REPORT OF
THE RULES CHANGE PANEL (RCP)

ON

EMC’s

PROPOSED EXPENDITURE AND REVENUE
&
SCHEDULE OF FEES

FOR

THE FISCAL YEAR
1 JULY 2022 TO 30 JUNE 2023
(FY2022/2023)

Dated 14 April 2022
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14 April 2022

The EMC Board of Directors
4 Shenton Way
#03-01 SGX Centre 2
Singapore 068807

Dear Sirs,

RULES CHANGE PANEL'S REPORT ON EMC'S BUDGET AND FEES FOR FY2022/23

The Rules Change Panel (RCP) met on 4 April 2022 to review and comment on EMC’s Budget and Fees for FY2022/23 covering a 12-month period from 1 July 2022 to 30 June 2023 and to consider submissions by interested persons on the above, if any.

The review of the Budget and Fees was performed in accordance with the requirements of Chapter 2, Section 10.1.3 of the NEMS Market Rules.

The RCP also considered comments from SP and PSO, received prior to the RCP meeting on 4 April 2022.

In accordance with the requirements of Chapter 2, Sections 10.1.4 and 10.1.5 of the NEMS Market Rules, the RCP now submits its report for the EMC Board to consider in finalizing EMC’s Budget and Fees for FY2022/23 before submitting the same to the EMA for approval.

We also approve the submission of this report to the EMA and the publication of the report on the EMC public website.

Yours sincerely,

Toh Seong Wah
Chair
Rules Change Panel
Introduction

On 21 March 2022, EMC published the Budget and Fees for FY2022/23 on the EMC public website inviting interested persons to make submissions to the RCP.

On 21 March 2022, EMC submitted its Budget and Fees for FY2022/23 to the Rules Change Panel (RCP) for its review; and

Comments received from SP and PSO were presented to the RCP on 4 April 2022. Please refer to Appendix 1.

In its meeting on 4 April 2022, the RCP considered EMC’s submission of its Budget and Fees for FY2022/23.

EMC’s Obligations

Chapter 2 Section 10.1.1 of the Market Rules requires that EMC shall, within 100 days prior to the beginning of each fiscal year (22 March 2022 in this case):

- submit to the RCP for review its proposed expenditure and revenue requirements for, and a schedule of fees that it proposed to charge ("Budget and Fees") during, the fiscal year (covering the period from 1 July 2022 to 30 June 2023 ("FY2022/23") in this case.

  Chapter 2, section 10.1.1.1

- publish notice of its Budget and Fees for FY2022/23, inviting interested persons to make submissions on these to the RCP.

  Chapter 2, section 10.1.1.2

RCP’s Obligations

Under Chapter 2 Section 10.1.3 of the Market Rules, “The RCP shall review the EMC’s Budget and Fees:

  10.1.3.1 using such procedures;
  10.1.3.2.1 in consultation with such persons; and
  10.1.3.3 by means of such meeting

as it considers appropriate.”

Following the conclusion of the review mentioned above, the RCP is required under Chapter 2 Section 10.1.4 to submit a written report to the EMC Board and, as prescribed by Chapter 2 Section 10.1.5, within 75 days before the beginning of the EMC new fiscal year (14 April 2022 in this case), indicating:

- the views of the RCP with respect to the Budget and Fees;
- a summary of any material submissions filed by interested persons pursuant to section 10.1.1.2 of Chapter 2.
Attendees at the 128th Meeting of the Rules Change Panel

The Rules Change Panel met to discuss the EMC Budget and Fees on Thursday, 4 April 2022 at 10 am via video-conferencing (Webex).

