



SINGAPORE NMPG Newsletter

Edition II / July 2014



WELCOME NOTE FROM ANTHONY SIM



Chairman of
Singapore
NMPG

“Dear Members,

A warm welcome to our second edition newsletter for Singapore National Market Practice Group (“ SG NMPG”).

Looking back, since taking over the Chairperson helm in Mar 2012, SG NMPG journey has been fruitful while staying the course of our primary published focus - to provide the local market participants with a platform for dialogue, consultation and resolution of issues relevant to Singapore’s Securities market.

As we transform our group/forum for sustained support, I would like to take this opportunity to welcome Tony Lewis on his election as Vice-Chairperson of SG NMPG.

Our membership has grown strength to strength over the years, with several international broker/dealer now having a seat at the table as we meet regularly (national level or sub-committee level) to focus on driving the below efforts:

1. Share, establish and document best market practices to advance the industry
2. Reconciliation of divergent local market practices for industry-wide efficacy
3. Harmonize country specific requirements with Global practices

Echoing again, by being on this group, we are in a privileged position as we influence the country or region’s market practices’ development and direction and urge you to continue the exemplary efforts as we march into the second half of 2014 and beyond.

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An interview with Nico Torchetti



SGX, Head of Post Trade Services

Opportunities behind changes

Question 1 : We have seen in the last 24 months, a number of initiatives launched by SGX. Can you please briefly provide the rationale behind them ?

Nico : SGX is introducing a new Post Trade System (PTS) by the year ending 30 June 2016, which is our FY2016. The new PTS will include new clearing, settlement and depository systems and will replace the existing PTS and Client Accounting System (CAS) ecosystem.

With the new PTS, our customers will enjoy more flexibility as SGX-ST and CDP Clearing Members will be able to migrate to their preferred back-office systems, from the aging CAS.

SGX will have the ability to achieve better time-to-market and to meet new post trade business requirements with the new PTS.

The new PTS replaces the existing PTS which was built over 20 years ago when CDP began providing settlement and custody services for scripless trading.

You may remember that in October 2012, SGX migrated the PTS and CAS applications from an old mainframe environment to a new open systems environment. This was our initial step to ensure that the operating environment remains stable and secure for the next few years. At that time, the PTS and CAS application remained largely unchanged.



Adoption of international standards

Question 2 : Many members find it difficult to cope with all changes. What is your view?

Nico : Change presents both challenges and opportunities. The two key changes which Members (including CDP Depository Agents) face – decommissioning of CAS and using ISO 20022 messaging standards – have also presented opportunities.

Decommissioning of SGX CAS

The decommissioning of SGX CAS will mean greater flexibility and straight-through processing within the broker environment. SGX-ST and CDP Clearing Members will be free to use their own back office system and will no longer have to operate multiple back-office systems, as far as dealing with SGX is concerned.

The decommissioning of CAS was flagged to Members in 2012 when the mainframe migration project started. We are targeting 3Q2015 as the final end-date of CAS. We appreciate the patience and support of SGX-ST and CDP Clearing Members during the many discussions around the decommissioning of CAS. We hope to have your continued support and understanding as we work towards making this a reality for the securities market.

Use of ISO 20022 messaging standard

Along with the PTS and CAS replacement, the proprietary messaging will also be replaced by industry standards – FIX for trade allocations and ISO 20022 for settlement instructions.

Clear and standardized messaging services are necessary for an overall increase in efficiency of the post-trade environment. The result will be more automation of processes throughout downstream activities within the industry, less paperwork and risk of human error, and a broad enhancement of the industry in line with Singapore's continuing efforts to remain a leading global financial center.

ISO 20022 standard will be used in the following business areas:

- *sese* (securities settlement) messages for settlement instructions processing
- *semt* (securities management) for statements and reports on holdings as well as earmarking of securities.
- *pain* (payments initiation) and *camt* (cash management) messages for SGX-ST Members to process retail customers' electronic payment (GIRO/EPF payment services).

Flexibility of ISO 20022

Many downstream users, representing close to about 100 direct connections, exist within SGX's market infrastructure. Each Member has its own sub-ecosystem or is part of its parent group. It is therefore necessary for SGX/CDP to provide clear, standardized messaging services so that downstream users can automate their processing more efficiently both within their own environment and with their customers' environment.

