



Response to feedback on consultation paper

Proposed enhancements to auction routines for the SGX-ST market

26 September 2019

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I Introduction

1 Background

- 1.1 On 15 July 2019, SGX issued a public consultation entitled “Proposed enhancements to auction routines for the SGX-ST market” (the “**Consultation Paper**”).
- 1.2 In the consultation, SGX sought feedback on putting in place new safeguards that operate during the auction routines that take place at the end of the Opening Routine, Mid-Day Break, and Closing Routine (collectively referred to as the “**Auction Routines**”).¹
- 1.3 SGX received responses from twelve respondents. **Appendix 1** lists these respondents except for respondents who had requested for SGX to keep their identity confidential.
- 1.4 Some respondents requested for SGX to keep their feedback confidential. SGX has not published such feedback herein. Nevertheless, SGX has considered this feedback.
- 1.5 SGX thanks all respondents for their feedback.

2 Summary

Price collars generally preferred to extension of auction routine

- 2.1 The majority of respondents stated a clear preference for SGX to implement price collars for all the Auction Routines, as opposed to price-triggered time extensions or the hybrid model. Respondents indicated that market participants understand price collars more readily, and that price collars are easier to implement and more cost effective. On the other hand, respondents noted that price-triggered time extensions (and by extension, the hybrid model) may not be effective in preventing drastic price dislocations, may pose practical difficulties in its implementation, and are difficult for investors to understand.
- 2.2 In view of the feedback received, SGX assessed that implementing price collars for all the Auction Routines to be appropriate for the Singapore securities market. SGX intends to consult market participants separately on any necessary changes to any SGX rulebooks and other implementation details in due course.
- 2.3 Implementation of the proposed safeguards for the auction routines requires time and substantive formulation, testing, and developmental work. A number of the respondents indicated on a preliminary basis that they may require up to 18 months to implement a price collar.
- 2.4 In the interim, to guard against severe dislocation in the opening price in the interest of protecting the financial integrity, reputation, and/or interest of the market, SGX intends to exercise its discretion through enhanced monitoring in the following manner:
 - (a) To review immediately any opening auction trade in the STI/SiMCSI component stocks that is executed more than 30% away from the previous day’s closing price. SGX may exercise its discretion to cancel such trades in the interest of upholding the integrity of the market, such as in cases where the price movement is not explained by underlying market reasons.
 - (b) To inform the market that such trades are under review within 5 minutes from market

¹ The terms “Opening Routine”, “Mid-Day Break”, “Closing Routine”, and “Adjust Phase” have the meanings set out in set out in Regulatory Notice 8.2.1 — Trading Hours, Market Phases, Application of Market Phases and Principles and Rules for Trade Matching of the SGX-ST Rules.

open and follow up with a confirmation of cancellation as soon as practicable.

- 2.5 This interim approach does not limit SGX's existing powers to review and/or cancel trades under the Securities Trading Rules in other circumstances. Members are reminded to exercise due care and diligence when sending orders into the SGX-ST trading engine.

II SGX's responses to feedback received

3 Proposed Volatility Control model for the Auction Routines

Feedback received

- 3.1 There was general support by respondents for SGX to implement additional safeguards for the Auction Routines (collectively, the proposed "**Volatility Controls**"), with respondents indicating that both investors and SGX would benefit from increased confidence and integrity in the market.
- 3.2 The majority of respondents expressed a preference for SGX to implement price collars only for all Auction Routines, while a handful of respondents preferred the hybrid model of price collars and price-triggered time extensions for the Auction Routines. SGX did not receive feedback that expressed a preference for SGX to implement price-triggered time extensions only.
- 3.3 The key reasons cited for the preference for price collars are that price collars are more effective in guarding against drastic price dislocations, more comprehensible, are easier to implement, and more cost effective. In addition, from a technological perspective, implementing price collars is less complex than the hybrid model, and would entail market participants incurring lower costs in implementation. Separately, the key reasons cited for the preference for the hybrid model are that it allows for greater market-led price discovery in the Opening Routine and Mid-Day Break as SGX had noted in the Consultation Paper, and that it provides a definite end-time for the Closing Routine (as compared to time-extensions).
- 3.4 Amongst the participants that expressed a preference for price collars, the vast majority did not agree with the proposal to lift the price collar if a counter did not have a single trade in the preceding trading day (in the case of the Opening Routine) and in that trading day (in the case of the Mid-Day Break and Closing Routine).² Instead, participants expressed a preference for the price collar to remain for the routine.
- 3.5 One respondent suggested issuing an early warning alert when the indicative equilibrium price exceeds a certain threshold (for example, the price threshold of the price collar). Such "increased market transparency would facilitate better price discovery...and [minimise] the risks of the...price limit being triggered."

SGX's response

- 3.6 SGX notes the support by respondents for the implementing Volatility Controls. Given the preference of respondents, SGX will implement price collars for the Auction Routines instead of price-triggered time extensions or the hybrid model.
- 3.7 SGX notes participants' preference not to lift the price collar if a counter did not have a single trade in the preceding trading day (in the case of the Opening Routine) and in that trading day (in the

² Not all respondents in this group expressed a view on this point. For those that did, all save for one expressed a preference for the price collars to remain in the routine.

case of the Mid-Day Break and Closing Routine). SGX intends to implement the price collars for the Auction Routines as such.

