

28 January 2016

Mr. Chris Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st St., N.W.
Washington, DC 20581
United States of America

Dear Mr. Kirkpatrick,

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 the first quarter of 2016, but will not be implemented prior to the Commission's 10 business day review period.

3. Explanation and Analysis

- 3.1 The Amendments are in respect of SGX-DC's revision of the Futures Trading Rules ("**FTR**") and the Clearing Rules of the Singapore Exchange Derivatives Clearing Limited ("**SGX-DC Clearing Rules**") to offer Affiliate Segregation as an option to all of SGX-DC's Clearing Members ("**Clearing Members**").

Affiliate Segregation is an arrangement that protects the collateral of a Clearing Member's affiliates from use in certain types of Clearing Member default and that enables their positions to be transferred to another (non-defaulting) Clearing Member if the Clearing Member defaults.

3.2 Background

Singapore Exchange Derivatives Clearing Limited

Company Reg No. 200005878M
(A wholly-owned subsidiary of Singapore Exchange Limited)

2 Shenton Way, #02-02 SGX Centre 1, Singapore 068804
main: +65 6236 8888 fax: +65 6535 0775
sgx.com

The introduction of Affiliate Segregation is an initiative to help Clearing Members' bank affiliates achieve greater capital efficiency under the capital requirements for bank exposures to central counterparties issued by the Basel Committee on Banking Supervision ("**Basel III**").

Basel III requires that a bank (e.g. a bank affiliate of a Clearing Member) maintain adequate capital for its exposure to a central counterparty ("**CCP**"). The amount of capital required depends on the level of protection that the bank has from a default of other parties.

A bank that clears transactions with a CCP through a clearing member will qualify for a lower risk weight of 4% if the following requirements are met:

- a) The bank's transactions are identified by the CCP as client transactions and collateral to support them is held by the CCP and/or the bank's clearing member, as applicable, under arrangements that prevent any losses to the bank due to (i) the default or insolvency of the clearing member; and (ii) the default or insolvency of the clearing member's other clients.
- b) Relevant laws, regulations, rules, contractual, or administrative arrangements provide that the offsetting transactions with the defaulted or insolvent clearing member are highly likely to continue to be indirectly transacted through the CCP or by the CCP, should the clearing member default or become insolvent. In such circumstances, the bank's positions and collateral with the CCP will be transferred at market value unless the bank requests to close out the position at market value.

The proposed Affiliate Segregation will assist Clearing Members' bank affiliates meet requirements (a)(i) and (b). SGX-DC's current framework for the use of collateral deposited in respect of House¹ contracts and the porting of positions in House contracts may make it difficult for Clearing Members and their affiliates to meet those two requirements. The introduction of Affiliate Segregation would remove those difficulties.

As for requirement (a)(ii), that rests outside SGX-DC's control and is determined by Clearing Members' own arrangements for handling defaults by their clients.

3.3 SGX-DC's Current Model

Use of collateral

SGX-DC currently segregates collateral deposited in respect of a Clearing Member's House contracts from that deposited in respect of its customer contracts. As provided under the SFA, collateral deposited in respect of customer contracts cannot be used to discharge a Clearing Member's obligations in respect of House contracts.

¹ "**House**" means a person whose account is carried on the books of a Clearing Member where such person is the Clearing Member itself with respect to the proprietary account of the Clearing Member; a director, officer, employee or representative of the Clearing Member; and/or an affiliate of the Clearing Member. A "**House contract**" is a contract for the House.

Insofar as a bank client of a Clearing Member falls within the definition of a customer, its collateral will be protected from a default of the Clearing Member in respect of House contracts.

There is however no such protection for a bank client of a Clearing Member if it is an affiliate of the Clearing Member. Consistent with the SFA, the affiliate's contracts will be considered House contracts and collateral deposited in respect of its contracts will be commingled with the collateral deposited in respect of other House contracts. In the event the Clearing Member defaults in respect of House contracts (be they contracts of the Clearing Member itself or contracts of its affiliates), all of that commingled collateral may be used to discharge the Clearing Member's obligations. Under Basel III, this results in a higher capital requirement for the bank client since it is not protected from the default of its Clearing Member.

Porting

SGX-DC may transfer the positions in customer contracts to another (non-defaulting) Clearing Member, subject to conditions, in the event of a Clearing Member default.

Insofar as a bank client of a Clearing Member falls within the definition of a customer, its positions may be so transferred.

However, if the bank client is an affiliate of the Clearing Member, SGX-DC does not carry out such transfers. Affiliates' contracts are considered House contracts; hence they are liquidated when the Clearing Member defaults. Under Basel III, this results in a higher capital requirement for the bank client.

- 3.4 SGX-DC is registered as an approved clearing house under the Securities and Futures Act of Singapore ("**SFA**") and regulated by the Monetary Authority of Singapore ("**MAS**"). The Amendments are currently pending approval by the MAS.

4. Description of Amendments

4.1 Proposed Affiliate Segregation

The proposed Affiliate Segregation will be optional for Clearing Members. Clearing Members that do not opt for it will not be impacted in their arrangements with SGX-DC.

Affiliate Segregation operates in relation to House collateral and positions only. It has no bearing on and does not affect any of SGX-DC's current arrangements in respect of customers. Particularly, it does not affect how customer collateral is maintained (on trust and separate from House collateral), how customer collateral is used (only if the Clearing Member defaults in respect of customer contracts), and the porting of customer positions. SGX-DC does not envisage any impact on or additional risk posed to customers as a result of their Clearing Member opting for Affiliate Segregation.

A Clearing Member who opts for Affiliate Segregation will have to identify to SGX-DC the House accounts on its books for which it opts for Affiliate Segregation. Each of those accounts

will then be designated as an "Affiliate Account" and contracts booked into each of those accounts will be recorded as "Affiliate Contracts". When the Clearing Member deposits collateral with SGX-DC in respect of Affiliate Contracts, it must notify SGX-DC accordingly. SGX-DC will keep records of collateral deposited in respect of Affiliate Contracts separate from records of collateral deposited in respect of other House contracts. However, SGX-DC may, as is currently the case, physically commingle all such collateral.

Use of collateral

If a Clearing Member that opts for Affiliate Segregation defaults, SGX-DC will not use collateral deposited in relation to the Clearing Member's Affiliate Contracts (or customer contracts) to discharge the Clearing Member's obligations in relation to its House contracts (excluding Affiliate Contracts). This would apply whether the Clearing Member has defaulted in relation to House contracts (excluding Affiliate Contracts) only ("CM sole default"), or whether it has also defaulted in relation to Affiliate Contracts and/or customer contracts ("joint default").

SGX-DC may use the collateral deposited in relation to Affiliate Contracts only to discharge the Clearing Member's obligations in relation to the Affiliate Contracts and/or customer contracts.

Porting

If a Clearing Member that opts for Affiliate Segregation defaults, SGX-DC may transfer the positions in Affiliate Contracts to another (non-defaulting) Clearing Member, subject to conditions.

4.2 The proposed rule amendments for the introduction of Affiliate Segregation are set out in [Appendix 1](#) and [Appendix 2](#).

4.3 Changes to SGX-DC's default management procedures and stress test framework

SGX-DC's default management procedures will be updated to include a Clearing Member's sole default scenario and a joint default scenario so that collateral deposited in relation to Affiliate Contracts will in no event be used to meet a defaulted Clearing Member's obligations in respect of its House contracts (excluding Affiliate Contracts).