Present: 
Toh Seong Wah (Chairman)*
Henry Gan*
Teo Chin Hau
Tony Tan
Calvin Quek
Song Jian En
Cheong Zhen Siong
Dr Toh Mun Heng
Y K Fong
Tan Chian Khong

Absent with apologies:
Soh Yap Choon
Carol Tan
Sean Chan
Ho Yin Shan

In Attendance:
Lau Chee Kiong  EMC, SVP (Technology)
Anne Goh  EMC, VP (Finance)

*Note: Messrs. Toh Seong Wah and Henry Gan declared a conflict of interest in the discussion on EMC’s Budget and Fees and did not take part directly in the discussion except to answer any questions directed at them.
BUDGET AND FEES FOR FY2022/2023

Submissions by interested parties

EMC published its Budget and Fees on the EMC public website on 21 March 2022 to invite interested persons to make submissions.

The prescribed period set out in the notice for making submissions was 21 March 2022 to 4 April 2022.

We received queries from SP and PSO on 2 and 4 April 2022 respectively. No other submission has been received. The reply to SP and PSO’s submissions were presented to the RCP members on 4 April 2022. Please refer to Appendix 1.

RCP’s comments

The RCP made the following comments:

1. The RCP asked if the manpower cost capitalised / charged out was due to deferment of manpower cost to projects or due to services rendered elsewhere or secondment of staff. EMC explained that manpower cost is capitalised for NEMS resources involved in CAPEX projects. When NEMS resources are used to support New Business, which is not part of the regulated business, EMC is required to charge out the cost to the New Business.

2. The RCP noted that EMC had implemented a voluntary wage freeze for all staff in FY2020/21 and asked if the salary base was calculated based on the last drawn or restored salary. EMC replied that the salary cost was calculated based on last drawn salary which is lower due to the wage freeze in FY2020/21. The RCP suggested for EMC to consider restoring some of the salary increment.

3. The RCP further queried if EMC has engaged any HR consultant to conduct salary benchmarking exercise to justify for the increase in manpower cost. EMC replied that it has engaged Mercer to benchmark its salary against the market and according to the report from Mercer, EMC’s salary is below the market. This is the reason why EMC has proposed a 5% increment to manpower budget this year but the eventual increment is subject to EMC Board’s decision. EMC will also share the report from Mercer with EMA as part of the discussion for the next 5 years revenue regime.

4. The RCP asked if the right-to-use asset is small is because of the small office floor plan. EMC explained that its right-to-use is small because it only covers the two data centres and does not cover the office premises. EMC has a service contract with its parent company and does not sign a contract directly with the landlord.

5. The RCP noted that savings will be returned to the market and asked how is it being returned. EMC replied that the savings will be returned as exogenous items to the market participants through the EMC fees adjustment.

6. The RCP asked if EMC has a special IT project committee that oversees the evaluation and selection of vendors. EMC replied that it does have a committee that governs the entire process for selection and competitive procurement. With regard to the nature of the project, it is governed by a process where EMC will refresh the
system at the end of the depreciation to keep the system up to date and supported by the product principals. This process is agreed with EMA in a 5-year tranche and worked into the CAPEX requirement for the 5-year revenue regime. EMA plays a part in scrutinising the capital projects that EMC undertakes for each 5-year tranche.

Conclusion

The Rules Change Panel has reviewed EMC’s Budget and Fees for FY2022/23 and presents its views to the EMC Board for consideration in finalizing the Budget and Fees.
## Comments from SP received on 2 April 2022

