

15 August 2019

Singapore Exchange Regulation
11 North Buono Vista Drive
#06 – 07, The Metropolis Tower 2
Singapore 138589
(Attention: Regulatory Development & Policy)

By Email: rules@sgx.com

ASIFMA Response - Proposed Enhancements to Auction Routines for the SGX – ST Market

Dear Sir / Madam,

The Asia Securities Industry and Financial Markets Association (“ASIFMA”)¹ welcomes Singapore Exchange Limited’s (“SGX’s”) decision to consider introducing various auction controls via the consultation “Proposed Enhancements to Auction Routines for the SGX – ST Market,” which we believe is timely given growing concerns both by regulators and by market participants around extreme market volatility. Having engaged in a detailed review of exchanges’ control mechanisms around the region, we are pleased to have the opportunity to respond to this consultation and share with SGX our recommendations regarding minimum standards for exchange controls, which we believe are necessary to prevent erroneous orders and to better manage volatility, whilst allowing for orderly price discovery and price formation.

Price collars are preferred to auction extensions in the opening routine, mid-day break, and closing routine.

Although price-triggered time extensions would allow for orderly price formation by providing the market more time to find additional liquidity and review their orders, our members have noted that such safeguards are not only difficult to communicate to the market once triggered, but are difficult for investors to understand and require significant testing, development, and investment, which could be unnecessarily costly for both SGX and market participants. As such, in our recommendations for exchange controls, auction extensions are listed only as Guidance, with a lower priority than the Minimum Standards which we believe are essential to safeguarding market stability.

Alternatively, price collars are easily understood by all market participants, easier to implement, and more cost effective. Given that SGX’s proposed price collars for the opening routine, mid-day break, and closing routine (+/- 30%, +/-10%, and +/- 10% from the reference price respectively) are wide enough to allow for orderly price formation but tight enough to prevent erroneous orders, ASIFMA members would prefer SGX to implement the proposed price collars into the auction routines instead of price-triggered time extensions, which can be revisited as the market grows.

While we appreciate SGX’s intentions and note that auction extensions have been successfully implemented in very developed large markets such as the London Stock Exchange, we believe price collars would be the most ideal option for auction volatility controls in SGX at this stage, given their simplicity, implementability, and cost-effectiveness.

¹ ASIFMA is an independent, regional trade association with over 100 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, professional and consulting firms, and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region’s economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

DEVELOPING ASIAN CAPITAL MARKETS

The current proposed price collars should remain for the opening routine and the closing routine, even if there are no trades in the prior trading day or current trading day respectively. The proposed price collar for the mid-day routine should mirror that of the opening routine if there are no trades in the current trading day.

Our members believe the opening routine's +/- 30% price collar is sufficiently wide to allow orderly price discovery to occur irrespective of the number of trades in the prior trading day. Even if such collar is breached, further price discovery would only be delayed to the continuous trading session. Additionally, with investors largely preferring to trade during the close, ASIFMA's preference is for the proposed +/-10% price collar to remain to maintain orderly trading and minimize slippage during the closing routine.

However, the proposed +/- 10% price collar during the mid-day break may potentially restrict news-driven, market-led discovery if there have been no trades during that trading day. In this scenario, given the mid-day routine largely mirrors the opening routine, it would be appropriate for the price collar to be consistent with that of the opening routine (i.e. +/-30%) to allow for orderly price discovery and formation.

We do note that for illiquid counters or smaller names, any number of orders may cause large percentage price changes and thus frequently breach price collars - not only during the routines, but also in the continuous trading session given the existing +/- 10% volatility control mechanism. Therefore, it may be helpful to consider introducing a price matrix with different price collar ranges dependent on the session, ticker price, size, and liquidity.

Our members are comfortable with the scope of instruments covered by the proposed price collars and would prefer a six-month lead time in order to facilitate their implementation.

As the instruments under the scope of the proposed price collars are consistent with that of existing volatility controls in the continuous trading session (i.e. all Straits Times Index / MSCI Singapore Index components and all other stocks, stapled securities, funds, ETFs, and ETNs with a first reference price at or exceeding 0.50 in the underlying currency), ASIFMA is supportive of the proposed scope.

As our members do not anticipate significant systems or operational changes to implement the proposed price collars, we suggest that a six (6) month timeframe would be appropriate. To facilitate smooth implementation, it will also be important to publish the price band (in dollar terms) per name and to involve market data vendors in testing.