SGX-DC's stress test aggregation logic² will also be updated so that gains and losses are simulated on the basis that Affiliate Accounts and collateral are segregated from other House accounts and collateral. However, SGX-DC's Clearing Members currently hold negligible or no proprietary positions. Therefore, SGX does not expect the introduction of Affiliate Segregation to have any significant impact on simulated stress loss and the resulting clearing fund requirement.

4.4 The details on the changes to SGX-DC's default management procedures and stress test framework are set out in [Appendix 3](#).

² Stress test aggregation logic is part of the SGX-DC's stress test framework and is used to derive each Clearing Member's simulated stress loss.

5. Certification of Compliance with Core Principles

- 5.1 The Amendments have been promulgated in respect of SGX-DC's compliance with Core Principles C, D and G on Participant and Product Eligibility, Risk Management and Default Procedures respectively.
- 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

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 the following address:

http://www.sgx.com/wps/portal/sgxweb/home/regulation/consult_pub/dco_submissions.


7. Opposing Views

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

Please do not hesitate to contact the undersigned at dionna.tong@sgx.com or +65 6713 6085 should you require any clarification.

Yours sincerely,



Dionna Tong
Assistant Vice President
Legal (Regulation)

Appendix 1

PROPOSED AMENDMENTS TO THE SGX-DC CLEARING RULES

PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<u>Chapter 2 Clearing Membership</u>	
...	
2.20 Limits of Positions	
2.20.1 The Clearing House may from time to time establish limits on the positions owned or controlled by any person or persons acting in concert with respect to any Contracts including the Designated Futures Contracts.	
2.20.2 Any person may request for an increase in initial position limit or previously approved position limit by making an application to the Clearing House on forms provided by Clearing House through its Clearing Member carrying the relevant positions for its account on the books of the Clearing Member.	
2.20.3 In conjunction with the foregoing, a Clearing Member shall ensure at all times that:— 2.20.3.1 each of its Customers and their respective related corporations for whom such Clearing Member also maintains accounts as Customers of the Clearing Member (each such Customer and its related corporations, to be hereafter referred to as the "Collective Customer"); and 2.20.3.2 each House Account carried on its books (collectively the "Collective House Accounts"), shall comply with the respective position limits as may be applicable to them individually or collectively as may be prescribed by	

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
the Clearing House from time to time.	
<p>2.20.4</p> <p>In the event that the aggregate maintenance margins required to be deposited by a Collective Customer and/or the Collective House Accounts with a Clearing Member exceeds such relevant amount(s) (whether the amount(s) are stated as a sum or sums of money and/or calculated in accordance with a formula or formulae) as may be prescribed by the Clearing House from time to time, the Clearing Member shall, unless the Clearing House otherwise decides, forthwith procure:—</p> <p>2.20.4.1 from the chief executive officer of the Clearing Member, a letter of awareness; <u>or</u></p> <p>2.20.4.2 from such related corporation of the Clearing Member as the Clearing House may require a letter of awareness; or</p> <p>2.20.4.3 [This rule has been deleted] from such related corporation of the Clearing Member as the Clearing House may require a letter of guarantee;</p> <p>and in addition, where relevant, to forthwith procure</p> <p>2.20.4.4 from such related corporation of the Collective Customer as the Clearing House may require a letter of awareness;</p> <p>as may be required by the Clearing House, in each case, in such form and content as may be prescribed or otherwise acceptable to the Clearing House.</p>	<p>Amendment to reflect current practice (as stated in Circular No. CCM-12 of 1997 dated 16 April 1997 attached at <u>Appendix 1A</u>). This amendment is independent of the introduction of Affiliate Segregation.</p>
...	
<u>Chapter 7 Clearing and Margins</u>	
...	
7.02A Registration of Eligible Non-Relevant Market Transactions	

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
...	
7.02AA Registration of Eligible OTCF Transactions	
<p>7.02AA.1 Eligible OTCF Transactions</p> <p>7.02AA.1.1 Only OTCF Transactions which meet the following criteria will be eligible for registration with the Clearing House ("Eligible OTCF Transactions"):</p> <p>a. a transaction which falls under one of the classes of Eligible OTCF Contracts; and</p> <p>b. a transaction where each Original OTCF Contract Counterparty has satisfied the requirements prescribed by the Clearing House in the OTCF Clearing Member Handbook from time to time.</p> <p>Once the criteria in Rule 7.02AA.1.1 are satisfied, the Clearing Members acting for the respective Original OTCF Contract Counterparties shall be responsible for the Eligible OTCF Transaction as principals to the Clearing House.</p> <p>7.02AA.1.2 If an OTCF Transaction does not fulfil the eligibility criteria in Rule 7.02AA.1.1, such OTCF Transaction shall be deemed not to have been submitted to the Clearing House and shall remain in effect or be terminated, as the case may be, in accordance with any terms agreed to between the Original OTCF Contract Counterparties.</p> <p>7.02AA.1.3 Notwithstanding that an OTCF Transaction fulfils all eligible criteria prescribed under Rule 7.02AA.1.1, the Clearing House shall have the sole discretion to disallow the registration of such OTCF Transaction if any of the events of default set out in Rule 7A.01A.1 occurs or is, in the reasonable opinion of the Clearing House, about to occur in relation to the Clearing Member in whose name such OTCF Transaction is to be registered.</p>	
7.02AA.2 Registration of OTCF Transactions	

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>7.02AA.2.1 OTCF Transactions will be registered with the Clearing House for clearing through the Trade Registration System or other facility as prescribed by the Clearing House. A submission for registration will be accepted or rejected by the Clearing House as quickly after submission as would be technologically practicable if fully automated systems were used.</p> <p>7.02AA.2.2 An Eligible OTCF Transaction may only be submitted to a Trade Registration System for registration by the Clearing House by any of the following parties:</p> <p>a. a Clearing Member; or</p> <p>b. such other party authorised by the Clearing Member; or</p> <p>c. the Clearing House itself for the purpose of executing any default proceeding contemplated under Rule 7A.02.1 or as it considers necessary from time to time.</p> <p>7.02AA.2.3 Any of the parties submitting an Eligible OTCF Transaction through the Trade Registration System, or other facility approved by the Clearing House, for registration shall comply with the terms and conditions governing the access to and operation of that system, as varied, amended, or supplemented from time to time.</p> <p>7.02AA.2.4 A Clearing Member acting for an Original OTCF Contract Counterparty, shall obtain the consent of such Original OTCF Contract Counterparty, before allowing such other party referred to at Rule 7.02AA.2.2 to register OTCF Transactions on behalf of such Clearing Member.</p> <p>7.02AA.2.4A Clearing Member shall require the relevant Customer of a Customer Contract or the relevant Affiliate of an Affiliate Contract in respect of which an Eligible OTCF Transaction is to be registered to provide the Clearing Member with sufficient Collateral to meet margin requirements and any Settlement Variation and to fulfil such other requirements prescribed by the Clearing House</p>	<p>Post consultation amendment. The original amendment is unnecessary as SGX-DC has never prescribed how Clearing Members should collect margins from their affiliates. No change to that approach by SGX-DC is necessary for the introduction of Affiliate Segregation.</p>