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<thead>
<tr>
<th>Comments</th>
<th>EMC’s Response</th>
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<tr>
<td><strong>Para 2.3 Depreciation and Amortisation</strong></td>
<td>The cost of the ROUA was based on the present value of the lease liability. The difference between the cost recognised due to the change in accounting principle is minimal as ROU carrying value as at June 2021 is only $44K.</td>
</tr>
<tr>
<td><strong>Para 3.2.1.2 Salaries &amp; Related Costs</strong></td>
<td>The training grants were not part of the budget for the approved revenue. Any training cost savings will be return to the market by adjusting the exogenous claims and not as an adjustment from the training cost.</td>
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<tr>
<td><strong>Para 3.2.1.3 Other Operating Expenses</strong></td>
<td>We do not expect any other operating expenses to spill over from FY21/22 to FY22/23.</td>
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<tr>
<td><strong>Para 3.2.2.4 Manpower Costs</strong></td>
<td>The total compensation package which included the base salary and the performance bonus were considered in budgeting for the manpower cost in FY22/23 and also took into account the new hires for the vacated positions.</td>
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<td><strong>Para 3.2.2.6 IT Service Cost</strong></td>
<td>The lower IT service cost incurred in FY21/22 compared to plan was due to later commencement of projects and lower cost incurred than planned. For projects that commenced later than planned, the full year maintenance cost will be recognised in FY22/23 while only the pro-rated amount is recognised in FY21/22.</td>
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<tr>
<td>Comments</td>
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<td>Para 3.2.2.8 Audit Fees</td>
<td>The FY22/23 budget is in line with the FY21/22 budget but higher than the FY21/22 forecast. What is the change in audit scope giving rise to a drop in the forecast and increase in FY22/23 budget? Both FY21/22 and FY22/23 budget assumed 3 internal audits are carried out in the year. Lower cost was incurred in FY21/22 due to synergies for legal and Compliance audit carried out together with SGX Group.</td>
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<td>Para 3.2.2.9 Communications &amp; Public Relations (Comms &amp; PR)</td>
<td>How much of the increase in FY22/23 budget Comms and PR was attributed to a carry forward of the activities deferred from FY21/22? Note that FY21/22 forecast is ~$100k lower than budget. The increase in FY22/23 Comms and PR cost was not attributed to activities deferred from FY21/22.</td>
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<td>Para 3.2.2.10 Insurance Expenses</td>
<td>What is the basis for the assumed increase? Is the FY22/23 insurance budget based on offers from the insurers or firm insurance policies already taken up? The insurance is renewed every calendar year. July 22 to December 22 cost is based on committed policies while the remaining months were based on 5% growth.</td>
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<td>Para 3.2.2.12 Other Operating Expenses</td>
<td>This is significantly higher than both FY21/22 budget and forecast. How does this new OOE budget compare against pre- COVID years? What are the major contributing factors for this increase? We assumed that pre-COVID level activities will resume in FY22/23. Physical meetings and travelling which were curtailed these 2 years will resume. In additional full staff strength will return to the office and office related expenses such as printing and stationery will be likely to be higher. Any savings will be returned to the market if the cost is not incurred.</td>
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<td>Para 4.2 Internal Corporate and NEMS Systems Capital Expenditure Budget</td>
<td>There is a $1.1M increase in Capex budget (Int Corp and NEMS) between FY21/22 forecast and FY22/23 budget. Which of these items are BAU costs and which are incremental cost to be incurred in FY22/23 leading to the $1.1M increase? Is any part of the Capex increase attributed to a carry forward of Capex projects intended for FY21/22? $0.8M CAPEX budget for FY22/23 were for System Logging Service and Serial Links in compliance with the System Operation Manual and in compliance with the transmission code requirements to enhance data transfer protection against cyber-attacks. Part of the CAPEX increase was also attributed to the later commencement of the accounting system project.</td>
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### Comments from PSO received on 4 April 2022

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<td><strong>Para 3.2.2.1 Revenue</strong></td>
<td>With reference to the breakdown in the table in para 3.2, the $1,732K variance between FY21/22 forecast and budget was contributed by:-</td>
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<td>Can EMC share how $1,732K is derived and what’s the exogenous amount claim?</td>
<td>Lower Exogenous items $2,311K, partially offset by higher NEMS fees $493K and Market data subscription revenue $85K.</td>
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<td><strong>Para 3.2.2.12 Other Operating Expenses</strong></td>
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<td>Can EMC elaborate on the increase of ~52.3% as in Page 7 and 11</td>
<td>Please see response to Singapore Power comments on the same item.</td>
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