Thank you for considering ASIFMA's feedback. Per earlier mention, we have been engaging Industry participants in a review of exchange control mechanisms across Asia and have formulated a list of recommended minimum standards for exchange controls, which have been appended to our response. We would welcome an opportunity to meet with SGX and to review and discuss these recommended minimum standards in further detail. Should you have any questions regarding our consultation response or our recommendations, please do not hesitate to contact Lyndon Chao via email (lchao@asifma.org) or by telephone (+852 2531 6550).

Sincerely,



Lyndon Chao
Managing Director, Head of Equities and Post Trade
Asia Securities Industry and Financial Markets Association
P: +852 2531 6550
E: lchao@asifma.org

Minimum Standards, Guidance, and Best Practices for Exchange Controls

#	Exchange Control	Recommendation	Hong Kong	China	Australia	Japan	Singapore	Malaysia	Indonesia	Thailand	Philippines	India	Korea	Taiwan
Market Integrity Enhancements														
1	Opening Auction: Price Limit	Minimum Standard	○	●	○	●	○	●	◐	◐	◐	●	●	●
2	Opening Auction: Delay / Extend	Guidance	○	○	●	●	○	○	○	○	○	○	●	●
3	Continuous Trading: Daily Price Limits (Day high low)	Minimum Standard	○	●	○	●	○	●	◐	◐	◐	●	●	●
4	Continuous Trading: Volatility Control Mechanism	Minimum Standard	◐	○	●	●	●	●	○	○	●	○	●	◐
5	Closing Auction: Price Limit	Minimum Standard	●	◐	○	◐	○	◐	◐	◐	◐	**	●	●
6	Closing Auction: Delay / Extend	Guidance	○	○	○	○	○	○	○	○	○	**	●	●
7	Closing Auction Support for all stocks for adequate duration	Minimum Standard	●	◐	●	●	●	●	●	●	●	**	●	●
8	Separate Session for Closing Auction	Minimum Standard	●	●	●	○	●	●	●	●	●	○	●	●
9	Adequate Transparency in Auction Session	Minimum Standard	●	●	●	◐	◐	●	○	●	●	**	●	●
10	Trade Cancellation Policy (including erroneous trades)	Minimum Standard	◐	◐	◐	●	◐	●	◐	○	●	◐	○	●
11	Randomised Open/Close Time	Best Practise	◐	○	●	○	●	○	○	●	○	◐	○	○
12	Market/Index Wide Circuit Breaker	Best Practise	○	○	○	○	○	●	●	●	●	●	●	○
13	Price Limit Matrix	Guidance	◐	○	●	●	○	●	●	○	○	●	○	○
Other Enhancements														
14	Amend / Cancel Ability in Auctions	Minimum Standard	●	◐	●	●***	●	●	●	●	●	**	●	●
15	Timely Market Data Publication	Minimum Standard	●	◐	●	●	●	●	●	●	●	●	●	○*
16	Trading at Closing Price (runoff)	Guidance	○	◐	○	○	●	●	●	○	●	○	●	●

● Clear policy / mechanism in place which is effective per industry consensus

◐ Policy / mechanism exists but is not effective, unclear, or well understood by the market

