

13 April 2015

Ms. Melissa Jurgens  
Secretary  
Commodity Futures Trading Commission  
Three Lafayette Center  
1155 21<sup>st</sup> St., N.W.  
Washington, DC 20581  
United States of America

Dear Ms. Jurgens,

**Self-certification of Amendments to SGX-DC Clearing Rules**

**1 Introduction**

1.1 Singapore Exchange Derivatives Clearing Limited ("**SGX-DC**"), a derivatives clearing organisation ("**DCO**") registered with the Commodity Futures Trading Commission (the "**Commission**"), hereby submits a self-certification for amendments to its Clearing Rules (the "**Amendments**") pursuant to Commission regulation 40.6(a).

**2 Intended Implementation Date**

2.1 The Amendments are proposed to be implemented in or after June 2015, but will not be implemented prior to the Commission's 10 business day review period.

**3 Explanation and Analysis**

3.1 The SGX-DC Clearing Rules set out specific remedies to deal with the default or suspension of a Clearing Member that has outstanding open positions *vis a vis* SGX-DC.

3.2 The purpose of the Amendments is to clarify SGX-DC existing practice of offsetting all amounts owed between itself and the defaulted Clearing Member to arrive at a single net sum to be paid by either party to the other. The Amendments facilitate the offsetting in accordance with Principle 32 of the International Accounting Standards ("**IAS**").

- 3.3 SGX-DC is registered as an approved clearing house under the Securities and Futures Act of Singapore and regulated by the Monetary Authority of Singapore (“MAS”). The Amendments are subject to the MAS’ regulatory concurrence.

#### **4 Description of Amendments**

- 4.1 Paragraph 7A.02.3 of the SGX-DC Clearing Rules would be amended as a result of the Amendments.
- 4.2 The text of the Amendments with the changes indicated is attached as Appendix 1.

#### **5 Certification of Compliance with Core Principles**

- 5.1 The Amendments have been promulgated in respect of SGX-DC’s compliance with Core Principle G on Financial Resources in order to align the SGX-DC Clearing Rules to the IAS 32 that prescribes rules for the offsetting of financial assets and financial liabilities.
- 5.2 SGX-DC hereby certifies to the Commission that the Amendments comply with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

#### **6 Public Notice of Pending Certification**

- 6.1 SGX-DC has made publicly available a notice of the Amendments’ pending certification with the Commission, together with a copy of this submission on its website at [http://www.sgx.com/wps/portal/sgxweb/home/regulation/consult\\_pub/dco\\_submissions](http://www.sgx.com/wps/portal/sgxweb/home/regulation/consult_pub/dco_submissions).

#### **7 Opposing Views**

- 7.1 There were no opposing views expressed to SGX-DC by its board or committee members, SGX-DC Clearing Members or market participants that were not incorporated into the Amendments. If any opposing views are received by SGX-DC during the Commission’s review period, such views will be communicated to the Commission accordingly.

**8 Contact Details**

8.1 Please do not hesitate to contact the undersigned at [ludovico.cardone@sgx.com](mailto:ludovico.cardone@sgx.com) or +65 6713 7765 should you require any clarification.

Yours sincerely,



Ludovico Cardone  
Assistant Vice President  
Legal (Regulation)

## Appendix 1

### Text of the Proposed Amendments to the SGX-DC Clearing Rules

Amendment to SGX-DC Clearing Rules	Rationale
<b>Chapter 7A Suspension and Default</b>	
<b>7A.02 Open Positions of Defaulted /Suspended Clearing Members</b>	
<b>7A.02.1</b>	No change.
When a Clearing Member having open positions has defaulted upon its obligation to the Clearing House, or has been suspended, the Clearing House may:—	
<p>7A.02.1.1 transfer or facilitate the transfer of all or any part of positions in Customer Contracts held by the defaulted or suspended Clearing Member to one (1) or more Clearing Members designated by the Clearing House in accordance with applicable laws, provided that all or any part of positions held in Cleared Swaps Customer Accounts may be transferred only to one (1) or more FCM Clearing Members designated by the Clearing House. When such positions are so transferred, the following shall apply:</p> <p>a. subject to Rule 7A.02.1.1.c. and to the extent permitted by applicable laws, margins deposited with the Clearing House in respect of the positions shall be entrusted to the designated Clearing Member or Clearing Members;</p> <p>b. the margins entrusted to a designated Clearing Member pursuant to this Rule 7A.02.1.1 may not be in such form as was originally deposited with the Clearing House;</p> <p>c. the Clearing House shall have the discretion not to transfer all or any part of the margins and settlement monies to a designated Clearing Member as described in Rule 7A.02.1.1.b., if:</p> <p style="padding-left: 20px;">i. the positions are held in an omnibus account; or</p> <p style="padding-left: 20px;">ii. monies and other assets deposited with the Clearing House in relation to Customers' Contracts may be applied pursuant to Rule 7A.05.1.2,</p> <p>provided that where margins and settlement monies are not transferred to the designated Clearing Member, the designated Clearing Member shall be required to collect the</p>	