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>from time to time prior to submitting the Eligible OTCF Transaction, for the account of the Customer or the relevant Affiliate, for registration.</p> <p>7.02AA.2.5 Unless the relevant information with regard to an Eligible OTCF Transaction as required by Rule 7.02AA.1.1 and set out in the OTCF Clearing Member Handbook are submitted to the Clearing House on the same day, prior to the trade submission deadline(s) prescribed by the Clearing House, such Eligible OTCF Transaction will not be registered.</p> <p>7.02AA.2.6 For the avoidance of doubt, an Eligible OTCF Transaction which has been registered with the Clearing House shall remain a bilateral OTCF Contract between the Original OTCF Contract Counterparties until the Clearing House becomes the central counterparty pursuant to Rule 7.04.5A.1.</p> <p>7.02AA.2.7 A Clearing Member acting for an Original OTCF Contract Counterparty shall assume the duties and obligations of that Original OTCF Contract Counterparty, as principal to the Clearing House, for an Eligible OTCF Transaction that has been submitted for registration by any of the parties in Rules 7.02AA.2.2.</p> <p>7.02AA.2.8 In submitting or allowing the submission of an Eligible OTCF Transaction for registration through the Trade Registration System or other facility as prescribed by the Clearing House, the Original OTCF Contract Counterparties to the Eligible OTCF Transaction shall be deemed to have mutually agreed (i) to substitute their contract for a contract based on the OTCF Contract Terms set out in the OTCF Clearing Member Handbook, and (ii) for the Clearing House to become the counterparty to each Clearing Member in whose name such Eligible OTCF Transaction has been registered pursuant to Rule 7.04.</p> <p>7.02AA.2.9 Once an Eligible OTCF Transaction has been submitted for registration, the terms of the Eligible OTCF Transaction shall be final and a Clearing Member shall be bound by the terms of the Eligible OTCF Transaction registered in its name.</p>	

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
The Clearing House shall not be responsible for confirming the terms of such Eligible OTCF Transactions.	
...	
7.03A Collateral	
...	
<p>7.03A.7 Investment and Use of Collateral</p> <p>7.03A.7.1 The Clearing House may invest, manage and use Collateral in such manner as it shall deem fit, provided that:</p> <p>a. Collateral in respect of Customer Contracts shall be invested in accordance with this Rules, the Security Deed, the SFA and any applicable laws; and</p> <p>b. the Clearing House shall not use any Collateral received and notified to it as Collateral in respect of a Customer Contract to settle any obligations that are incurred in relation to a House Contract, except in accordance with this Rules, the Security Deed, the SFA and any applicable laws.</p> <p><u>c. the Clearing House shall not use any Collateral received and notified to it as Collateral in respect of an Affiliate Contract to settle any obligations that are incurred in relation to a House Contract that is not an Affiliate Contract, except in accordance with this Rules, the Security Deed, the SFA and any applicable laws.</u></p> <p>7.03A.7.2 Each Clearing Member shall secure contractual waivers in favour of the Clearing Member from its Customers waiving their respective rights to all interest and investment earnings from the Collateral held with or otherwise provided to the Clearing House in respect of Customer Contracts, in the form and manner as may be prescribed by the Clearing House, as may be necessary to give effect to the Clearing House's rights in relation to interest and fees under Rule 7.03A.8.</p>	<p>Amendment to make clear that Collateral deposited in respect of Affiliate Contracts cannot be used in a situation of a Clearing Member default in respect of a House Contract (excluding an Affiliate Contract) only.</p>

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>7.03A.7.3 All Collateral deposited or provided by each Clearing Member to the Clearing House shall be subject to this Rules, the Security Deed, the SFA (each as amended or supplemented from time to time) and any applicable laws. Each Clearing Member shall ensure that all Collateral deposited or provided to the Clearing House are deposited or provided only on the foregoing basis and shall also ensure that, prior to depositing or providing any Collateral to the Clearing House for the account or for the Contracts of any person, such person has been notified of and has accepted the foregoing.</p>	
...	
7.20 Margin Amounts	
<p>7.20.1 Acceptable Margin</p> <p>Margin requirements shall be prescribed by the Clearing House from time to time. The Clearing House will accept as margin, cash, government securities or common stocks, units of listed business trusts or units of listed real estate investment trusts in accordance with such procedures as may be prescribed by the Clearing House all of which must be and remain unencumbered, unless otherwise permitted or contemplated under this Rules, the Security Deed or the SFA.</p> <p>The Clearing Member shall notify the Clearing House as to whether such Collateral is are to be maintained for its Customer Contracts or its House Contracts, and where it <u>Where the Collateral</u> is to be maintained for <u>the Clearing Member's its</u> Customer Contracts, <u>the Clearing Member shall notify the Clearing House as to</u> whether it is to be held for an Applicable Customer Account. <u>Where the Collateral is to be maintained for the Clearing Members' House Contracts, the Clearing Member shall notify the Clearing House as to whether it is to be held for an Affiliate Account.</u> Such Collateral will be held by the Clearing House for that <u>the</u> relevant account.</p>	<p>Amendment to make clear that a Clearing Member has to explicitly inform SGX-DC if Collateral that it deposits is to be held for an Affiliate Account.</p>
7.20.2 Margin Composition	

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>Without prejudice to the generality of the foregoing, the aggregate amount of Collateral deposited with or provided to the Clearing House in respect of the aggregate required margin in relation to Customers' Contracts, Affiliate Contracts and House Contracts must each separately comply with the following:</p> <p>7.20.2.1 where the relevant total margin requirements are US\$1,000,000 (or its equivalent) or less, the entire margin requirements must be in the form of cash and/or government securities; and</p> <p>7.20.2.2 where the relevant total margin requirements are more than US\$1,000,000 (or its equivalent), cash and/or government securities must constitute at least US\$1,000,000 or 60 percent of the total margin requirements whichever is the greater.</p> <p>7.20.2.3 [Rule has been deleted]</p>	<p>Amendment to make clear that the requirement on margin composition applies individually to margins for Customer Contracts, margins for Affiliate Contracts and margins for House Contracts (excluding Affiliate Contracts).</p>
<p>7.20.3 Calculation of Margin</p> <p>The amount of margins required to be deposited by any Clearing Member with the Clearing House shall be calculated and determined:</p> <p>7.20.3.1 on a cumulative gross basis with reference to all open positions (both long and short) for which such Clearing Member is responsible and in accordance with procedures prescribed by the Clearing House; and/or</p> <p>7.20.3.2 on a cumulative gross basis with respect to cumulative Settlement Variation for freight forward contracts for tanker voyage routes, with reference to any potential adjustments to the Flat Rate.</p>	
<p>7.20.3A</p> <p>The Clearing House may make margin calls in respect of the margin requirements prescribed pursuant to this Rule 7.20. Such margin calls shall be paid by such time and means as the Clearing House shall prescribe.</p>	

