



News Release

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SGX seeks public comment on default management process

Singapore Exchange (SGX) is consulting the market on the process to manage outstanding securities transactions should a clearing member be in default.

The proposal will align the Central Depository (CDP) default management practices with global default management practices, and improve the efficiency and speed with which defaults may be resolved. This in turn will better protect the financial system from contagion risks due to the default of a clearing member.

Under the proposal, CDP will liquidate a member's outstanding trades in the event of the member's default. Details are set out below:

- CDP will set off for each counter, the defaulting member's outstanding buy and sell trades, regardless of whether the trades are due to customers or non-customers. The setting off reduces the number of transactions that CDP must liquidate, thus reducing the impact on the market.
- If after setting off, the defaulting member is due to deliver securities (net sell), CDP will acquire those securities and close out the net outstanding trades. Conversely, if the defaulting member is due to receive securities (net buy), CDP will sell the securities and close out the net outstanding trades.
- The proceeds, costs or expenses resulting from the acquisition or sale will be added to the tally of loss arising from the member's default. Such loss will be covered by the defaulting member's collateral and when that is insufficient, mutualised among CDP and the non-defaulting members through the clearing fund. The default management process is then concluded.

CDP will continue to settle the outstanding trades of non-defaulting members and their customers. Customers of a defaulting broker can also continue to be assured that their monies or assets will not, at any point, be used to meet the liabilities owed by the defaulting member to CDP.

"Ensuring that the financial system remains robust is a key responsibility of SGX and CDP. A swift resolution of the outstanding transactions of non-defaulting members is crucial when a clearing member defaults. SGX and CDP should therefore focus on doing so to maintain confidence in the system and trust in the remaining member firms during a default crisis," said Agnes Koh, Chief Risk Officer, SGX.

The consultation is open till 21 December 2020.

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About Singapore Exchange

Singapore Exchange is Asia's leading and trusted market infrastructure, operating equity, fixed income and derivatives markets to the highest regulatory standards. As Asia's most international, multi-asset exchange, SGX provides listing, trading, clearing, settlement, depository and data services, with about 40% of listed companies and over 80% of listed bonds originating outside of Singapore.

SGX is the world's most liquid international market for the benchmark equity indices of China, India, Japan and ASEAN and offers commodities and currency derivatives products. Headquartered in AAA-rated Singapore, SGX is globally recognised for its risk management and clearing capabilities. For more information, please visit www.sgx.com.

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