

Frequently Asked Questions (FAQ) on Extended Settlement Contracts (“ES”)

General

1. What are ES contracts?

An ES contract is a contract between two parties, to buy or sell a specific quantity of shares of a specific underlying stock at a specific price for settlement at a specific future date when the contract matures or expires.

ES contracts have fixed expiry dates (about 35 days from listing date). You do not need to hold the ES contract to maturity (expiration) but can close the position by offsetting the trade. There is no hassle of daily settlement, as the contract only settles at maturity.

2. What are the benefits of trading ES contract?

Ability to take longer view. Each ES contract will have about 35 days to expiration (maturity) from date of listing. Compared to trading on the ready market, you will be able to take a longer view of the market.

Avenue for hedging. Price certainty can be achieved through hedging by locking in prices in advance or to protect against adverse price impact on the value of your assets.

Ability to take short position. An ES contract allows you to take short position rather than shorting in the ready market and facing the possibility of buying-in. This allows you to profit even in bearish markets. The transactional costs of gaining short exposure will be greatly reduced, as the relatively costly process of buying-in will not take place unless you hold the position until settlement and then fail to deliver.

Arbitraging. ES contract will provide opportunities for arbitraging between the ES contract and the ready market. When one instrument or market is cheaper and another related instrument or market is more expensive, arbitragers will buy the cheaper instrument and sell the expensive instrument. Such market activities will narrow the gap or difference between the stock and the ES contract prices.

Greater flexibility to structure investment strategies. ES contracts offer investors unique trading opportunities such as calendar spreads and stock spreads.

Capital efficiency. ES contracts are Marginable Futures Contracts. Margin collateral required is just a small portion of the contract value. You will be able to maximize the efficiency of your capital, as a relatively smaller amount of capital will allow you to gain exposure to a larger amount of securities.

3. What are some of the risks involved in trading ES contracts?

Leverage. ES contracts trading is a form of margin trading in which the contract value traded is usually several times greater than the margin funds or collaterals deposited with the broking house. With leverage, a relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit; this may work against you as well as for you. You may sustain a total loss of the initial margin funds and any additional funds deposited with the broking house to maintain your position.

Margin calls. If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice or in some cases, immediately in order to maintain your position. If you fail to comply with a request for additional funds within the specified time, your position may be liquidated at a loss and you will be liable for any resulting deficit in your trading account.

Frequently Asked Questions (FAQ) on Extended Settlement Contracts (“ES”)

Overexposure and overtrading. There is a danger that investors tend to look only at the margin required and often fail to appreciate and take into account the full contract value. This can result in overexposure when investors trade in a large number of contracts, which may be significantly beyond their financial resources.

Buying-in. If a short ES contract position is held to expiration, the investor is required to physically deliver the shares for settlement. In the event that the investor does not have the required shares in his or her account on settlement date, CDP will commence buying-in to satisfy the delivery obligation. This could increase the investor's transactional costs. In addition, investors would also be liable to fines imposed by SGX for failing to deliver the shares. For more information on CDP Buying-In, please click [here](#).

4. Can I short sell ES contract? *

ES contracts allow you to short sell rather than shorting in the ready market and facing the possibility of buying-in. This allows you to profit even in bearish markets. Buying-in will not take place unless you hold the position until settlement and then fail to deliver.

5. When can I withdraw cash from the ES Contract Trading Account? *

When the Customer Asset Value is more than the sum of Initial Margin and Variation Margin, the customer can withdraw the difference. Please refer to the Section G of the OSPL Standard Trading Terms and Conditions for the definitions of “Customer Asset Value”, “Initial Margin” and “Variation Margin”.

6. Will I receive statements on my ES transactions? *

Yes. You will receive monthly statements showing your ES contract transactions.

7. Do I earn interest on my unutilized Margin Collateral in the ES Trading Account? *

Margin Collateral deposited with OSPL for ES contract trading is NOT interest bearing.

8. What are the transaction fees involved in trading ES contracts? *

Transaction fees include:

- Commission payable at the following rates:

SGX Market (Traded Currency in SGD)		
Contract Value	Broker-Assisted	iOCBC Online/Mobile
S\$50,000 or less	0.50%	0.275%
> S\$50K - S\$100K	0.40%	0.275%
> S\$100K	0.25%	0.20%
Minimum commission per transaction	S\$40.00	S\$25.00

- Clearing fee of 0.04% of Contract Value (subject to S\$600 cap)
- SGX Trading Fee of 0.0075% of Contract Value
- Goods and services tax of 7% on brokerage fee, clearing fee and SGX Trading Fee

Frequently Asked Questions (FAQ) on Extended Settlement Contracts (“ES”)

Account Opening

9. Do I need to have a separate account to trade in ES contracts? How can I open an ES Contract Trading Account? *

A separate trading account is required for trading in ES contracts. To open an ES Contract Trading Account, you can download the necessary application forms from our www.iocbc.com website. Alternatively, you can contact our Customer Service Officers for a copy of the forms to be mailed to you.