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
7.20.4 [Rule has been deleted.]	
7.20.5 [Rule has been deleted.]	
...	
7.23 Emergency Margins and Advance Call for Settlement	
<p>7.23.1</p> <p>The Clearing House may take any of the following actions:</p> <p>7.23.1.1 When in its opinion unstable conditions exist or market conditions and price fluctuations relating to one or more Commodities or Contracts or contracts at any time require that additional margins to maintain an orderly market or to preserve fiscal integrity or for any other reason, the Clearing House may call for additional margins from one or more Clearing Members.</p> <p>Such additional margins may be as much as or more than the original margin and must be deposited with the Clearing House during the next banking hour after demand therefore or at such time as may be specified. Such additional margins may be called for one or more Contracts, from one or more Clearing Members and on long positions, short positions or both, or in relation to any potential Flat Rate adjustment applicable to freight forward contracts for tanker voyage routes.</p> <p>7.23.1.2 When the Clearing House believes that any Clearing Member is carrying positions in its House and/or Customer Accounts, that are larger than is justified by the financial condition of that Clearing Member, or the Clearing Member is found to have a record of frequent rule violations or inadequate or unsound management or serious operational defects which, in the Clearing House's opinion, places or may place the Clearing House at risk, then the Clearing House may require such Clearing Member to deposit additional margins with the Clearing House during the next banking hour after demand therefore or at such time as may be specified or they may</p>	

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
require that a portion of the open positions on the books of such Clearing Member be transferred to the books of another Clearing Member.	
7.24 Failure to Comply with Emergency Orders	
<p>7.24.1</p> <p>In the event of the failure of a Clearing Member to deposit additional margins or to comply with the order of transfer of positions or to deposit additional funds as required under Rule 7.23, the Clearing House may direct and the Clearing Member shall in such event forthwith comply with any such direction that the Clearing Member forthwith liquidate all or part of the positions on its books.</p>	
<p>7.24.2</p> <p>If there is a failure to so effect the required reduction in positions by the next Business Day, the Clearing House shall thereupon order the liquidation of all or the required part of the Clearing Member's position with due consideration to the positions of<u>in</u> <u>Customers Accounts and Affiliate Accounts</u>. Any Clearing Member whose trades are thus liquidated shall provide for the payment of any loss to the Clearing House on the next settlement cycle by the Clearing House pursuant to Rule 7.12 or 7.13.</p>	<p>Amendment to make clear that in a situation such as that described in this rule, positions in Affiliate Accounts will be treated similar to those in Customer Accounts – SGX-DC will try to port them if possible.</p>
...	
<u>7.31 Affiliate Account</u>	
<p><u>7.31.1</u></p> <p><u>For the purpose of Part 7 and 7A of this Rules, a Clearing Member may designate as an Affiliate Account, any House Account that belongs to and is maintained wholly for the benefit of an Affiliate. The Clearing Member must notify the Clearing House of any designation, failing which the Clearing House will be under no obligation to treat the designated account(s) as Affiliate Account(s).</u></p>	<p>Amendment to provide for the option of Affiliate Segregation and how a Clearing Member may opt for it.</p>

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
...	
Chapter 7A Suspension and Default	
...	
7A.02 Open Positions of Defaulted /Suspended Clearing Members	
7A.02.1 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.ba, if:</p> <p>i. <u>those margins cannot be attributed to one</u></p>	<p>Editorial amendment to (a) remove the redundant mention of “settlement monies”. SGX-DC collects settlement monies as margins; and (b) correct a referencing error.</p> <p>Amendment to better reflect SGX-DC’s</p>

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>particular Customer the positions are held in an omnibus account; or</p> <p>ii. those margins monies and other assets deposited with the Clearing House in relation to Customers' Contracts may be applied pursuant to Rule 7A.05.1.2 or 7A.05.1.2A,</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 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 or 7A.05.1.2A. 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>current practice on when it will not port margins.</p> <p>Amendment to better reflect SGX-DC's current practice on when it will not port margins.</p> <p>Editorial amendment to remove the redundant mention of "settlement monies".</p> <p>Amendment to accurately reflect SGX-DC's current practice – margins retained may be used in accordance with Rule 7A.05.1.2A (which sets out conditions for the use of margins in a default arising from Applicable Customer Contracts).</p>
<p>7A.02.1.1A transfer or facilitate the transfer of all or any part of positions in Affiliate 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. When such positions are so transferred, the following shall apply:</p> <p>a. subject to Rule 7A.02.1.1A.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.02.1.1A may not be in such form as was originally deposited with the Clearing</p>	<p>New rule to provide for the porting of positions in and margins for Affiliate Contracts when the Clearing Member defaults. The conditions are similar to those for the porting of Customer positions and margins.</p>

Sample = Rule insertions consulted on

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p><u>House;</u></p> <p><u>c. the Clearing House shall have the discretion not to transfer all or any part of the margins to a designated Clearing Member as described in Rule 7A.02.1.1A.a., if:</u></p> <p><u>i. those margins cannot be attributed to one particular Affiliate; or</u></p> <p><u>ii. those margins may be applied pursuant to Rule 7A.05.1.1A, 7A.05.1.2 or 7A.05.1.2A,</u></p> <p><u>provided that where margins are not transferred to the designated Clearing Member, the designated Clearing Member shall be required to collect the required margins from the Affiliate; and</u></p> <p><u>d. The margins not entrusted to designated Clearing Members shall be retained by the Clearing House and may be applied in accordance with Rules 7A.05.1.1A, 7A.05.1.2 and 7A.05.1.2A. 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:</u></p> <p><u>i. following the settlement of losses arising from the event of default; or</u></p> <p><u>ii. at such time that the Clearing House determines that the margins may not be used.</u></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 (<u>including any Affiliate Contracts that have not been transferred pursuant to Rule 7A.02.1.1A</u>), and/or any Customer Contracts that have not been transferred pursuant to Rule 7A.02.1.1, including any</p>	<p>Consequential amendment arising from the new Rule 7A.02.1.1A.</p>

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>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 (including any Affiliate Contracts that have not been transferred pursuant to Rule 7A.02.1.1A) 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>Consequential amendment arising from the new Rule 7A.02.1.1A.</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, 7A.02.1.1A 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 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</p>	<p>Consequential amendment arising from the new Rule 7A.02.1.1A.</p>

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>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.02.2</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>7A.02.3</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 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</p>	

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
party to the other.	
...	
7A.05 Protection of Clearing House	
7A.05.1 Failure by Clearing Member and any other Relevant Market (or its Clearing House) to discharge its obligations to the Clearing House in respect of Contracts	
Without prejudice and subject to the other provisions of this Rules:	
<p>7A.05.1.1 Where a Clearing Member has failed promptly to discharge any of its obligations to the Clearing House in respect of a House Contract (<u>that is not an Affiliate Contract</u>), the Clearing House may apply any or all of the following to discharge such obligations:</p> <p>a. the Clearing Member's Collateral deposited with or provided to the Clearing House (except such Collateral deposited or provided in relation to <u>(i) Customer Contracts which may only be used in accordance with shall be governed by Rule 7A.05.1.2.b and/or <u>(ii) Affiliates Contracts</u>); and</u></p> <p>b. in the case of a Bank Clearing Member incorporated outside Singapore which has satisfied Rule 2.02B.1.11.a or b, the Collateral deposited or provided by the Bank Clearing Member pursuant to Rule 2.08.1B.1.</p>	<p>Amendment to provide for Affiliate Segregation and what Collateral may be used when there is a Clearing Member default in House Contracts (excluding Affiliate Contracts).</p> <p>In that situation, SGX-DC can use Collateral deposited in respect of House Contracts (excluding Affiliate Contracts) only. It cannot use Collateral deposited in relation to Affiliate Contracts or Customer Contracts.</p> <p>Editorial post-consultation amendment for further clarity.</p>
<p><u>7A.05.1.1A Where a Clearing Member has failed promptly to discharge any of its obligations to the Clearing House in respect of an Affiliate Contract, the Clearing House may apply any or all of the following to discharge such obligations:</u></p> <p><u>a. the Clearing Member's Collateral deposited with or provided to the Clearing House (except such Collateral deposited or provided in relation to Customer Contracts, which may only be used in accordance with shall be governed by Rule 7A.05.1.2.b); and</u></p>	<p>Amendment to provide for what Collateral may be used when there is a Clearing Member default in Affiliate Contracts.</p> <p>In that situation, all of the Clearing Member's Collateral (excluding Customer Collateral) may be used to discharge the Clearing Member's obligations in respect of Affiliate Contracts. Such Collateral would include:</p> <p>(a) Collateral deposited in respect of</p>