Using ISO standard is a logical decision.

The question is, "Which ISO standard - ISO 15022 or ISO 20022?"

To answer this question, we conducted an extensive review of industry messaging and our own messaging standards, the state of automation, and also how to "future-proof" our messaging with Members and customers.

CDP Depository Agents are familiar with existing messaging standards, namely ISO 15022 or more accurately the SWIFT MT format MT5xx series, in particular, the MT54x Settlement & Reconciliation category and the MT53x Statements. We could adopt ISO 15022 when the new PTS is launched in 2015 and then change it later, or launch the new PTS using ISO 20022 right at the start.

In choosing between ISO 15022 and ISO 20022, we considered several factors:

- ISO 15022 is in maintenance -only mode with no new functional messages to be added.
- Any standardized messaging chosen would be used not just for securities settlement but also in other business areas including corporate actions, reference data, cash clearing and accounts management.
- Interoperability between ISO 15022 and ISO 20022, and maturity of the ISO 20022 standard for the production environment.

Ultimately we choose ISO 20022 because we believe it is a better fit to our long-term objectives. This standard will provide the industry with the right foundation to expand or develop in future to support new business areas and messaging types.



Supporting our members

Question 3 : What structure does SGX have in place to monitor progress of the PTS project?

Nico : Since the mainframe migration project in 2010, we have increased our industry engagements and put in place “project committee” and “working group” meetings for large projects.

The project committee meetings are attended by senior managers from SGX-ST Members and CDP Clearing Members.

The working group meetings are attended by their respective operations and technology teams to discuss technical issues. All meeting notes and materials are made available through a dedicated project website. This enables Members to keep abreast of project progress and discuss issues at the industry level. In addition, we also conduct bilateral meetings on company-specific matters.

Within SGX, we have a project management office and steering committees to monitor progress and make decisions.

Question 4 : What support is SGX providing members to enable a smooth transition?

Nico : SGX is committed to the new PTS project and to supporting Members to enable a smooth transition.

For example, we revised the original SGX test strategy and data migration approach following feedback from Members for more SGX testing and assistance. Due to the enlarged scope and other complexities, the original launch date was also postponed to 4 May 2015 from 3 November 2014.

We continue to improve on our Members' engagement process. For the last two major projects involving Members, we engaged with all 29 SGX-ST and CDP Clearing Members. For the new PTS Phase 2 project which involves structural changes to corporate actions processing and the Delivery Versus Payment (DVP) Framework, it will involve not just the existing 29 SGX-ST and CDP Clearing Members but also all CDP Depository Agents. We will continue to fine-tune our engagement process for future large projects.



Collaboration between SGX and NMPG

Question 5 : What is your view on the collaboration between NMPG SG and SGX? How can SGX and NMPG increase their efficiency and work better for the benefit of the industry?

Nico : As a market infrastructure, SGX takes seriously its role and our accessibility to market participants. We view customer engagements as an opportunity to hear from you as well as to explain our views and objectives.

Structured industry forums may not always exist. We are therefore fortunate to have the NMPG SG forum to discuss issues. The NMPG SG forum provides a good representation of the industry and I am positive about SGX's engagements with the forum. Not only have engagements increased in frequency, but also in quality. As a result, discussions on even complex issues such as the securities fees revision have been fruitful and open.

As I shared earlier, change can bring challenges and opportunities. There will be more changes down the road. Besides securities settlement and reconciliation, we envisage further engagements with other NMPG SG technical subcommittees (for example corporate actions and advocacy) and even more beneficial exchanges of views and ideas in future.



Commitment to continuous improvement

Question 6 : What is next?

Nico : ISO 20022 caters not only for instructions but also status updates, reporting and additional information. It has been built to be deployed for different business areas.

We deployed ISO 20022 in “data dissemination” in March 2014. Since then, corporate announcements filed by issuers with SGX have been translated into an ISO 20022 data feed which data vendors and financial institutions can use for their databases and web channels.

