
OTC DERIVATIVES TRADING IN SINGAPORE FREQUENTLY ASKED QUESTIONS

May 2020

WHAT IS AN LEI?

The Legal Entity Identifier (LEI) is a unique global identifier of legal entities participating in financial transactions. These can be companies or government entities that participate in financial transactions. The identifier is used in reporting to financial regulators. All financial companies and funds are required to have an LEI.

The identifier is formatted as a 20-character, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). It connects to key reference information that enables clear and unique identification of legal entities involved in financial transactions. Each LEI contains information about an entity's ownership structure and thus answers the questions of 'who is who' and 'who owns whom'. Simply put, the publicly available LEI data pool can be regarded as a global directory of participants in the financial market.

ARE LEIs MANDATORY?

Having an LEI is a requirement for the Monetary Authority of Singapore ("MAS") and Bank Pictet & Cie (Asia) Ltd ("the Bank") in the context of OTC transactions reporting. If you have not applied for an LEI yet, we encourage you to do so as soon as possible and provide us with your LEI, once you have it. In near future, LEI may become the only acceptable form for reporting purposes.

This requirement applies to all types of mandates.

For clients who do not have LEIs but qualify as financial institutions, the Bank will use the identifier issued by a licensed trade repository or licensed foreign trade repository (i.e. commercial registry number).

Please refer to Annex 1 of the Securities and Futures Act (Cap. 289) - Guidelines On Margin Requirements For Non-Centrally Cleared OTC Derivatives Contract for further information.

FOR WHICH PURPOSES ARE LEIs REQUIRED IN SINGAPORE?

Currently, LEIs are used in Singapore for OTC reporting purposes to DTCC (see below) of OTC derivatives contracts - as defined in Singapore legislation SF(RDC)R - entered with the Bank as counterparty or traded through the Bank as agent.

ARE LEIs CONFIDENTIAL?

No, LEIs are not confidential. There is an international database of LEIs and related companies accessible on internet: <https://www.gleif.org/en/>.

WHERE CAN I GET AN LEI?

There are a number of LEI issuers around the world that issue and maintain the identifiers and act as primary interfaces to the global directory. These are typically financial exchanges or financial data vendors, who are accredited by the Global Legal Entity Identifier Foundation (GLEIF) to issue LEIs.

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LEI issuers authorized by the Depository Trust & Clearing Corporation (DTCC) include:

In Asia

www.leicode.sg/lei-registration/

www.leicode.hk/

www.lei-worldwide.com/?gclid=EAIaIQobChMIto3DkKrY5wIVSbDtCh2xcgRIEAAAYASAAEgIycPD_BwE

<https://www.gs1hk.org/our-services/legal-entity-identifier/>

Outside Asia

lei.bloomberg.com

www.lei.direct

www.rapidlei.com

www.luxcsd.com/luxcsd-en/

Please note that there is an upfront annual cost for registering and maintaining an LEI.

The Bank does not recommend any LEI issuer specifically; the list above is merely indicative. Clients may select their preferred LEI issuers to register for an LEI. However, Relationship Managers may help clients to register for LEIs. Registering an LEI is a straightforward process requiring questions to be answered online.

WHAT IS A LEGAL ENTITY AND WHO NEEDS AN LEI?

An LEI enables a clear and unique identification of legal entities (natural persons are excluded) who participate in financial transactions issued under the Global LEI System. All unique parties that are legally or financially responsible for the performance of financial transactions or have the legal right in their jurisdiction to enter independently into legal contracts; are required to obtain LEIs, regardless of whether they are incorporated or constituted in some other way (e.g. trust, partnership, contractual). Therefore, even if an offshore company does not, for example, engage in any operations at all, if they are entering into a financial transaction and legally bound by it, they should apply for an LEI.

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IS AN LEI REQUIRED FOR TRUST ENTITIES THAT ARE A CONTRACT RATHER THAN AN ENTITY ?

Yes. All unique parties that are legally or financially responsible for the performance of financial transactions or have the legal right in their jurisdiction to enter independently into legal contracts are required to obtain LEIs, regardless of whether they are constituted in some other way (e.g. trust, partnership, contract). The trustee should apply for an LEI for the trust itself

CAN A COMPANY HAVE MORE THAN ONE LEI?

No. A legal entity shall have only one LEI.

WHAT HAPPENS IF A LEGAL ENTITY DOES NOT PROVIDE THE BANK WITH AN LEI?

