

# PROPOSAL ON PLEDGING SECURITIES HELD IN CDP DIRECT ACCOUNTS FOR COLLATERALISED TRADING<sup>1</sup>

## OVERVIEW

Following MAS' and SGX's joint review in 2014 on securities market structure and practices in Singapore, collateralised trading is to be introduced to:

- a) enhance brokers' credit risk management practices; and
- b) promote prudent investing behaviour among investors.

Collateralised trading is a common practice in all other reputable jurisdictions.

Under the new regime, brokers will be required to collect collateral of at least 5% of customers' net open positions directly from each customer by end of a trade day. Amongst other instruments, investors will be allowed to use cash and securities they own in their CDP accounts to meet their collateral requirements. For the pledging of securities in their CDP direct accounts, investors will have to create a statutory charge over their securities in favour of their brokers.

## WHY IS MAS MAKING THESE CHANGES

Currently, to create a statutory charge, investors have to submit Form I prescribed under the Companies (Central Depository Systems) Regulations ["the Regulations"], each time they wish to pledge a security as collateral. Similarly, when investors wish to discharge the security interest (e.g. when investors intend to sell the securities), Form L which is also prescribed under the Regulations, has to be submitted. You may refer to Forms I and L at this [link](#).

MAS intends to provide investors an additional, more convenient and streamlined option to pledge their securities in CDP direct accounts.

## WHAT ARE THE PROPOSED CHANGES?

### PROPOSAL 1: AUTOMATIC CHARGING AND DISCHARGING OF SECURITIES

Under MAS' proposed additional option, investors may create a statutory charge over securities in a segregated sub-balance of their CDP direct accounts.

#### Charging securities

Conceptually, each CDP direct account could be divided into a main balance and one or more sub-balances.

An investor who wishes to pledge securities to a broker need only submit Form I *once* to charge the entire amount of securities in one sub-balance to a broker. Thereafter, should he wish to pledge additional collateral to the same broker, he will only have to move securities into the same sub-balance. He need not submit Form I again. An investor can request for more than one sub-balance to cater to trading relationships with different brokers.

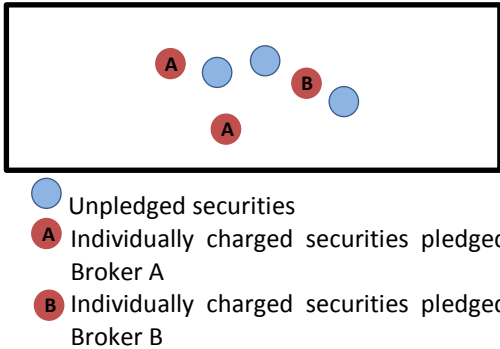
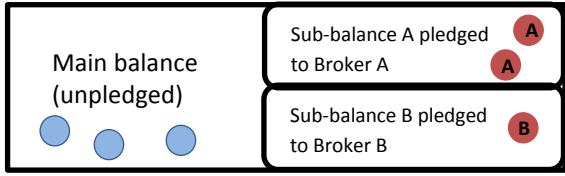
#### Discharging securities

MAS also proposes to allow for an automatic discharge of securities without the need to submit Form L when securities are transferred out of the sub-balance (e.g. when they are sold or returned to the main balance) with the broker's approval.

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<sup>1</sup> This Policy Highlight Sheet covers the proposal on pledging securities held in CDP direct accounts for collateralized trading as the proposal will impact consumers and where consumer feedback will be meaningful to refine the policy. The other sections in this consultation paper are not mentioned given there is no direct impact on consumers.

The illustration below highlights the difference in treatment under the new proposal:

Current Process	Proposed Process (Additional Option for Investors)
<p style="text-align: center;"><b>CDP Direct Account</b></p>  <p>● Unpledged securities  <span style="color: red;">●</span> A Individually charged securities pledged to Broker A  <span style="color: red;">●</span> B Individually charged securities pledged to Broker B</p> <p>An investor has to <b>state the specific securities he wishes to charge in Form I</b> and submit this to CDP.</p> <p>Form I has to be re-submitted each time an investor wishes to charge new securities, or when he wishes to make a change to the charged securities.</p> <p>Similarly, Form L (including his broker's approval) has to be submitted each time he wishes to discharge specific securities.</p>	<p style="text-align: center;"><b>CDP Direct Account</b></p>  <p>Main balance (unpledged)  Sub-balance A pledged to Broker A  Sub-balance B pledged to Broker B</p> <p>Securities that are moved from the main balance to a sub-balance will be automatically charged in favour of the relevant broker. Securities that are moved out of the sub-balance with the broker's approval will be automatically discharged.</p>

**PROPOSAL 2: REMOVING NEED FOR WITNESS SIGNATURE ON FORM I**

Currently, Form I has to be signed by a witness to ensure the authenticity of the investor's request to charge securities. Electronic submission is not available.

For investors' convenience, MAS proposes to allow Form I to be submitted electronically by removing the need for Form I to be signed by a witness. There are other existing controls in place to ensure authenticity, such as two factor authentication for online submissions via CDP's website and verification of signatures for submission of hardcopy forms.

**WHO WILL BE AFFECTED?**

The main impact of MAS' proposals will be on investors who wish to pledge securities in their CDP direct accounts to their brokers to meet their collateral requirements. The process to create a statutory charge over your securities in your CDP direct account will be made more convenient.

Investors who intend to place only cash as collateral will not be affected by this arrangement.

**WHEN WILL THESE CHANGES TAKE EFFECT?**

MAS will take into account the time required for CDP and brokers to make changes to their systems and seek views on a feasible timeline.

MAS intends to effect collateralised trading after the new functionalities are available in CDP's and brokers' systems.

**HOW CAN I GIVE FEEDBACK?**

MAS welcomes your feedback, which should be sent by 16 October 2015 to [SFA FAA consult@mas.gov.sg](mailto:SFA_FAA_consult@mas.gov.sg). In particular, we would like to know:

- Are you in favour of automatically charging and discharging securities by using a sub-balance in your

CDP account? Do you have any concerns with this approach?

- Do you have any views on a feasible timeline for the changes to be introduced?

**MAS will normally publish feedback received, along with the identity of the respondent, on its website. Please indicate if you want (i) parts or all of your feedback and/or (ii) your identity to be kept confidential.**