Response to feedback on consultation paper

Proposed introduction of trade at close functionality for the SGX-ST market

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I Introduction

1 Background


1.2 In the consultation, SGX sought feedback on its proposal to introduce a new functionality to allow its participants in SGX-ST to “trade at close” (“TAC”).

1.3 SGX received responses from nine respondents. Appendix 1 lists these respondents except for respondents who had requested for their identity to be kept confidential.

1.4 Some respondents requested for their feedback to be kept confidential. SGX has not published such feedback herein. Nevertheless, SGX has considered this feedback.

1.5 SGX thanks all respondents for their feedback.

2 Summary of SGX’s responses

2.1 Respondents were generally supportive of the proposed features of the new TAC functionality. Some respondents however expressed concerns on the proposed timings of the various market phases. In light of the feedback, SGX will implement the TAC functionality with changes to the timing. Specifically:

(a) SGX will revert the end time of the continuous trading phase to its current end time (i.e. 5:00pm for full-day trading, and mid-day for half-day trading). The TAC market phase will start immediately after the Closing Routine ends (i.e. at 5.06pm for full-day trading, and at 12:06pm for half-day trading).

(b) The duration of the TAC market phase will be increased to 10 minutes.

2.2 Two respondents were concerned that the TAC functionality would adversely impact liquidity and price discovery during the rest of the trading day. SGX acknowledges this concern and will closely monitor the share of trading during the TAC market phase compared to the rest of the trading phases. If there is any significant impact on the market that warrants further action e.g. if the share of trading during TAC increases significantly relative to other market phases, SGX will review the TAC parameters. By and large, SGX does not expect the TAC market phase to cannibalise trading in the other market phases but should, as a whole, improve liquidity in the market by providing an additional avenue for participants to trade.

2.3 Should a closing auction price be invalidated, a significant majority of respondents preferred that the trades concluded in the TAC market phase (“TAC trades”), based on that price, be cancelled, rather than be allowed to stand. SGX will adopt the preferred approach.

II SGX’s responses to feedback received

3 Proposed features of new TAC functionality

Feedback received
3.1 A significant majority of respondents supported the new TAC functionality.

3.2 However, some respondents proposed alternatives to the proposed trading hours. To cater for the new TAC market phase, SGX had originally proposed that the duration of the continuous trading phase be shortened to end at 4.55pm (instead of 5:00pm) for full-day trading and 11.55am (instead of mid-day) for half-day trading. Alternatives proposed ranged from a suggestion that the duration of the continuous trading phase be further reduced by 15 minutes to a suggestion that the duration be left unchanged.

3.3 Some respondents also proposed that the duration of the TAC market phase be increased to 10 minutes instead of the originally proposed 5 minutes.

3.4 Further, respondents asked that SGX minimise changes to the current trading hours so that technological spending by trading members to cater for the new functionality can be minimised.

3.5 Some respondents sought clarity on the operational details of the new TAC functionality. One respondent asked whether there will be an electronic market signal to indicate whether an instrument will have a TAC market phase on a trading day given that not all instruments may have a TAC market phase on a trading day. Others sought clarity on the kind of orders that will be included in the TAC market phase, and the rationale for excluding certain types of orders.

3.6 One respondent did not agree that the new TAC functionality will create the intended benefits for market participants. The respondent said that the new functionality will likely result in a reduction in liquidity in the market during regular trading hours and encourage manipulation during the closing routine. One other respondent echoed this concern.

SGX’s response

3.7 In response to feedback on timing and trading hours (including the feedback on minimising members’ technological spending), SGX will revert the end time of the continuous trading phase to its current end time, i.e. 5:00pm for full-day trading, and mid-day for half-day trading. The closing routine will take place thereafter, from 5:00pm to 5:06pm for full-day trading and 12:00pm to 12:06pm for half-day trading. The TAC market phase will start immediately after the closing routine ends, i.e. at 5.06pm for full-day trading, and at 12:06pm for half-day trading. SGX will also increase the duration of the TAC market phase to 10 minutes.

3.8 With these changes in timing, the new closing time for the SGX-ST market will be 5.16pm for full-day trading and 12.16pm for half-day trading, once the TAC functionality comes into effect on 3 June 2019 (see Section III below).