- 3.8 In response to the comment on having an early warning alert, SGX notes the suggestion and will assess the feasibility and appropriateness of such a feature. SGX notes that the indicative equilibrium price is currently available to members during all the Auction Routines. This enables market participants to monitor the movement of the indicative equilibrium price and to manage their orders accordingly. SGX expects market participants to have pre-trade controls in place and to ensure that their internal safeguards are adequate, appropriate, and in place whenever they carry out trading.
- 3.9 SGX will also look into other implementation details in implementing price collars such as the treatment of long-dated orders outside of price collars as set out in paragraph 4.8 of the Consultation Paper. SGX will engage market participants in due course.

4 **Scope of instruments covered, reference price and calibration of price bands**

Feedback received

- 4.1 Scope of instruments covered—The majority of the respondents agreed or did not raise any concerns with the scope of instruments proposed to be covered under the Volatility Controls, with some participants noting favourably that the proposed scope aligns with that of the instruments covered under circuit breakers in SGX-ST.
- 4.2 Reference Prices—SGX did not receive any adverse comments to the proposed reference prices for determining the price bands for the Volatility Controls in the Consultation Paper.
- 4.3 Price thresholds—SGX received general support for the price thresholds proposed in the Consultation Paper. One respondent proposed that the price threshold for the Mid-Day Break mirror that of the Opening Routine if there are no trades in the current trading day as the 10% price threshold for the Mid-Day Break may restrict “news-driven, market-led discovery”.

SGX's response

- 4.4 Scope of instruments covered—SGX notes the support for the proposed scope of instruments. We intend to implement the proposed price collars to the scope of instruments as set out in the Consultation Paper. When necessary, SGX will assess the feasibility and appropriateness of applying the price collar on a larger scope of instruments.
- 4.5 Reference Prices—SGX notes the support from the respondents. In consideration of the approach to implement price collars for all the Auction Routines in SGX-ST, SGX intends to implement price collars based on the proposed reference prices in the Consultation Paper.
- 4.6 Price thresholds—SGX notes the support from the respondents. In consideration of the approach to implement price collars for all the Auction Routines in SGX-ST, SGX intends to implement price collars based on the proposed price thresholds in the Consultation Paper.
- 4.7 In response to the comment that the price threshold for the Mid-Day Break should mirror that of the Opening Routine if there are no trades in the current trading day, SGX is of the view that such an arrangement may introduce additional complexity. We note from the feedback that there is a general preference to minimise complex features, such as the respondents' preference for price collars as opposed to the hybrid model and price-triggered time extensions, as well as the preference not to lift the price collar if a counter did not have a single trade in the preceding trading day (in the case of the Opening Routine) and/or in that trading day (in the case of the Mid-

Day Break and Closing Routine). In light of the feedback, SGX assessed that it would be better to keep consistent price thresholds for the different routines.

5 Treatment of linked instruments

Feedback received

- 5.1 SGX did not receive any adverse comments to the proposed treatment of the various types of linked instruments when it had activated a Volatility Control on the underlying.

SGX's response

- 5.2 In consideration of the approach to implement price collars for all the Auction Routines in SGX-ST, SGX intends to adopt the approach proposed in the Consultation Paper. Even if SGX had imposed a price collar on any of their underlyings, SGX's intention is not to impose a separate price collar on both single-counter and multiple-counter derivative instruments.³
- 5.3 Also, SGX intends to subject (i) dual currency counters on the same underlying and (ii) related counters of different board lot sizes on the same underlying to independent price collars if these counters are in the scope of instruments covered under the price collar.

6 Scope of markets covered

Feedback received

- 6.1 SGX did not receive any adverse comments to the proposed market coverage of the Volatility Controls i.e. to apply only to the ready market, and not to the unit share market and direct business trades.

SGX's response

- 6.2 In consideration of the approach to implement price collars for all the Auction Routines in SGX-ST, SGX intends to do so only for the ready market of SGX-ST, and not the unit share market and direct business trades.

7 Estimated implementation period

Feedback received

- 7.1 For market participants required to implement system or operational changes, SGX received feedback on the estimated implementation period ranging from 6 months to up to 18 months.

SGX's response

- 7.2 SGX notes the estimated implementation periods indicated by market participants, and will consider these in the eventual implementation schedule that SGX intends to announce on a later date after adequate consultation with market participants.

III Implementation of changes

³ By their definition under paragraph 9 of the Consultation Paper, such instruments are on their own not in the scope of instruments covered under the price collar.

8 Implementation of changes

- 8.1 SGX intends to consult market participants further on any changes to any SGX rulebooks and any other implementation details that arise from implementing price collars for all the Auction Routines in SGX-ST.
- 8.2 Subject to regulatory approval of any necessary rule changes, SGX intends to provide adequate notice to market participants of the implementation schedule in due course.

Appendix 1 Respondents to consultation paper⁴

1. Asia Securities Industry & Financial Markets Association
2. Asia Trader Forum
3. Barclays Bank PLC
4. CFA Society Singapore
5. Citigroup Global Markets Singapore Securities Pte Ltd
6. CLSA
7. Instinet Singapore Services Pte Ltd
8. Securities Association of Singapore
9. UBS AG
10. Victor Looi Yi En

⁴ There were two other respondents who had requested not to be identified.

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