○ Policy / mechanism does not exist

* To be introduced Q1 2020 Taiwan

** No Auction Periods

*** No Auction Period but amend/cancel allowed for at-auction

#	Exchange Control	IOSCO Reference
1	<p>Opening Auction: Price Limit</p> <p><u>Objective:</u> Orderly price formation based on pre-open news flow and demand and supply. Prevention of erroneous order impacting market.</p> <p><u>Proposed Minimum requirement:</u> Must have a broad price limit band to allow price discovery and maintain orderly market (whilst tight enough to prevent erroneous orders)</p>	<p>Price banding: Executions or order entries may only be made within prescribed price bands. Trading venues in some jurisdictions set wide price bands in order to address all potential extreme volatility events, while others set narrower price bands that may need to be more closely monitored and widened as situations occur. Pg 9</p>
2	<p>Opening Auction: Delay commencement of continuous session</p> <p><u>Objective:</u> To allow additional time for the market to stabilise after news event or intra-auction price fluctuation.</p> <p><u>Proposed Minimum requirement:</u> Must delay commencement of continuous session if indicative open price breaches certain threshold from previous close price.</p> <p>Please note that an opening auction price limit without the ability to delay an opening auction session can be highly problematic. If opening action IEP is approaching price limit, it may imply a number of things including:</p> <ol style="list-style-type: none"> 1. The price limit is too tight for the market dynamics / structure / participant behavior 2. There are erroneous orders or orders that negatively impact orderly function of the market; 3. Market needs more time for price discovery (relating to unexpected liquidity demand and supply or market news); <p>With regards to the last point, if the opening auction cannot be delayed, then there is no mechanism for the market to provide more time for orderly price discovery.</p>	<p>Volatility control mechanisms are usually active during continuous trading sessions. However, many jurisdictions also apply such mechanisms to auction sessions: in these cases, the auction is delayed when the indicated auction price falls outside of the pre-defined thresholds. Pg 9</p>
3	<p>Continuous Trading Daily Price Limits (Day high low)</p> <p><u>Objective:</u> To control individual stock intraday price volatility based on static price range.</p> <p><u>Proposed Minimum requirement:</u> Must have a static high low price range limit for all stocks (the price limit should be reasonable, taking into account the average liquidity in that name or market).</p>	<p>Static Reference Prices – Static reference prices remain constant for an extended period, usually a trading day. They are generally set by the closing or opening price of a particular financial instrument or index. Static reference prices are generally wider than dynamic reference prices and are designed to address volatility events that occur over a longer period of time compared to dynamic measures. Pg 10</p>

<p>4</p>	<p>Continuous Trading Volatility Control Mechanism</p> <p><u>Objective:</u> To control individual stock intraday price volatility dynamically.</p> <p><u>Proposed Minimum requirement:</u> Must have a dynamic volatility control mechanism for all stocks. Suggested 10% price limit (the price limit should be reasonable, taking into account the average liquidity in that name or market).</p>	<p>Dynamic Reference Prices – Dynamic reference prices are generally calculated on a continuous basis. The calculation method varies and can be as simple as referencing the current quote or last trade in a particular security or index, or have a more complex calculation, taking into consideration the activity during the prior, pre-specified period. Dynamic reference prices are usually set tighter than static reference prices so as to address volatility events that occur over a short period of time, such as those that may be triggered by extreme and rapid liquidity demands. Pg 10</p>
<p>5</p>	<p>Closing Auction: Price Limit</p> <p><u>Objective:</u> Orderly closing price formation and prevention of erroneous order impacting market.</p> <p><u>Proposed Minimum requirement:</u> Must set a defined range for price fluctuation in the auction with fixed deviation from last continuous execution. This should be more restrictive than open auction /continuous price limits (the price limit should be reasonable, taking into account the average liquidity in that name or market).</p> <p><i>3/15 Markets implemented.</i> <i>8/15 Markets same limit as continuous.</i></p>	<p>Price banding: Executions or order entries may only be made within prescribed price bands. Trading venues in some jurisdictions set wide price bands in order to address all potential extreme volatility events, while others set narrower price bands that may need to be more closely monitored and widened as situations occur. Pg 9</p>
<p>6</p>	<p>Closing Auction: Delay / Extension</p> <p><u>Objective:</u> To allow additional time for the market to stabilise during intra-auction price fluctuation.</p> <p><u>Proposed Minimum requirement:</u> Must delay market closing auction if indicative close price breaches certain threshold from previous close price / volatility thresholds.</p> <p>Please note that closing auction price limit without the ability to delay a closing auction session can be highly problematic. If closing action IEP is approaching price limit, it may imply a number of things including:</p> <ol style="list-style-type: none"> 1. The price limit is too tight for the market dynamics / structure / participant behavior 2. There are erroneous orders or orders that negatively impact orderly function of the market; 3. Market needs more time for price discovery (relating to unexpected liquidity demand and supply or market news); 	<p>Volatility control mechanisms are usually active during continuous trading sessions. However, many jurisdictions also apply such mechanisms to auction sessions: in these cases, the auction is delayed when the indicated auction price falls outside of the pre-defined thresholds. Pg 9</p>