Amendment to SGX-DC Clearing Rules	Rationale
<p>required margins and settlement monies from its Customer; and</p> <p>d. The margins not entrusted to designated Clearing Members shall be retained by the Clearing House and may be applied in accordance with Rule 7A.05.1.2. Any unused margins shall be returned to the defaulted or suspended Clearing Member, or entrusted to the designated Clearing Members, as the Clearing House deems appropriate:</p> <p>i. following the settlement of losses arising from the event of default; or</p> <p>ii. at such time that the Clearing House determines that the margins may not be used.</p>	
<p>7A.02.1.2 execute hedging transactions, on behalf of and at the risk of the defaulted or suspended Clearing Member, to eliminate or reduce market risk resulting from such open positions;</p>	
<p>7A.02.1.3</p> <p>a. close out or liquidate via auction or otherwise such open positions in House Contracts and/or any Customer Contracts that have not been transferred pursuant to Rule 7A.02.1.1, including any hedging transaction executed pursuant to Rule 7A.02.1.2; or</p> <p>b. appoint one or more Inter Dealer Brokers, Clearing Members or members of the applicable Relevant Market to close out positions in House Contracts and/or any Customer Contracts that have not been transferred pursuant to Rule 7A.02.1.1, including any hedging transaction executed pursuant to Rule 7A.02.1.2, all on the behalf of and at the risk of the defaulted or suspended Clearing Member;</p>	
<p>7A.02.1.4 where the open positions relate to an Eligible Non-Relevant Market Transaction or a Contract subject to physical delivery prior to re-novation in Rule 6.02A.7, and it is in the Clearing House's good faith opinion impossible or impracticable for the open positions to be transferred or closed out pursuant to Rules 7A.02.1.1 and 7A.02.1.3 respectively, the Clearing House may, in addition to any other power or right it may have, invoice back such positions to the defaulting or suspended Clearing Member. The Clearing House shall then simultaneously invoice back the equivalent number of positions or as nearly equivalent number of such positions as the Clearing House may deem practical to the following:—</p> <p>a. in the case of an Eligible Non-Relevant Market Transaction or a Contract subject to physical delivery prior to the matching</p>	

Amendment to SGX-DC Clearing Rules	Rationale
<p>process in Rule 6.02A.7, to other non-defaulting and non-suspended Clearing Members, and/or any other non-defaulting Relevant Market (or its clearing house) holding appropriate opposite positions (whether reported to the Clearing House as being House or Customer positions) as at the date of such invoicing back, on a pro-rata basis, calculated as the proportion of such gross opposite positions of each non-defaulting and non-suspended Clearing Member and/or Relevant Market (or its clearing house) at the date of such transfer relative to the aggregate value of such open positions held by all non-defaulting and non-suspended Clearing Members (to be rounded down or up if the number of lots is not a whole number at the Clearing House's absolute discretion); or</p> <p>b. in the case of a Contract subject to physical delivery after the matching process in Rule 6.02A.7 and before re-novation in Rule 6.02A.7, to the non-defaulting and non-suspended Clearing Members and/or clearing member of another Relevant Market (or its clearing house), with which the defaulting or suspended Clearing Member has been matched in accordance with Rule 6.02A.7 (whether reported to the Clearing House as being House or Customer positions).</p> <p>The invoicing back shall be carried out by the Clearing House effecting and registering opposite positions between itself and each of the relevant affected persons. The Clearing House shall then settle the open positions against such opposite positions, at a price determined by it. The Clearing House's actions, including the timing of the transfer and the price determined by the Clearing House shall be binding on all affected Clearing Members;</p>	
<p>7A.02.1.5 where the open positions relate to OTCF Contracts, take one or more of the following actions:</p> <p>a. hedge or otherwise liquidate such open positions in OTCF Contracts;</p> <p>b. conduct an auction of such open positions in OTCF Contracts, whether hedged or otherwise, and a Participating Clearing Member shall participate in such auction;</p> <p>c. [This rule is deleted].</p> <p>c1. where outstanding losses remain following the auction described in (b), attribute such outstanding losses in the manner described in Rules 7A.01A.2 (Clearing Fund Loss Allocation Mechanism), 7A.01A.2A (Apportionment of Clearing Fund Contributions across Contract Classes and across OTCF Auctions) and 7A.01B (Clearing Fund Loss Allocation Mechanism for Default</p>	

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<p>in OTCF Contracts),</p> <p>provided that a Clearing Member participating in any activity set out in (b) and (c) above may authorise a qualified third party to act in its place.</p>	
<p>7A.02.1.6 if a defaulted or suspended party:</p> <p>(a) has offsetting positions with another defaulted or suspended party; or</p> <p>(b) has offsetting positions between his own accounts, the Clearing House may net such positions before undertaking any action pursuant to Rules 7A.02.1.3 to 7A.02.1.5. The net loss calculated may be attributable to either or both defaulted or suspended party's account in whatever proportion as the Clearing House deems fit; and/or</p>	
<p>7A.02.1.7 undertake any action which is ancillary or incidental to activities set out under Rule 7A.02.1.</p>	
<p><b>7A.02.2</b></p>	<p>No change.</p>
<p>The Clearing Member that has defaulted upon its obligation to the Clearing House, or has been suspended, shall cooperate with the Clearing House and non-defaulting Clearing Members in respect of any of the actions that the Clearing House may take pursuant to Rule 7A.02.1.</p>	
<p><b>7A.02.3</b></p>	
<p>All costs and expenses sustained by the Clearing House in connection with any steps which are or may be taken by the Clearing House pursuant to Rule 7A.02.1, including losses incurred from authorized hedging transactions and the unwinding of such hedging transactions, shall be charged to the account of the defaulted Clearing Member <u>after all outstanding rights and liabilities in respect of all its Contracts with the Clearing House have been determined, and shall be set off against all other amounts owed and owing between the defaulted Clearing Member and the Clearing House, to produce a net sum payable by either party to the other.</u></p>	<p>Amendment to clarify SGX's existing practice of offsetting all amounts owed between itself and the defaulted Clearing Member to arrive at a single net sum to be paid by either party to the other. To facilitate offsetting under IAS32.</p>

