from a technical perspective.

We thank SGX-DT staff for their assistance in providing valuable information for this review.

Focus areas

Compliance and oversight

Monitoring and oversight by primary regulator

SGX-DT is primarily regulated by MAS. We engaged with MAS to understand its continued monitoring and oversight arrangements, as well as its assessment of SGX-DT's overall compliance during the review period.

MAS considers SGX-DT to be a systemically important entity and has therefore set up a comprehensive monitoring and oversight regime carried out through on-site inspections and external reviews. Working with internal and external auditors, as well as SGX-DT's compliance units, MAS maintains regular oversight through its monitoring of SGX-DT's operations and compliance with relevant regulations. In addition, MAS maintains consistent dialogue with SGX-DT, at the management level and with relevant business functions. MAS also monitors SGX-DT's response to any findings and has arrangements in place to ensure notification of issues such as outages or potential market volatility as soon as they arise.

From its ongoing supervision of SGX-DT, MAS confirmed it does not have regulatory concerns with SGX-DT's ability to operate an approved exchange in Singapore and SGX-DT continues to be in good standing with MAS.

Market suitability

As a means of assessing continued market suitability, we considered any changes made to the products and the operation of the market, and any concerns raised by the market participants or end users as to the market's operation.

There were no notable changes to financial products or the operation of the market. SGX-DT confirmed that during the review period, two instances of market participant concerns were raised with SGX-DT in relation to dairy derivatives contracts with no issues raised by end users. The first instance related to lower-than-expected margining, while the second related to greater-than-expected daily settlement price volatility. In both instances, SGX-DT addressed these concerns adequately with no follow-up queries raised by the market participants concerned. In addition, no concerns were raised with the FMA from these market participants or end users during the review period.

We were satisfied the market continued to be fit for purpose and that consideration is being given to market participant feedback.

Operational performance of the market

The review period featured ongoing significant interest in dairy derivatives, indicating that the market has continued to perform well. During the review period, open interest and average daily trading volume amounted to 155,251 lots and 2,559 lots respectively, a 74% and 31% rise compared to the same period in 2023.

The performance of the systems was stable, with no market disruptions during the review period.

Although the number of trading alerts triggered for dairy derivatives contracts increased to 992 during the review period, compared to 781 in the previous period, there were no market anomalies in trading of dairy derivatives observed by the Surveillance team at SGX-DT, and no investigations undertaken for market misconduct or breaches of the exchange rules. In addition, there were no disciplinary proceedings conducted by the Enforcement unit during the review period.

We were satisfied with how the market operated during the review period and identified no concerns in relation to its performance.

Appendix: Our role in reviewing SGX-DT

Our role

The FMA is an Independent Crown Entity. Our purpose is to promote and facilitate the development of fair, efficient and transparent financial markets.

Under the FMC Act, we are required to review, at least annually, how well a licensed market operator is meeting its obligations. We are also required to publish a written report of the review.

If we consider, after carrying out a review, that a licensed market operator has failed or is failing to meet any one or more of its market operator obligations, we may, by written notice, require the licensed market operator to submit an action plan to the FMA.

Market operator obligations

In the FMC Act, 'market operator obligations', for an overseas entity such as SGX-DT, means:

- the general obligations in respect of licensed markets (section 314):
 - to ensure, to the extent that is reasonably practicable, that each of its licensed markets is a fair, orderly and transparent market
 - to have adequate arrangements for notifying disclosures made to it from participants in its markets, and for continuing to make those disclosures available
 - to have adequate arrangements for handling conflicts between its commercial interests and the need to ensure its markets operate in a fair, orderly and transparent manner
 - to have adequate arrangements for monitoring the conduct of participants in its markets
 - to have adequate arrangements for enforcing compliance with market rules
 - to have sufficient resources (including financial, technological and human resources) to operate its licensed markets properly
- an obligation to give the FMA an annual self-assessment of compliance with its obligations (section 337)
- an obligation to act on the directions of the FMA or the Minister, if the operator is found to be failing to meet any of its obligations (sections 340 to 342)
- any obligation imposed as a condition of a market operator's licence.

Our approach to oversight of SGX-DT

A market operator that is authorised and regulated in an overseas country may be licensed under the FMC Act if certain conditions are met.

A key requirement is that the home jurisdiction responsible for regulating and supervising the market operator should provide a level of investor protection and market integrity that is comparable to the FMC Act. This allows us to rely on the overseas regulator to assess and monitor the capability and compliance of the market operator.

SGX-DT's market operator obligations are outlined in the FMC Act, as noted above. SGX-DT must also report to MAS annually on how it complies with its market operator obligations. MAS may assess at any time how well SGX-DT is complying with any or all of the obligations.

The FMA and MAS are both signatories of the [IOSCO Memorandum of Understanding \(MMOU\)](#), which sets out the principles for mutual assistance and exchange of information between regulatory agencies that are party to the MMOU. This allows the FMA to request, and MAS to share, information relating to SGX-DT's operations.

A key component of our review was to request and review information from MAS on SGX-DT's compliance with its Singapore-based obligations, and whether SGX-DT was of good standing in its home jurisdiction. We requested information on:

- MAS's ongoing oversight of SGX-DT
- any matters or concerns raised with SGX-DT and how they were addressed
- MAS's overall view of SGX-DT's compliance with its market operator obligations.

For the purposes of this review, we also reviewed and considered:

- SGX-DT's self-assessment report on its compliance with its obligations under the FMC Act
- a summary of MAS's engagements with SGX-DT
- activity monitored during the review period, including market changes such as rule settings, new products launched, governance changes for example
- other engagements and correspondence between FMA and SGX-DT during the review period.