	<p>With regards to the last point, if the closing auction cannot be delayed, then there is no mechanism for the market to provide more time for orderly price discovery</p> <p><i>2/15 Markets implemented</i></p>	
7	<p>Closing Auction Support for all stocks for adequate duration.</p> <p><u>Objective:</u> To allow sensible price discovery mechanism where supply and demand meet in volume maximising manner and allow market to digest intra-auction price fluctuations.</p> <p><u>Proposed Minimum requirement:</u> Must have closing auctions for all stocks for sufficient duration (at least 5 minutes).</p> <p><i>7/15 Markets implemented</i> <i>2/15 Markets implemented short duration auction</i></p>	<p>Volatility control mechanisms are usually active during continuous trading sessions. However, many jurisdictions also apply such mechanisms to auction sessions: in these cases, the auction is delayed when the indicated auction price falls outside of the pre-defined thresholds. Pg 9</p>
8	<p>Separate session for Closing Auction</p> <p><u>Objective:</u> To have a transparent and simple mechanism to match close-auction orders after the end of continuous trading.</p> <p><u>Proposed minimum requirement:</u> Have a separate session for the collection and matching of close-auction orders.</p>	N/A
9	<p>Adequate transparency in Auction session</p> <p><u>Objective:</u> To allow for real time visibility on indicative volume and price allowing participants to react in a timely manner.</p> <p><u>Proposed Minimum requirement:</u> Must have real time visibility of order book, indicative volume and price in auction sessions.</p>	N/A
10	<p>Trade Cancellation Policy (including erroneous trades)</p> <p><u>Objective:</u> To have clear trade cancellation policy to deal with erroneous trades.</p> <p><u>Proposed Minimum requirement:</u> Must have in place and the authority to enforce, a clear trade cancellation policy with well-defined procedures, conditions, thresholds, and the types of transactions which might stand (e.g. lit, trade reports, booking</p>	N/A

	<p>purpose trade reports, etc.). Trade cancellations should be announced publicly (not behind a pay wall or registration system) on the exchange website and an email notification of trade alerts should be made available for those that want it.</p> <p>The exchange should be involved in the decision making process and should also consider cancellation requests even when the counterparty does not agree to cancel. Please note that even in locations where there are rules in place we would like to see exchanges exercise their unilateral discretion in cancelling erroneous orders. There are some recent examples where opportunities to exercise discretion was missed (eg SGX / PSE).</p>	
<p>11</p>	<p>Randomised Open/Close</p> <p><u>Objective:</u> To ensure stability of indicative prices and prevent gaming by participants cancelling or placing orders at the last second.</p> <p><u>Proposed Minimum requirement:</u> Must have randomised opening and closing auctions.</p>	<p>N/A</p>
<p>12</p>	<p>Circuit Breaker (market/index wide price limit)</p> <p><u>Objective:</u> To control market wide intraday price volatility and protect orderly market.</p> <p><u>Proposed Minimum requirement:</u> Must have a market wide circuit breaker if eg index moves outside of a defined sensible range trading on venue is halted.</p>	<p>By contrast, market-wide circuit breakers reference the general movement of the market (normally by reference to an index) rather than the price movement of a single financial instrument. When the index moves more than a predetermined threshold, trading of all securities on the trading venue or within a jurisdiction is halted. Pg 9</p>
<p>13</p>	<p>Price Limit Matrix</p> <p><u>Objective:</u> To have differing price limit ranges (VCM and Daily Price Limits) between a. Opening, Continuous and Closing sessions; b. between Large, Mid, Small, Micro Cap stocks</p> <p><u>NB:</u> This may be complicated to implement.</p>	<p>Differences in the approaches to managing excessive volatility reflect differences in market structure and the flexibility needed by regulatory authorities and trading venues. Therefore, a one-size-fits-all model across all asset classes and jurisdictions is not suitable. Differences in liquidity or product types may also necessitate a tailored approach when it comes to the design and functionality of mechanisms to protect the price discovery process and to avoid significant disruptions to orderly trading. For example, the approach taken for securities of large-cap issuers may differ from the approach applied to the securities of small-cap issuers as the volatility profile of each group may be significantly different. Pg 8</p>

14	<p>Amend / Cancel ability in auctions</p> <p><u>Objective:</u> To allow for amendments / cancellations to correct erroneous orders.</p> <p><u>Proposed Minimum requirement:</u> Must have ability to natively amend and cancel orders in auctions up to a certain time.</p>	N/A
15	<p>Timely Market Data Publication</p> <p><u>Objective:</u> To allow for real time visibility on indicative volume and price allowing participants to react in a timely manner.</p> <p><u>Proposed Minimum requirement:</u> Must have real time visibility of order book, indicative volume and price in auction sessions.</p>	N/A
16	<p>Trading at Closing Price (runoff)</p> <p><u>Objective:</u> To allow for liquidity matching post close at closing price to correct errors / complete residual quantities.</p> <p><u>Proposed Minimum requirement:</u> Must have ability to trade at closing price post close with the auction residual volume carried over.</p> <p><i>5/15 Markets implemented.</i></p>	N/A