

**MINUTES OF THE RULES CHANGE PANEL
142nd MEETING
HELD ON THURSDAY, 18 JULY 2024 AT 11.00AM
AT ENERGY MARKET CO. PTE LTD
4 SHENTON WAY #03-01
SGX CENTRE 2, SINGAPORE 068807**

Present: Toh Seong Wah (Chairman) Henry Gan
 Soh Yap Choon Koay Yi Jing
 Andrew Tan Fong Yeng Keong
 Sherman Toh Wong Yew Chung
 Kevin Fong Chee Wai Calvin Quek
 Teo Chin Hau Cheong Zhen Siong
 Dr Toh Mun Heng Dallon Kay

Absent with Matthijs Jan Guichelaar
Apologies:

In Attendance: Poa Tiong Siaw Vincent Wise
(EMC) Lim Chern Yuen Fernanda Tham
 Li Zhenhui

	Minutes of 142nd RCP Meeting – 18 July 2024	Action
1.	Notice of Meeting The Chairman called the meeting to order at 11.00am. The Notice and Agenda of the meeting were taken as read.	
2.	Confirmation of Minutes of the 140th and 141st Rules Change Panel Meeting The Minutes of the 140 th and 141 st Rules Change Panel (“RCP”) meeting, held on 4 April 2024 and 23 May 2024 respectively, were approved by the RCP.	
3.	Update of Monitoring List, Summary of Outstanding Rules Change Submissions, and RCP Work Plan Status Update Mr Li Zhenhui presented the Update of Monitoring List, Rule Change Submission, and RCP Work Plan Status Update.	
4.	CP97: Review of Forms of Credit Support in Singapore Wholesale Electricity Market	
4.1	Mr Vincent Wise presented the paper on Review of the Forms of Credit Support in Singapore Wholesale Electricity Market (“SWEM”).	
4.2	<u>Assessment of Current Forms of Credit Support</u> Mr Wise presented an assessment of the current forms of credit support. Mr Wise shared that the SWEM’s clearing bank no longer provides custodial services for EMC to hold T-bills provided as credit support, and that T-bills require at least 3 business days for the cash proceeds from	

	<p>their sale to be credited to a current account. Mr Wise highlighted that T-bills can only be retained in the SWEM if EMC opens a custodian account with a bank other than the SWEM's clearing bank and if the proposal of 'Tiered Credit Support' is considered to accommodate credit support forms that are not as liquid as to pay out within 1 business day.</p> <p>Dr Toh Mun Heng queried if it is necessary to open a custodian account with a local bank. Mr Wise responded that setting up a custodian account with a local bank minimises cross border risk, and highlighted that EMC is required by the rules to maintain its bank accounts at a bank or institution based in Singapore.</p> <p>Mr Wong Yew Chung queried if the 1 business day requirement is essential as this criterion limits the credit support options. Mr Wise responded that the 1 business day requirement is essential as the market is settled daily and EMC needs to ensure that market creditors are paid daily.</p> <p>Mr Soh Yap Choon queried whether the removal of T-bills, leaving mainly banker's guarantees, would expose the market to other issues. Mr Teo Chin Hau responded that from a genco's perspective, most banker's guarantees are issued by the lenders of said gencos and is the most efficient form of credit support. Mr Teo added that despite T-bills having been an allowed form of credit support for many years, it has never been utilised. Fundamentally, removing T-bills will not change the profile of credit support provided by a genco. Mr Teo further highlighted that the 1 business day requirement is fundamental to the market where daily settlement is in place. Mr Kay added that it is important that the forms of credit support retained are utilised by industry players in practice, as there are costs involved. Furthermore, Mr Kay highlighted that the 3 business days turnaround for T-bill makes it non-compliant with EMC's requirements.</p>	
4.3	<p>Mr Wise illustrated the current distribution of banker's guarantee amount across issuing banks.</p> <p>Mr Wong inquired about how concentration risks are being resolved. Mr Wise explained that the largest debtor, the Market Support Services Licensee, has diversified by drawing its banker's guarantee amount from 5 banks rather equally. Furthermore, EMC periodically updates the panel on the status of banker's guarantees. At this point, concentration risk does not appear to be a significant concern.</p> <p>Mr Wong added that if market participants diversify with similar banks, a few local banks might end up having a bigger share of guarantees.</p> <p>Mr Teo Chin Hau responded that in practice, diversification may not be very practical. Mr Teo explained that typically, lenders have a stake in the company. The likelihood of a bank (which is not a lender to the company) offering a banker's guarantee is slim. Mr Teo further added that a significant amount of exposure in the market is covered by bilateral contracts, with the remaining exposure covered by credit support such as banker's guarantees. Mr Teo remarked that this mitigates the impact on the market's financial integrity should there be issues with the posted credit support.</p>	