Sample = Rule insertions consulted on

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Sample = Post consultation insertion

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p><u>b. in the case of a Bank Clearing Member incorporated outside Singapore which has satisfied Rule 2.02B.1.11.a or b, the Collateral deposited or provided by the Bank Clearing Member pursuant to Rule 2.08.1B.1,</u></p> <p><u>provided that Collateral deposited by the Clearing Member in relation to Affiliate Contracts shall not in any case be applied to discharge any of the Clearing Member's obligations to the Clearing House in respect of a House Contract (that is not an Affiliate Contract).</u></p>	<p>House Contracts (excluding Affiliate Contracts); and (b) Collateral deposited in respect of all Affiliate Contracts (whether or not in default).</p> <p>Post-consultation amendment to add that if, in addition to a default in Affiliate Contracts, there is also a default in House Contracts (that are not Affiliate Contracts), Collateral deposited in respect of Affiliate Contracts cannot be used to discharge the Clearing Member's obligations in respect of those House Contracts.</p>
<p>7A.05.1.2 Where a Clearing Member has failed promptly to discharge any of its obligations to the Clearing House in respect of a Customer Contract other than an Applicable Customer Contract, the Clearing House may apply any or all of the following to discharge such obligations:</p> <p>a. the Clearing Member's Collateral deposited with or provided to the Clearing House (except such Collateral deposited or provided in relation to Customer Contracts other than an Applicable Customer Contracts, it which may only be used in accordance with <u>shall be governed by</u> Rule 7A.05.1.2.b);</p> <p>b. Collateral deposited or provided by the Clearing Member in relation to Customer Contracts other than an Applicable Customer Contracts provided that the conditions in the SFA in relation to the permissible use of customers' money and assets are satisfied;</p> <p>c. in the case of a Bank Clearing Member incorporated outside Singapore which has satisfied Rule 2.02B.1.11.a or b, the Collateral deposited or provided by the Bank Clearing Member pursuant to Rule 2.08.1B.1; and</p> <p>d. the qualifying letters of credit deposited with the Exchange by a Trading Member sponsored by the Clearing</p>	<p>Editorial post-consultation amendment for clarity and consistency in rule drafting with Rule 7A.05.1.1.</p>

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>Member, pursuant to Rule 7.3.6 of the Trading Rules, provided that the Clearing Member's default is attributable to such Trading Member's act or omission,</p> <p>provided that <u>(i) Collateral deposited by the Clearing Member in relation to Applicable Customer Contracts shall not in any case be applied to discharge any of the Clearing Member's obligations to the Clearing House in respect of a Customer Contract other than an Applicable Customer Contract, save as provided by Rule 7A.05.1.8; and (ii) Collateral deposited by the Clearing Member in relation to Affiliate Contracts shall not in any case be applied to discharge any of the Clearing Member's obligations to the Clearing House in respect of a House Contract (that is not an Affiliate Contract).</u></p>	<p>Post consultation amendment to add that if, in addition to a default in Customer Contracts, there is also a default in House Contracts (that are not Affiliate Contracts), Collateral deposited in respect of Affiliate Contracts cannot be used to discharge the Clearing Member's obligations in respect of those House Contracts.</p>
<p>7A.05.1.2A Where a Clearing Member has failed promptly to discharge any of its obligations to the Clearing House in respect of an Applicable Customer Contract, the Clearing House may apply <u>any or all of the following to discharge such obligations:</u></p> <p>a. the Clearing Member's Security Deposit and all other forms of Collateral <u>deposited with or provided</u> to the Clearing House (except such Collateral <u>deposited or provided</u> in relation to Applicable Customer Contracts <u>which may only be used in accordance with, it shall be governed by</u> Rule 7A.05.1.2A.c);</p> <p>b. [This rule is deleted]. Collateral deposited by the Clearing Member in relation to House Contracts;</p> <p>c. Collateral deposited <u>or provided</u> by the Clearing Member in relation to the relevant defaulted Applicable Customer Contract only;</p> <p>d. in the case of a Bank Clearing Member incorporated outside Singapore which has satisfied Rule 2.02B.1.11.a or b, the Collateral deposited by the Bank Clearing Member pursuant to Rule 2.08.1B.1; and</p> <p>e. the qualifying letters of credit deposited with the Exchange by a Trading Member sponsored by the Clearing</p>	<p>Editorial amendments for structural consistency with the other rules in Rule 7A.05.1 (i.e., Rules 7A.05.1.1 and 7A.05.1.2 and the new Rule 7A.05.1.1A).</p>

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>Member, pursuant to Rule 7.3.6 of the Trading Rules, provided that the Clearing Member's default is attributable to such Trading Member's act or omission,</p> <p>provided that <u>(i) Collateral deposited by the Clearing Member in relation to Customer Contracts other than Applicable Customer Contracts, or in relation to any other Applicable Customer Contract, shall not in any case be applied to discharge any of the Clearing Member's obligations to the Clearing House in respect of the Applicable Customer Contract; and (ii) Collateral deposited by the Clearing Member in relation to Affiliate Contracts shall not in any case be applied to discharge any of the Clearing Member's obligations to the Clearing House in respect of a House Contract (that is not an Affiliate Contract).</u></p>	<p>Post consultation amendment to add that if, in addition to a default in Applicable Customer Contracts, there is also a default in House Contracts (that are not Affiliate Contracts), Collateral deposited in respect of Affiliate Contracts cannot be used to discharge the Clearing Member's obligations in respect of those House Contracts.</p>
<p>7A.05.1.3 The Clearing House may liquidate any non-cash Collateral deposited with it by a Clearing Member:</p> <p>a. in respect of Collateral in relation to House Contracts <u>(that are not Affiliate Contracts)</u>, where the Clearing Member has failed to promptly discharge its obligations to the Clearing House in respect of any Contract;</p> <p><u>a1. in respect of Collateral in relation to Affiliate Contracts, where the Clearing Member has failed to promptly discharge its obligations in respect of an Affiliate Contract and/or a Customer Contract;</u></p> <p>b. in respect of Collateral in relation to Customer Contracts, where the Clearing Member has failed to promptly discharge its obligations in respect of a Customer Contract and the conditions in the SFA in relation to the permissible use of customers' money and assets are satisfied; and</p> <p>c. in respect of assets in relation to House Contracts, or Customer Contracts, if the Clearing House is of the opinion that such liquidation of non-cash assets is necessary to protect the Clearing House from depreciation of the value of Collateral, pending transfer of such House</p>	<p>Amendments to provide for when Affiliate Collateral may be used – when there is a default in Affiliate Contracts or in Customer Contracts only.</p>