10. Is my Trading Representative (“TR”) qualified to execute ES Contract orders for me? Can I open ES Contract Trading Account with other qualified TRs? *

Before your TR can trade in ES contracts, he/she will need to pass a relevant examination. In the event that your TR was not successful in clearing the examination, you can choose to open an ES Contract Trading Account with another TR who has passed the exam.

Trading

11. When can I start trading? *

You can start trading after (a) you have completed all ES Contract Trading Account opening documents with duly executed Risk Disclosure Statement, (b) your ES trading account is successfully linked with your CDP GSA account (c) you have deposited sufficient Initial Margin with us.

(Note: If you are giving cheque as cash collateral, trading could only commence after the cheque is cleared i.e. fund is received in good value by the Company)

12. Is foreign currency cash collateral accepted as Margin Collateral? *

Currently, only SGD-denominated cash collaterals are accepted. Any foreign currency cash collateral will be immediately converted to SGD at the point of receipt.

13. What are the various payment modes? *

You can choose to make payment for your ES contracts by cash, cheques, electronic payment for shares (“EPS”) and telegraphic transfer (“TT”). GIRO is NOT available for payment of ES contracts.

14. Can I trade ES contracts online? *

Trading of ES contracts is available online.

15. What are margins? *

It is an amount of money representing a part of the value of the contract required to be deposited by you with your broker.

Frequently Asked Questions (FAQ) on Extended Settlement Contracts (“ES”)

16. Why do I need to put up margins?

The purpose of putting up margins is to ensure performance of the contract by ensuring there are funds to cover losses that may arise from daily fluctuations and final settlement.

17. What are the types of margin that are accepted? *

Currently, we only accept CASH as Margin Collateral for trading in ES Contracts.

18. How much margin do I have to put up to trade ES contract? How much can I buy when I deposit \$10,000 cash as Margin Collateral in the ES Contract Trading Account? *

Customers are required to put up Initial Margins for both long and short positions in ES contracts, and are required to meet the Required Margins for the purpose of meeting margin requirements of ES contracts. The customers are further required to meet the Required Margins as ongoing margin requirements for as long as the contract remains outstanding, where:

Required Margins = Maintenance Margins + Variation Margins

- (a) Maintenance Margin: In respect of each ES Contract, this refers to the component of Required Margin as determined by CDP, which must be maintained in your ES Contract Trading Account subsequent to the deposit of the Initial Margin for your position in the ES contracts. The maintenance margin is computed by multiplying the margin rate prescribed by SGX with the value of the ES contract. The ES contract value will be derived based on the last traded price of the underlying security in the Ready market. If the last traded price of the underlying is not available for today's computation, the last traded price of the latest available date will be used. The initial margin is then computed by multiplying the maintenance margin by the IM:MM ratio prescribed by SGX or the Member as the case may be.
- (b) Variation Margin: In respect of each ES Contract, this refers to the component of Required Margin comprising the mark-to-market gains and losses, in relation to the price at which the ES Contract was bought or sold, arising from the daily valuation of the ES Contract position, except that Variation Margins are not required if OSPL permits you to realize a gain or loss pursuant to executing a trade to offset an existing position.
 - (i) The Variation Margin shall be computed daily based on the outstanding contract and the Valuation Price as determined by the SGX-ST up to and including the intra-day cycle on the Settlement Day of the ES Contract.
 - (ii) A profit in the ES Contract will reduce the amount of Variation Margins while a loss will increase the amount of Variation Margins. A mark-to-market gain from an ES Contract may be used to offset other margin requirements of your other ES Contracts.
- (c) Required Margin: In respect of each ES Contract, this is equivalent to the sum of Maintenance Margin and the Variation Margin. You are required to comply with the Required Margin at all times.
- (d) Valuation Price: In respect of each ES Contract, this refers to the official price of the ES Contract prescribed by SGX-ST for the purpose of determining the Variation Margin.

Frequently Asked Questions (FAQ) on Extended Settlement Contracts("ES")

19. Will losses incurred be realized before expiry of the ES contracts? i.e Contra?

You may close out your ES contracts anytime from the first trade date ("FTD") to the last trade date ("LTD"). Contra will be effected on LTD+1 for all matched ES buy and sell contracts traded between FTD to LTD period.

20. If an ES contract was closed-out on or before LTD, when will the contra (gain or loss) be credited or debited from my ES Contract Trading Account?

After contra is effected, the contra statement will be sent to you by post. Any realized contra differences (gain or loss) will be credited as Margin Collateral or debited from your Margin Collateral on LTD + 2.

21. Will I be able to trade more if the market value of the portfolio of shares in my ES Contract Trading Account increases or if I deposit more Margin Collateral with OCBC Securities?

As cash is the only form of Margin Collateral acceptable, you will have to deposit additional cash in order for you to enter into more ES Contract positions. If there is a mark-to-market gain in the value of your ES contracts (this results in a reduction in Variation Margins required), you may make use of any excess in Margin Collateral to enter into more ES Contract positions.