	<p>Mr Poa Tiong Siaw acknowledged that there is a limited pool of banks that can provide such services and it could potentially be a concern. However, in practice so far, such concentration risk does not seem significant. Furthermore, this task is currently outside the scope of the this paper.</p> <p>In future, Mr Poa explained that EMC will be looking at shortening of the settlement cycle to reduce exposure. Following which, EMC will be better able to access the overall market risk and assess other areas of concern to be addressed.</p> <p>Mr Kay inquired what criteria would need to be met for financial institutions to provide banker's guarantee. Mr Poa responded that it must be a Qualifying Full Bank.</p>	
4.4	<p><u>Consideration of Potential Credit Support Forms</u></p> <p>Mr Wise shared the concerns with counterparty risk and liquidity related to corporate guarantees and insurance bonds.</p> <p>Dr Toh commented that from an overall economy standpoint, disallowing corporate guarantees may discourage foreign investors from entering the SWEM. Mr Poa added that it is in the market's interest to ensure that the acceptable forms of credit support have low risk and high liquidity, otherwise, it would not be fit for purpose.</p> <p>Dr Toh responded that big foreign banks can wire a transfer within 1 business day. Mr Kay commented that it may lack jurisdictional enforceability.</p>	
4.5	<p><u>Tiered Credit Support</u></p> <p>Mr Wise presented the proposal to introduce the 'Tiered Credit Support' arrangement to accept credit support forms that cannot be liquidated within 1 business day as "Tier 2" credit support.</p> <p>Mr Kay clarified whether the introduction of Tier 2 credit support would change how the default levy mechanism is administered. Mr Wise responded that the paper does not discuss the default levy mechanism, but should the Tiered Credit Support arrangement be introduced, more work would be required to iron out detailed considerations.</p> <p>Mr Kay commented that the current default levy mechanism should be reassessed. Mr Kay added that if it is an upstream corporate guarantee, there is a risk of double default, which might overly burden non-defaulting market participants. Mr Wise responded that more analysis and assessment will be made if this proposal is supported. Mr Wise further highlighted that the Performance Bonds regime adds on another layer of security before defaults are recovered from non-defaulting market participants.</p> <p>Mr Fong Yeng Keong inquired if costs will be incurred if Tiered Credit Support arrangement is implemented. Mr Wise affirmed that costs will be incurred as this involves something completely new. Additionally, the risk exposure module used to monitor market participants' risk will need to be enhanced if the proposal is accepted.</p>	

4.6	<p>Mr Kay inquired if the proposal to allow more than one settlement bank has been discussed aside from the current credit support proposals. Mr Wise responded that the proposal to allow more than one settlement bank has not been reviewed at this point.</p> <p>Mr Poa added that there are two more workstreams that EMC will be working on. The current paper comprises of the first phase of the Holistic Review of Prudential Requirements. The proposal to allow more than one settlement bank may be assessed in later phases of the workstream.</p>	
4.7	<p>Mr Wise summarised EMC's recommendations to the RCP as follows:</p> <ul style="list-style-type: none"> a. To not support introducing corporate guarantees, insurance bonds, and a tiered credit support arrangement at this time; and b. To support removing treasury bills as an allowable form of credit support. <p>Mr Soh queried if EMC would follow up with the drafting of rule changes, specifically to remove T-bills as a form of credit support, should the RCP support the second recommendation. Mr Wise affirmed Mr Soh's understanding.</p> <p>Mr Toh Seong Wah added that if the panel does not support the removal of T-bills, consequently, the proposal on 'Tiered Credit Support' will have to be looked at.</p>	
4.8	<p>The RCP unanimously supported EMC's recommendation to not introduce corporate guarantees, insurance bonds, and a tiered credit support arrangement at this time.</p> <p>The RCP by majority vote supported EMC's recommendation to remove T-bills as an allowable form of credit support.</p> <p>The following RCP members supported EMC's recommendation to remove T-bills as an allowable form of credit support:</p> <ol style="list-style-type: none"> 1. Mr. Henry Gan (Representative of EMC) 2. Mr. Calvin Quek (Representative of Generation Licensee) 3. Mr. Teo Chin Hau (Representative of Generation Licensee) 4. Ms. Koay Yi Jing (Representative of Generation Licensee) 5. Mr. Sherman Toh (Representative of Transmission Licensee) 6. Mr. Dallon Kay (Representative of Retail Electricity Licensee) 7. Mr. Andrew Tan (Representative of Retail Electricity Licensee) 8. Mr. Cheong Zhen Siong (Representative of Wholesale Electricity Trader) 9. Mr. Kevin Fong Chee Wai (Representative of the Market Support Services Licensee) 10. Mr. Fong Yeng Keong (Representative of Consumers of Electricity in Singapore) 11. Mr. Wong Yew Chung (Person experienced in Financial Matters in Singapore) <p>The following RCP members did not support EMC's recommendation to remove T-bills as an allowable form of credit support:</p>	

	<ol style="list-style-type: none">1. Mr. Soh Yap Choon (Representative of the PSO)2. Dr. Toh Mun Heng (Representative of Consumers of Electricity in Singapore)	
--	--	--

There being no other matters, the meeting ended at 12.20 p.m.

Toh Seong Wah
Chairman

Minutes taken by:
Fernanda Tham