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>Contracts or Customer Contracts, as the case may be, provided that <u>(i)</u> the Clearing House shall not be liable for any losses arising from such liquidation and any such losses will be borne by the House Account or Customer Account in respect of which the non-cash assets were liquidated <u>;</u> <u>and (ii) Collateral deposited by the Clearing Member in relation to Affiliate Contracts shall not in any case be liquidated or applied to discharge any of the Clearing Member's obligations to the Clearing House in respect of a House Contract (that is not an Affiliate Contract).</u></p>	<p>Post consultation amendment to add that if, in addition to a default in Affiliate Contracts or Customer Contracts, there is also a default in House Contracts (that are not Affiliate Contracts), Collateral deposited in respect of Affiliate Contracts cannot be used to discharge the Clearing Member's obligations in respect of those House Contracts.</p>
<p>7A.05.1.4 Without prejudice to the rights of the Clearing House in respect of failure by the Clearing Member to promptly discharge any of its obligations to the Clearing House, the Clearing Member shall immediately make up any deficiencies in its Security Deposit resulting from such applications.</p>	
<p>7A.05.1.5 The Clearing Member shall not take any action or do anything that will directly or indirectly interfere with, prohibit, restrict or inhibit the ability of the Clearing House to so apply the Collateral and the Clearing House shall, except where it has acted in bad faith, be under no liability to the Clearing Member or any other person whatsoever in so applying Collateral and the Clearing Member shall fully indemnify and keep indemnified the Clearing House and hold the Clearing House harmless against any such liability.</p>	
<p>7A.05.1.6 If a Relevant Market, including a Participating Market, and/or its clearing house as the case may be fails to promptly discharge any of its obligations to the Clearing House arising out of any arrangement relating to the clearing of Contracts, including the Mutual Offset System, the Collateral of such Relevant Market shall be applied by the Clearing House to discharge the obligation.</p>	
<p>7A.05.1.7 Where the Clearing Member which is also a clearing member of CDP has failed to settle its financial obligations to CDP, the Clearing House shall be entitled to retain any Collateral deposited or provided by the Clearing Member in relation to House Contracts <u>(excluding Affiliate</u></p>	<p>Amendment to make clear that this rule will not apply to Collateral deposited in relation to Affiliate Contracts.</p>

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<u>Contracts</u>) which have not been utilised pursuant to this Rule 7A.05.	
7A.05.1.8 Where the Clearing House is acting pursuant to Rule 7A.05.1.2 and/or Rule 7A.05.1.2A in respect of more than one a Customer Account, and the Clearing House identifies that any two or more of such Customer Accounts belong to the same Customer, then the Clearing House may, in discharge of obligations relating to such Customer Account, apply the Collateral deposited for any other such Customer Account(s) held on the books of the Clearing Member for the same Customer to all such identified Customer Accounts.	Editorial amendment for clarity.
...	
7A.07 Default of the Clearing House	
<p>7A.07.1</p> <p>A non-defaulting Clearing Member may exercise its rights under Rule 7A.07 if the Clearing House:</p> <ol style="list-style-type: none"> a. fails to make a payment to a non-defaulting Clearing Member for a period of 30 days from the date the obligation to pay under a Contract fell due; or b. commences a procedure seeking or proposing liquidation on the ground of its inability to pay its debts, receivership, judicial management, or a scheme of arrangement involving a compromise with its creditors or any class thereof, or other similar relief with respect to itself or to its debts under any bankruptcy, insolvency, regulatory, supervisory or similar law, or if any of the foregoing cases or procedures is commenced in relation to the Clearing House by any other person which results in liquidation or winding up of the Clearing House on the ground of its inability to pay its debts, or if the Clearing House takes corporate action to authorise any of the foregoing, in any such case other than for the purposes of corporate restructuring (including any consolidation, amalgamation or merger). 	

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>7A.07.2</p> <p>While any of the circumstances set out in Rule 7A.07.1 continue, the non-defaulting Clearing Member may, at any time by notice in writing to the Clearing House, specify a date (the "Termination Date") for the termination and liquidation of all Contracts to which it is a party in accordance with Rule 7A.07.4 below.</p>	
<p>7A.07.3</p> <p>In the event a Clearing Member exercises its rights under Rule 7A.07.2, the Clearing House may, in its absolute discretion and by notice in writing, take any steps necessary to terminate any related Contract or close out any related positions held with any other Clearing Member, notwithstanding that such Clearing Member is not in default of any of its obligations.</p>	
<p>7A.07.4</p> <p>Upon the specification of a Termination Date:</p> <p>a. all obligations of the Clearing House and the Clearing Member in respect of any Contract between them shall cease to exist from the Termination Date, provided that such termination shall have no effect upon the rights and obligations under such Contract, which rights and obligations shall survive such termination, and any obligations to make further payments or deliveries which would otherwise have fallen due shall be satisfied by settlement (whether by payment, set-off or otherwise) of the Termination Amount;</p> <p>b. the Clearing House shall (on, or as soon as reasonably practicable after, the Termination Date) determine the Clearing Member's total loss or total gain (as the case may be) in respect of each Contract, in each case expressed in Singapore Dollars (the "Base Currency");</p> <p>c. the Clearing House shall treat each gain to the Clearing Member as a positive amount and each loss by that Clearing Member as a negative amount and shall, in</p>	

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>accordance with Rule 7A.07.4, aggregate all of such amounts to produce a single, net positive or negative amount, denominated in the Base Currency (the "Termination Amount"); and</p> <p>d. where a Clearing Member has a house and one or more <u>House Accounts and Customer client a</u> Accounts:</p> <p>(i) the Clearing House shall determine two <u>four</u> net amounts under Rule 7A.07.4 (c); one net amount in respect of gains and losses arising on <u>Applicable Customer Contracts registered in each of the Clearing Member's Applicable Customer client a</u> Accounts, (or client accounts as combined) <u>and</u> a second net amount in respect of gains and losses arising on <u>Customer Contracts (except Applicable Customer Contracts) registered in each of the Clearing Member's Customer Accounts, a third net amount in respect of gains and losses arising on Affiliate Contracts registered in each of the Clearing Member's Affiliate Accounts, and a fourth net amount in respect of gains and losses arising</u> on all other Contracts; and</p> <p>(ii) the two net amounts determined under Rule 7A.07.4(d)(i) each shall constitute Termination Amounts.</p>	<p>Amendment to:</p> <p>(a) reflect the current practice whereby the termination amount in relation to Applicable Customer Contracts are calculated separately from the Customer Contracts; and</p> <p>(b) cater for the introduction of Affiliate Accounts, whereby the termination amount in relation to Affiliate Contracts would be calculated separately on its own.</p>
<p>7A.07.5</p> <p>If a Termination Amount determined pursuant to Rule 7A.07.4 above is a positive amount, the Clearing House shall pay it to the Clearing Member and if any such Termination Amount is a negative amount, the Clearing Member shall pay it to the Clearing House, in either case in accordance with Rule 7A.07.6. The Clearing House shall notify the Clearing Member of each such Termination Amount, and by which party it is payable, as soon as practicable after the calculation thereof.</p>	
<p>7A.07.6</p> <p>A Termination Amount shall be paid in the Base Currency by the close of business on the business day following notification pursuant to Rule 7A.07.5 above.</p>	