22. What is margin call?

We will make a margin call if any of your outstanding ES contracts result in losses that bring the Margin Collateral in your account below the sum of the Maintenance Margin + Variation Margin required.

23. What happens if the market value of the portfolio of ES contract in my ES Contract Trading Account falls below the sum of Maintenance Margin and Variation Margin? How do I meet a margin call?

We will make a margin call. You have TWO options; 1) To top up the Margin Collateral to bring the Customer Asset Value of your portfolio of ES Contracts to no less than the Required Margin (i.e Initial Margin + Variation Margin) level within 2 business days from the date the shortfall in Margin Collateral occurred. 2) To offset, liquidate or close out some or all of your ES Contract positions.

24. How is the amount of additional Margin Collateral determined? *

The amount of additional Margin Collateral required is the difference between the Required Margin (i.e Initial Margin + Variation Margin) and the Customer Asset Value.

25. How many days do I have to fulfill the margin call?

Depending on the extent of the shortfall in Margin Collateral, you will need to top up your Margin Collateral immediately or within 2 Market Days to no less than the Required Margin (i.e Initial Margin + Variation Margin) from the date the shortfall in Margin Collateral occurred.

Instead of providing additional Margin Collateral, you may also choose to offset, liquidate or close-out some or all your ES Contract positions to bring the account balance above the Required Margin for your remaining ES Contract positions.

Frequently Asked Questions (FAQ) on Extended Settlement Contracts("ES")

In the event that you are unable to provide additional Margin Collateral within the stipulated time, we may in our absolute discretion offset or close out some or all of your positions. You will remain liable for any resulting losses.

26. What shares can I buy through the ES Contract Trading Account?

Not all securities listed on the SGX-ST will have corresponding ES contracts offered for trading. SGX will only select securities with sufficient liquidity and market interest to qualify as underlying shares for ES contracts.

27. Can I buy the underlying securities in ES Contract Trading Account to fulfill the delivery obligation of short ES contract? When can I do it?

No. If you want to buy the underlying securities to fulfill the delivery obligation of short ES contract, you should do it through your normal cash trading account on or before the Last Trading Day ("LTD"). Please ensure that full payment is made for your purchase of the underlying securities by Due Date in order to have sufficient "Free" share balance to deliver against the short ES contract.

28. Can I use SRS or CPF account to trade ES contract? *

No.

29. Can I request for contra pick price? *

No. Contra for ES contracts are strictly to be done on First-in-First-Out (FIFO) basis.

Settlement

30. What happens if I do not have the underlying securities to deliver on settlement date?

If the seller of the ES contract does not have any or sufficient underlying securities of the ES contract on Settlement Date (ie. LTD + 3), CDP will commence buying-in of the underlying securities. Therefore, it is important for you to ensure any short ES contract is covered by the LTD by means of buy-back corresponding ES contract OR to have sufficient FREE balance of underlying securities in your CDP account for delivery.

31. How are ES contract settled?

Settlement of ES contracts is by physical delivery of the underlying securities on the third business day after the Last Trading Day (LTD + 3). After LTD, ES contract are settled in the same manner as ready market contracts. Payment and receipt of the purchase and sale of consideration respectively will take place in accordance with the current practice of the ready market.

32. When will outstanding ES contracts purchased be reflected in EPS? *

Outstanding ES contracts will be reflected in the EPS only from LTD+1 onwards.

Frequently Asked Questions (FAQ) on Extended Settlement Contracts("ES")

33. What happens if there are corporate actions announcements for the underlying securities?

Whenever there is a corporate action on any underlying share, such as dividend, share split, bonus issue, etc, the corresponding ES contracts may be adjusted accordingly.

Adjustments may include early expiration of the ES contract. In such a case, the Last Trading Day of the ES contract will be brought forward to a date before the ex date for the corporate action. SGX may list a new ES contract with an obligation to deliver or take delivery of the underlying on an ex basis, to replace the early expired ES contract.

In such cases, SGX will announce the necessary changes on their website.

Important Notes

OCBC Securities Private Limited ("OSPL") operates as an "execution-only" broker. Accordingly, OSPL does not provide advice/recommendation on whether the trading of ES Contracts and/or a particular ES Contract is suitable for you. In addition, this material does not take into account the specific investment objectives, financial situation or particular needs of any particular person.

Without prejudice to the generality of the foregoing, please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider carefully whether the product in question is suitable for you.

The proposed transaction herein (if any) is subject to the final expression of the terms set forth in the definitive agreement(s) and/or confirmation(s). This does not constitute an offer or solicitation to buy or sell or subscribe for any security or financial instrument or to enter into a transaction or to participate in any particular trading or investment strategy.

The OSPL Standard Trading Terms and Conditions as amended from time to time ("Terms and Conditions") apply and in the event of any conflict between this FAQ and the Terms and Conditions, the Terms and Conditions shall prevail.