3.9 Members will be informed each day of the instruments for which there will be a TAC phase through trade broadcast messages. The messages will be sent at the end of the closing routine for each instrument with a closing auction price and hence, a TAC phase. SGX will also broadcast general market session state messages to inform members of the start of the TAC phase. Investors can find out from their brokers how they may obtain information on whether there will be a TAC phase for an instrument.

3.10 Orders in the TAC phase will comprise orders that have not been matched and that have not expired\(^1\) by the end of the closing routine and which are thus carried over into the TAC phase, as

\(^1\) In the SGX-ST context, only limit orders without fill-or-kill or fill-and-kill execution conditions might remain in the order book at the end of the closing routine; market orders will have expired by the end of the closing routine as all market orders are entered as fill-and-kill orders.
well as new limit orders that are entered during the TAC phase. Orders that are carried over from the closing routine can match in the TAC phase only if they are at or if the member amends them to the closing auction price. New orders can be entered during the TAC phase only at the closing auction price.

3.11 SGX acknowledges the concerns raised on the potential impact of the TAC phase on liquidity and price discovery. SGX will closely monitor the share of trading in the TAC phase and in the other market phases. If there is any significant impact on the market that warrants further action e.g. if the share of trading during the TAC phase has a significant detrimental impact on price formation, SGX will review the TAC parameters. By and large, SGX does not expect the TAC market phase to cannibalise trading in the other market phases but should, as a whole, improve liquidity in the market by providing an additional avenue for participants to trade. SGX notes that in other markets where a market phase equivalent to the TAC phase is present, the share of trading in that phase tends to be generally low compared to the other market phases e.g. the continuous trading and auction phases.

3.12 SGX acknowledges also the concerns raised on the TAC phase encouraging manipulation of the closing auction price. SGX has in place adequate surveillance measures to address the issue of manipulation, especially with regard to marking the close, and will refine them where necessary or implement new ones if needed.³

4 Treatment of TAC trades when closing auction price is invalidated

4.1 In its public consultation, SGX consulted on whether TAC trades based on a closing auction price should be cancelled or allowed to stand should the closing auction price be invalidated.

Feedback received

4.2 A significant majority of respondents preferred that the TAC trades be cancelled. Some respondents asked for examples of when SGX would invalidate the closing auction price and for clarity on the process when TAC trades are cancelled after a closing auction price is invalidated.

4.3 One respondent preferred that the TAC trades be allowed stand, given that participants would be well aware of the closing auction price when they choose to trade during the TAC phase, and the cancellation of TAC trades might confuse investors and cause unnecessary administrative burden.

SGX’s response

4.4 SGX acknowledges the strong preference for TAC trades to be cancelled when the closing action price upon which they are based is invalidated. SGX will adopt that approach.

4.5 SGX also notes the concerns raised by the respondent who preferred that the TAC trades be allowed to stand, specifically with regard investor confusion and administrative burden. To address the concerns raised, SGX is mindful that the process for cancelling TAC trades should be clear and simple. If and when SGX invokes its power to cancel a TAC trade, it will notify the counterparties of the cancelled trades as soon as practicable, and inform the market of the cancelled trades. This could include the use of market broadcast messages and publication on the SGX website, as is the practice today when trades are cancelled. SGX will spell out the process in a practice note for clarity to participants.

³ New orders can be entered during the TAC phase only at the closing auction price. As a matter of system set up, such orders can only be entered as limit orders. The system will not accept market orders.

³ In addition to surveillance efforts, SGX mitigates the risk of manipulation of the closing price through the random start of the non-cancel phase of the closing routine.
4.6 The situations under which SGX might invalidate a closing auction price are not expected to be common. They include where all closing auction trades are cancelled (for one of the reasons set out in the SGX-ST Rules, i.e. error, fraud or for financial integrity, reputation and interests of the market), and, in the case of ETFs, where SGX determines an alternate closing price. An alternate closing price may be determined in situations where, for example, the closing auction price is significantly different from the net asset value of the ETF.

4.7 Any invalidation of a closing auction price and the attendant cancellation of TAC trades is expected to be done on the same day as the trades, and at any rate before the trades are settled.

III Implementation of changes

5 Implementation of changes

5.1 The changes to the SGX-ST Rules due to the introduction of the new TAC functionality will be effective on 3 June 2019.
Appendix 1  Respondents to consultation paper

1. Asia Management Fund
2. iFast Financial Pte Ltd
3. Bank of America Merrill Lynch

There were five other respondents who have requested not to be identified.