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PROPOSED RULE AMENDMENTS		RATIONALE FOR CHANGE				
7A.07.7						
For the purposes of any calculation required to be made under this Rule 7A.07, the Clearing House may convert amounts denominated in any other currency into the Base Currency at such rate prevailing at the time of the calculation as it shall reasonably select.						
7A.07.8						
The rights of the Clearing House and the Clearing Members under this Rule 7A.07. shall be in addition to, and not in limitation or exclusion of, any other rights which the Clearing House or the Clearing Member may have.						
...						
Chapter 9 Definitions and Interpretation						
9.01 Definitions						
<table border="1"> <thead> <tr> <th>Term</th> <th>Meaning</th> </tr> </thead> <tbody> <tr> <td>"Affiliate"</td> <td>is a related corporation of a Clearing Member with respect to accepted instructions to deal for an account belonging to, and maintained wholly for the benefit of, that related corporation.</td> </tr> </tbody> </table>		Term	Meaning	"Affiliate"	is a related corporation of a Clearing Member with respect to accepted instructions to deal for an account belonging to, and maintained wholly for the benefit of, that related corporation.	New terminology for the introduction of Affiliate Segregation.
Term	Meaning					
"Affiliate"	is a related corporation of a Clearing Member with respect to accepted instructions to deal for an account belonging to, and maintained wholly for the benefit of, that related corporation.					
<table border="1"> <thead> <tr> <th>Term</th> <th>Meaning</th> </tr> </thead> <tbody> <tr> <td>"Affiliate Account"</td> <td>is an account designated by a Clearing Member pursuant to Rule 7.31.1.</td> </tr> </tbody> </table>		Term	Meaning	"Affiliate Account"	is an account designated by a Clearing Member pursuant to Rule 7.31.1.	Definition of "Affiliate Account" for the purpose of Rule 7.31.1.
Term	Meaning					
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PROPOSED RULE AMENDMENTS		RATIONALE FOR CHANGE			
	<p><u>maintained wholly for the benefit of</u> for a Customer and, unless otherwise provided, includes an Applicable Customer Account.</p>				
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PROPOSED AMENDMENTS TO THE FUTURES TRADING RULES

PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<u>Chapter 3 Conduct of Members, Approved Traders and Representatives</u>	
...	
3.3 Duties of Members Undertaking Agency Trades	
...	
<p>3.3.10 Segregation of Customers' Monies and Assets and Fiduciary Obligations</p> <p>Subject to Rule 3.3.10(b)(ii), the following requirements apply in relation to a Member's fiduciary obligations to its Customers:</p> <p>(a) a Member shall discharge its fiduciary obligations to its Customers by:</p> <p>(i) segregating Customers' monies and assets from the Member's monies and assets;</p> <p>(ii) depositing Customers' monies and assets in trust or custody accounts; and</p> <p>(iii) separately accounting for the monies and assets of each Customer;</p> <p>and</p> <p>(b) a Member shall comply with the following segregation requirements:</p> <p>(i) in the case of a General Trading Member that holds a licence to engage in a Regulated Activity and a Bank Trading Member, all segregation requirements under the Act and the Conduct of Business Regulations. Except as allowed under those Regulations, the Member is prohibited from depositing</p>	Editorial amendment for clarity.

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>or co-mingling its own monies and assets with its Customers' monies and assets; and</p> <p>(ii) in the case of a General Trading Member that holds a licence specified in Rule 2.4.1(b), such segregation requirements as prescribed by the Relevant Regulatory Authority. The General Trading Member shall immediately notify the Exchange on any changes to such requirements. Notwithstanding the foregoing, the Exchange shall have the discretion to prescribe additional requirements.</p> <p>"Customer" as used in this Rule 3.3.10 in relation to a General Trading Member that holds a licence to engage in a Regulated Activity and a Bank Trading Member does not include: (a) a director, officer, employee, Approved Trader or Registered Representative of the Member; or (b) an Affiliate a Related Corporation of the Member with respect to an account belonging to and maintained wholly for the benefit of that Related Corporation.</p>	<p>Editorial amendment arising from the introduction of the new term "Affiliate".</p>
...	
<p>3.3.15 Transfer of Error Trades to House Account</p> <p>The following requirements apply in relation to the transfer of error trades:</p> <p>(a) if a Member commits an execution error (other than an error in price), the Member shall duly transfer the error trade out from the Customer Account to the Member's House Account, or if the Member does not operate a House Account, an Affiliate Account;</p> <p>(b) if a Member commits an execution error in price such that the price executed is not in accordance with the Customer's instruction, the Member may, after reaching an agreement with the Customer, resolve the error by compensating the Customer through cash or credit adjustment to the Customer Account. However, in a situation where the Customer does not accept cash or credit adjustment but requests the Member to abide by the instructed price, the Member may accede to the request provided that it discloses to the Customer the details of the trade execution error in the contract note issued to the Customer. These details shall include:</p>	<p>Amendment to cater for a situation where a Member does not operate a House Account. In the Phase 1 implementation of Affiliate Segregation, Clearing Members who opt for Affiliate Segregation will not be able to operate any House Accounts. Its suspense account will be owned by an Affiliate for whom Affiliate Segregation has been opted for.</p>

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>(i) the price that the Member has confirmed to the Customer; and</p> <p>(ii) the actual price at which the trade is executed;</p> <p>and</p> <p>(c) the Member shall maintain proper records to document the details of the error trade, and the review and approval process by its authorised personnel. The Member shall submit to the Exchange on the first Business Day of each week, details of all execution errors in price which occurred in the preceding week where its Customers did not accept cash or credit adjustments, in the form prescribed by the Exchange from time to time.</p>	
<p>3.3.16 Transfer of Unsuccessful Give-Up Trades to House Account</p> <p>A Member may enter into a give-up arrangement with a Customer and an accepting Clearing Member, provided that such arrangement is supported by a duly executed give-up agreement. If an executed trade is not successfully given up to and accepted by the accepting Clearing Member by the end of the Trading Day following the trade date (T+1), the Member shall transfer the give-up trade to a designated account meant for unsuccessful give-up trades. This designated account shall be a House Account, or if the Member does not operate a House Account, an Affiliate Account. The Member shall conduct regular reviews and take action to clear the designated account.</p>	<p>Amendment to cater for a situation where a Member does not operate a House Account. In the Phase 1 implementation of Affiliate Segregation, Clearing Members who opt for Affiliate Segregation will not be able to operate any House Accounts. Its suspense account will be owned by an Affiliate for whom Affiliate Segregation has been opted for.</p>
<p>...</p>	
<p>3.3.17 Reporting of Account Identity</p> <p>A Member shall submit to the Clearing House, in the manner as prescribed from time to time, the identities of the owners or controlling parties of any House Account or Customer Account which:</p> <p>(a) is used for trading of Contracts or carrying of Contracts; or</p>	

