

Circular

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SGX introduces Trade Surveillance Handbook and Member Surveillance Dashboard

As part of our ongoing efforts to collaborate with Members to combat potential irregular trading activities in our marketplace, we have developed a Trade Surveillance Handbook (“Handbook”) and a Member Surveillance Dashboard (“Dashboard”) with the aim to enhance the trade surveillance tools of Members.

Trade Surveillance Handbook

The Handbook aims to improve Members’ understanding of what constitutes improper market conduct that can lead to a reduction in market efficiency and confidence. The Handbook is released in series with the first featuring spoofing, layering and marking the close activities. To enable our Members to perform more effective trade surveillance, it also provides a set of guidelines that Members can incorporate into their surveillance programmes to prevent, detect and halt market malpractices.

The Trade Surveillance Handbook is attached as Appendix.

How Spoofing could Work

Spoofers will try to mislead market participants with respect to interest in the counter by placing large orders, either at different prices or at a single price, to facilitate the filling of an order on the other side of the market.

Step 1: Spoofers has a genuine sell order of SGX MSCI Singapore Index Future (“SiMSCI”) which he wishes to fill at 310.35, above the prevailing bid price.



Sell at target price of 310.35 but prevailing best bid is at 310.15

Step 2: To mislead other market participants into thinking that the prevailing bid price of 310.15 is going up, the Spoofers entered a large buy order at the prevailing best bid on the other side of the market.



In some cases, the Spoofers could also enter layers of buy orders at different price levels, misleading market participants with respect to interest in the counter.

Step 3: As other market participants react to the sudden interest in the contract, the Spoofers then deletes the buy order(s) which he had placed on the other side of the market after his sell order was filled at 310.35.



Singapore Exchange Limited
Company Reg No. 199904940D

2 Shenton Way, #02-02 SGX Centre 1, Singapore 068804
main: +65 6236 8888 fax: +65 6535 6994
sgx.com

Member Surveillance Dashboard

As an added trade surveillance monitoring tool, the Dashboard provides in the form of a report, confidential statistics and information on activities specific to your firm which could be related to market misconduct. The Dashboard captures the number of alerts triggered in SGX's real-time surveillance system by your firm with regard to potential spoofing, layering and marking the close activities. Your firm may wish to incorporate information from the Dashboard into your own surveillance processes and monitor any trends.

The first Dashboard, to be released to individual Members in the week of 26 September 2016, will cover alerts generated over the period of April to August 2016. Subsequent Dashboards will be released to Members on a quarterly basis, commencing January 2017.

The Dashboard will include information on your firm's ranking vis-à-vis your peers in the same industry, based on the number of alerts generated. To aid Members in carrying out any further analysis, detailed information such as the date and time when the alerts are triggered, the security counter or futures contract which triggered the alert, and the code of the trader involved is included in Dashboard. Please see the illustration below.

We would like to highlight that the alerts provided in the Dashboard do not necessarily indicate the occurrence of trading malpractices. We encourage Members to review suspicious trading behaviours and take early actions to disrupt potential trading misconduct.

Type of Trading Misconduct

<i>Month</i>	<i>April 16</i>	<i>May 16</i>	<i>June 16</i>	<i>July 16</i>	<i>Aug 16</i>
<i>No. of alerts</i>	XX	XX	XX	XX	XX
<i>Peer Comparison</i>					
<i>Member's Rank</i>	XX	XX	XX	XX	XX
<i>Total no. of alerts (Industry-wide)</i>	XX	XX	XX	XX	XX

Example of detailed information

<i>Date</i>	<i>Time</i>	<i>Contract/Security counter</i>	<i>Trader Code</i>
<i>DDMMYY</i>	<i>XX:XX</i>	<i>XXXX</i>	<i>XXXX</i>
<i>DDMMYY</i>	<i>XX:XX</i>	<i>XXXX</i>	<i>XXXX</i>

SGX continues to work in partnership with Members and stakeholders

To support SGX's regulatory objective in maintaining a fair, orderly, and transparent marketplace, SGX will continue to perform real-time trade surveillance, supervise Members and take necessary enforcement actions. We will continue to work with our Members and relevant stakeholders to promulgate and uphold robust compliance standards, and disrupt potential irregular trading activities in our marketplace.

Please contact your respective Member Supervision Officer if you have any questions.