We now adopt ISO 20022 for “transaction processing”. As a start, we will use ISO 20022 for securities settlement, i.e. moving equities and bonds in SGX securities accounts using ISO 20022-based settlement instructions.

We plan to roll out ISO 20022 for other business areas in the near future. Some of these areas could include corporate actions (seev), reference data (reda), payments clearing/settlement-related (pacs) and collateral management-related (colr). We will engage with the relevant NMPG sub-committees on the related technicalities.

In terms of general market developments, a number of ASEAN-related initiatives may progress over the next few years. These include the ASEAN Economic Community in 2015, ASEAN Capital Markets Forum (ACMF), ASEAN+3 Bonds Markets Forum (ABMF) and the ASEAN Exchanges Post Trade Linkages. We will discuss and share relevant information on these developments with markets participants, and make the information available through SGX and the NMPG communications channels. By doing so, we hope to keep NMPG SG members well-informed, especially as many of you have regional responsibilities and interests.

Dear Nico,

On behalf of the NMPG members, thank you for the time taken to share your views on changes impacting the Singapore equity market infrastructure.

Members will appreciate to hear your thoughts and better understand the rationale behind these “transformational changes”. As an industry, it’s our common goal to work together for a better tomorrow.

A special thanks to Kok Leong and Su Ling for their support and coordination.



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Changes in the Singapore Equity Market

SGX The Asian Gateway

Revision Of Securities Market Fees

	Before 1 June 2014	From 1 June 2014
Clearing Fee	0.04% of contract value, subject to a maximum of S\$600*	0.0325% of contract value*
Liquidity programmes	Not available for cash equity securities	Available for market makers liquidity providers schemes
Transfers and onward settlement fees**	No differentiation between on and off-exchange transactions	Fees related to “on-exchange” trades will be lower than “off-exchange” trades. “off-exchange” trades refer to settlement not pursuant to transactions on SGX-ST and will be subject to 1.5 bps of settlement value, subject to a minimum of S\$75.00 (S\$80.25 inclusive of GST).
Source: SGX website		

New SGX Securities Post Trade System Project

Milestones	Timeline
SGX New PTS Project Phase 1 completion (Launch of SGX Clearing and Settlement APIs)	4 May 2015
Migration out of SGX CAS	Between 4 May and 30 Sep 2015
SGX New PTS Project Phase 2 members' testing	Between Oct 2015 and May 2016
SGX New PTS Project Phase 2 completion (Launch of new SGX settlement and depository systems)	May 2016

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ISO 2022 and SWIFT support to members



Alexandre KECH
SWIFT | Director,
Securities Market
Infrastructures | APAC

1. What is the penetration of ISO2022 in Asian Securities markets? After JASDEC and SGX , do you see a lot of take up in the region elsewhere?

Swift : ISO 2022 adoption is seemingly a trend in Asia Pacific. ASX is currently launching an ISO 2022 CA announcement service and at the same time, evaluating the implementation of standards for clearing and settlement when they renew CHES in the coming years. KSEI will offer ISO 2022 (along with ISO 15022) as of 2016 to connect to their new settlement platform. The same with Bank Negara Malaysia and their fixed income settlement platform. Brunei will launch a CSD in 2015 using the new standard. HKMA will pilot in 2015 with an ISO 2022 corporate action service. TSE has launched one in 2014. We are pleased to share that all the securities market infrastructures we are talking to are assessing the adoption of ISO 2022. The above are some known examples of ISO 2022 take-up in the securities world but the payments space is also very active. The India and Brunei RTGS are two examples of high value payment systems adopting the standard as well. Singapore's recent FAST and the future Australia NPS real-time cash settlement are low value payment examples. It is time for all financial institutions to look at the ISO 2022 adoption (ios) mAPP that ISO has created to track these initiatives and start planning.

2. What has been the experience with SGX so far? Have you seen a lot of demand from the members?

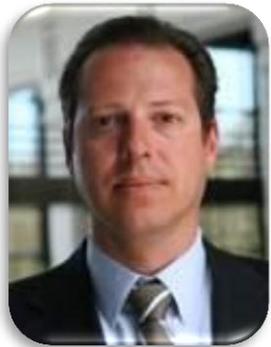
Swift : The ISO 2022 adoption experience with SGX has been an excellent one; they are assiduous in ensuring their implementation is not only in line with the standard, but also with global market practices. Their use of MyStandards contributes to their diligence and we hope the community will leverage this great tool to view SGX specifications, implement them and test them when the MyStandards readiness portal will be made available by SWIFT.