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PROPOSED RULE AMENDMENTS	RATIONALE FOR CHANGE
<p>(b) contains positions required to be reported pursuant to this Rules as prescribed by the Clearing House.</p> <p><i>Refer to Regulatory Notice 3.3.17; 3.3.18; 3.3.26; 3.3.27.</i></p> <p>"Customer Account" as used in this Rule 3.3.17 does not include an account owned by: (a) a director, officer, employee, Approved Trader or Registered Representative of the Member; or (b) an Affiliate Related Corporation of the Member with respect to an account belonging to and maintained wholly for the benefit of that Related Corporation. "House Account" as used in this Rule 3.3.17, is an account which is not a Customer Account as defined in this Rule 3.3.17.</p>	<p>Editorial amendment arising from the introduction of the new term "Affiliate".</p>
...	
<p>3.5 Inspection and Audit</p>	
<p>3.5.1 Scope of Inspection and Audit Rights</p> <p>The Exchange, in its discretion, may inspect, audit and take copies of the accounts, books, contracts and other records and documents of that Member to the extent that is necessary or desirable in connection with the discharge of the Exchange's regulatory obligations. The Exchange may also appoint or cause the Member to appoint independent Persons to do the same. Such Person shall report to the Exchange on all or any of the following:</p> <p>(a) whether that Member's accounts are being kept and maintained in compliance with this Rules;</p> <p>(b) whether that Member's financial position is being maintained in compliance with this Rules;</p> <p>(c) whether that Member's business is being conducted in compliance with this Rules;</p> <p>(d) whether that Member's accounts, financial position or any non-compliance with this Rules may jeopardize the integrity of the Exchange; and</p>	

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PROPOSED RULE AMENDMENTS		RATIONALE FOR CHANGE				
(e) such other matter as the Exchange may direct.						
3.5.2 Access and Cooperation						
A Member shall cooperate with the Exchange and procure for the Exchange or the duly appointed Person:						
(a) access to its premises or its A affiliates' premises, as applicable, to carry out on-site inspections during normal business hours;		Editorial amendment for clarity as "affiliate" here is used generally and not in relation to Members.				
(b) access to the appropriate person for any queries or interviews which the Exchange or the duly appointed Person wishes to conduct in connection with its audit;						
(c) any information or documents which the Exchange or the duly appointed Person considers appropriate for the purpose of investigations; and						
(d) its Customers' full cooperation with the Exchange.						
...						
Chapter 8 Definitions and Interpretation						
8. Definitions and Interpretation						
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		New term introduced for the purpose				

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Appendix 3**1. SGX-DC's Default Management Procedure**

1.1 The changes to the SGX-DC's default management procedures are as follows:

- (a) Include a new scenario of default of a Clearing Member in respect of its House contracts (excluding Affiliate contracts) only; and
- (b) Amend the existing joint default scenario such that the segregated Affiliates' positions and collaterals will not be used to meet the obligations of the Clearing Member in respect of its House contracts at all times.

There will be no other changes required in the default management procedures.

1.2 In the new scenario of default of a Clearing Member in respect of its House contracts (excluding Affiliate contracts) only, SGX-DC will allow the transfer of open positions of the segregated affiliates to other non-defaulting Clearing Members. Any positions that fail to be transferred will be liquidated, similar to the treatment for non-defaulting customers who fail to transfer their open positions. Where the segregated affiliate's positions are transferred to other non-defaulting Clearing Member(s), SGX-DC will also facilitate the transfer of its margin to the accepting broker. Any balance will be returned to the provisional liquidators.

1.3 In joint default scenario, SGX-DC will not use the non-defaulting Affiliates' collateral to meet the obligations of the defaulted Clearing Member in relation to its House contracts (excluding Affiliate contracts). The non-defaulting Affiliates' collaterals may still be used to meet the obligations of the defaulted Clearing Member in relation to Customer contracts.

2. SGX-DC's Stress Test Framework

2.1 The SGX-DC stress test framework is primarily used for the sizing of the clearing fund. To do this, the framework first applies a comprehensive set of stress scenarios across products, and then applies the stress test aggregation logic to derive each Clearing Member's simulated stress loss. Currently, the logic assumes the joint default of the Clearing Member (in relation to its House contracts), the Clearing Member's customers (in relation to its Customers' contracts) and the two largest individually segregated Customers (in relation to the Applicable Customers' contracts) in order to generate a conservative estimate of resources required to manage a member default.

2.2 In a Clearing Member default scenario, Customer's position or collateral will not be used to offset the obligations of the defaulted Clearing Member in relation to their House contracts. See formula below:

Member net stress gain/(loss) = $H + \min(C, 0)^1 + \min(S1, 0) + \min(S2, 0)$,

where

H = House's (include affiliate) stress loss net of margin²,

C = Customers' stress loss net of margin³,

S1 = Highest among individually segregated customers, of the stress loss net of margin,

S2 = Second highest among individually segregated customers, of the stress loss net of margin.

2.3 The approach of using a conservative estimate of resources will not change with the introduction of Affiliate Segregation. With the introduction of Affiliate Segregation, the stress test aggregation logic will assume the joint default of the Clearing Member (in relation to the House contracts excluding Affiliates contracts), the Clearing Member's Affiliates (in relation to Affiliates' contracts), the Clearing Member's customers (in relation to the Customer contracts) and the two largest individually segregated Customers (in relation to Applicable Customer contracts).

2.4 In a Clearing Member default scenario, both the Affiliate's and Customer's position and collateral will not be used to offset the obligations of the defaulted Clearing Member's House contracts. The Affiliate's position and collateral will only be used to offset the obligations of the Affiliates' contracts or Customer contracts. The Customer's position and collateral will only be used to offset the obligations of the defaulted Clearing Member customer's contracts. Please see the updated formula as follows:

Member net stress gain/(loss) = $H^* + \min[A + \min(C, 0) + \min(S1, 0) + \min(S2, 0), 0]$

where

H* = House's (exclude segregated affiliates) stress loss net of margin,

A = Segregated affiliate's stress loss net of margin,

C, S1, S2 = As above.

2.5 For a Clearing Member that does not opt for Affiliate Segregation, then the formulas described in the paragraphs 2.1 and 2.2 are effectively the same. There would be no impact to the clearing fund requirement.

2.6 For a Clearing Member who opts for Affiliate Segregation, ceteris paribus, the Clearing Member's net stress loss may be equal or higher. The Clearing Member's net stress loss may be equal in the case where the Clearing member carries positions either in relation to House (excluding Affiliates) contracts only or in relation to Affiliates contracts only. The Clearing Member's net stress loss may be higher in the case where the Clearing Member carries positions

¹ E.g. If the customers' stress loss is total covered by margin, then C is a positive number. Taking the minimum of C and 0, disallow any excess margin of customers to be used to cover loss from non-customers.

² The stress loss is the net amount across all accounts in the House origin.

³ The stress loss is the net amount across all accounts in the Customer origin.

in relation to both House contracts and Affiliate contracts (i.e. proprietary and affiliates' positions). If this Clearing Member is either the top Clearing Member by stress loss or is one of the two financially weakest Clearing Members, this may result in an increase in clearing fund requirement.

- 2.7 Currently, SGX-DC's Clearing Members hold negligible or no proprietary positions⁴. Therefore, SGX-DC does not expect the introduction of Affiliate Segregation to have significant impact on simulated stress loss and the resulting clearing fund requirement.
- 2.8 However if the profile changes in future such that the share of Clearing Member's proprietary positions increases significantly vis-à-vis its segregated affiliates, then it will lead to relatively higher simulated stress test loss and possibly a larger clearing fund requirement.

⁴ The proprietary positions currently held by Clearing Members are from the OTCF contracts. The clearing activity for OTCF contracts is minimal.