As defined in the Securities and Futures Act (Cap. 289), Securities and Futures (Reporting of Derivatives Contracts) Regulations [SF(RDC)R] 2013, Part III Miscellaneous, First Schedule (<https://sso.agc.gov.sg/Sl/SFA2001-S668-2013?DocDate=20181227>), LEI is the preferred option for OTC transactions reporting recognized by regulators worldwide. You are encouraged to apply for an LEI and inform the Bank afterwards.

Please note that in future, without an LEI you may not be authorized to trade. The Bank will take proactive measures to commence regulatory reporting of counterparties using LEI effective end October 2020.

WHAT ABOUT 'NO LEI EQUALS NO TRADE' IN SINGAPORE?

MAS has not yet imposed the "no trade rule" in Singapore if a LEI is not available. We should not rule out, however, that MAS might not impose this regulation in future. As a proactive measure to comply with international standards, the Bank is opting to collect LEI information in advance.

TO WHOM DOES THE BANK REPORT OTC TRANSACTIONS?

The Bank reports all its OTC transactions to DTCC Data Repository (Singapore) Pte. Ltd. (DDRS), which is the sole trade repository currently approved by the Monetary Authority of Singapore (MAS). The reporting is delegated by the Bank to Bank Pictet & Cie SA in Geneva.

WHAT DO OTC DERIVATIVES TRANSACTIONS COVER?

Over-the-Counter ("OTC") derivatives cover the followings:

- Any interest rate derivatives contracts (e.g. interest rate swaps)
- Any credit derivatives contracts (e.g. credit derivatives swaps or index)
- Any foreign exchange derivatives contracts (e.g. forwards, swaps, options, non-deliverable forwards (NDF), non-deliverable options (NDO), accumulator/decumulator (ACDC))
- Any commodity derivatives contracts (e.g. ACDC, pivots, forwards, options)
- Any equity derivatives contracts (e.g. Options, ACDC)

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Options may consist of vanilla options or exotic options such as single/ double options.

Not considered as OTC Derivatives:

- Dual currency investment (DCI), Dual currency deposit (DCD) as well as Dual currency notes (DCN) falls under the definition of structured deposit instead of derivatives contract.
- Exchange traded derivatives, Structured products or Notes, FX Spot, Securitized products and Excluded Currency Contract.

WHAT IS MEANT BY “CENTRALLY CLEARED” OTCS?

Central clearing is currently a requirement mostly applicable to large financial institutions. As a client of the Bank, you are not concerned by central clearing.

WHAT ARE THE INITIAL AND VARIATION MARGIN REQUIREMENTS?

OTC derivative trading regulations requires in some cases (upon client’s classification) the bilateral exchange of margining or collateral to cover market and credit risk.

Determining the client’s classification and potential need for margining requirements, is covered by section 2 of the OTC client onboarding form.

Variation Margin aims to protect the bank against market movement. Initial Margin aims to protect the bank against default of counterparty. Margining requirements will be dealt with directly by the Bank without you being involved.

The Bank seeks your acknowledgment to collect the above information and to inform us in due course should there be a change in circumstance, such as a change in threshold for margining. This applies to all types of mandates.

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WHAT ARE COVERED ENTITY OR FOREIGN COVERED ENTITIES IN THE CONTEXT OF MARGINING?

The Guidelines on Margin Requirements for Non-Centrally Cleared OTC Derivatives Contracts (the “Guidelines”) apply to MAS Covered Entities, which refer to a person under section 99(1)(a) or (b) of the SFA:

–Section 99(1)(a) refers to any bank licensed under the Banking Act in respect of any regulated activity

–Section 99(1)(b) refers to any merchant bank approved as a financial institution under the Monetary Authority of Singapore Act in respect of any regulated activity which it is approved to carry out under that Act.

A MAS Covered Entity should undertake the exchange of margins with a counterparty to an uncleared derivatives contract if that counterparty is –

A. a MAS Covered Entity; or

B. a Foreign Covered Entity.

“Foreign Covered Entity” means a person operating outside Singapore who, if operating in Singapore, would have been a person within the meaning of a MAS Covered Entity.

Some information is quoted from Source:

https://en.wikipedia.org/wiki/Legal_Entity_Identifier

Non official translation – If there is any inconsistency or ambiguity between the English version and the Chinese version, the English version shall prevail.

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