For some SGX members, especially the global ones, ISO 2022 is not new as they have or are already implementing it in other markets. It might probably be more challenging for those with no exposure at all to it, in the very beginning. But it is our pledge at SWIFT to support the Singapore community with trainings, workshops, standards forums and other tools to enable adoption in the least tedious and the most efficient way.

3. What would you see as the major challenges in the SGX rollout of ISO2022 messages

Swift : Besides the issue of budget in these difficult times, the lack of knowledge of the standards is probably the biggest challenge. But with SWIFT's local presence and support for Singapore, teamed up with the originating source who has developed and maintained the ISO 2022 messages that are implemented by SGX, the implementation should be smooth. SWIFT Standards can and will help with gap-analysis, market practice discussions, trainings, all that is needed for this project to be a success.

ISO 2002 and SWIFT support to members



Marco Attilio
SWIFT
Global Account Director APAC

4. Along with settlement messages, the market in Singapore has also experienced the launch of Corporate Actions messages over SWIFTnet? How has that initiative progressed?

Swift : This is really a success story! From the start to the end of the project, the level of engagement of SGX has been tremendous. Not only has SGX found enthusiastic consumers of the data but more importantly, SGX has worked endlessly with the issuers to get their buy-in and ensure the announcements they would issue would be of quality. And the result is there. Only after a few months of live mode, high-quality CA announcements are flowing STP from the issuers to the investors via the SWIFTnetwork.

5. Is there scope for further ISO2002 in Singapore market? How about funds?

Swift : There is certainly more scope for ISO 2002 in Singapore. Funds processing is one of the areas that can benefit most from automation and standardisation. The industry here is still very manual-intensive – however, things are progressing with a lot of attention brought into boosting the local fund management industry. In SWIFT, ISO 2002 flows have been defined by the funds community much earlier on (designed in 2002 and launched in 2004). Since then, the number of messages has grown to cover all aspects of the processing chain – this could be interesting for Singapore given the diversity of the flows in place. Singapore remains a very interesting market with many manual flows in this space that have not been standardised: flows going out to UCITS funds, flows coming in from foreign investors on local products as well as the local CPF flows.

There is certainly a lot of room for improvement in this market. At this moment in time, Singapore does not have a central funds market infrastructure/hub in place to process all these flows. So this market is still a real 'spaghetti/noodle model' that has the potential to evolve into an efficient and standardised market with or without central infrastructure in place.. Now that the SGX has adopted ISO 2002 for its PTS project, they have the capacity to handle ISO 2002 flows – who knows what role they are willing to take in the future? By experience central funds platforms – in particular those handled by the CSD – are only efficient once the entire market uses them (mandated by the regulators). This poses big challenges given that on one side, the MAS will need to mandate the use of it, and on the other hand, all local funds need to envisage electronic standardised communication in their prospectuses – which is not yet the case in Singapore – and we know this takes time. As a result, whether central or spaghetti/noodle model, the first hurdle is to embrace automation and standardisation at the funds side and ISO 2002 in Singapore is a good opportunity to leverage the investments made so far.

ISO 20022 and SWIFT support to members

6. In addition to the standard suite of messages , the recently introduced changes in fees and message structure add a further level of complexity to the messaging schema in Singapore. Will ISO20022 be able to bridge the gap?

Swift : ISO 20022 can provide technical solutions to any requirement but the challenge here will be to find the right balance between the need for the necessary information to properly charge SGX users and the complexity of this charging process will bring to day-to-day clearing & settlement operations in Singapore. This is the market to be; and SGX's role is to find this balance. SWIFT has been and will continue to contribute to Singapore's global practice expertise to this discussion.

Dear Marco and Alexandre,

On behalf of the NMPG members, thank you for the time taken to elaborate on the implementation of ISO 20022.

Members will appreciate to read that SWIFT will support the community for a smooth transition to this new norm.