



31 August 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 ("**Commission**"), hereby submits a self-certification for amendments ("**Amendments**") to its Clearing Rules ("**SGX-DC Clearing Rules**") pursuant to Commission regulation 40.6(a).

#### **2. Intended Implementation Date**

- 2.1 The Amendments are proposed to be implemented in October 2016, but will not be implemented prior to the Commission's 10 business day review period.

#### **3. Explanation and Analysis**

- 3.1 SGX will be introducing a new derivatives trading and clearing system, Titan. Titan will be the new clearing system used by SGX-DC for the clearing of its derivatives contracts. Titan also includes an integrated collateral management system that will carry out the derivatives collateral management.
- 3.2 The introduction of Titan will allow for various new functionalities and enhancements to be introduced. While there are no substantial changes to the SGX-DC Clearing Rules in respect of the introduction of Titan, Amendments have been proposed for greater clarity.

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

*Amendments to remove unnecessary or outdated references*

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- 4.1 SGX-DC Clearing Rule 9 currently defines the term “clearing”. The definition is proposed to be deleted as the term, as used in the rules, bears its natural meaning.
- 4.2 Practice Note 7.11.12 of the SGX-DC Clearing Rules currently makes provision for contracts traded on the Singapore Commodities Exchange. Such contracts no longer exist. The relevant paragraph will be deleted.

*Amendments to guidelines on pre-trade risk controls*

- 4.3 SGX-DC’s clearing members are obliged to have automated pre-execution credit control checks. SGX-DC proposes to delete, in Practice Note 2.28A.1.3 of the SGX-DC Clearing Rules, the examples of checks that clearing members may set in discharge of their obligations, and replace them instead with more clarity on SGX’s expectations on a principle basis.
- 4.4 SGX considers this less prescriptive approach more appropriate, given rapid advancements in the area of pre-trade risk controls and the various solutions available. With increasing sophistication among members, there is little need for SGX to spell out the specific types of checks and alert controls that members should set, as these can quickly become outdated and unnecessarily restrictive. Setting out SGX’s expectations in terms of principles will be more useful.
- 4.5 The text of the Amendments with the changes indicated is attached in 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 Principles C and D on Participant and Product Eligibility and Risk Management 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**

- 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 the following address:  
[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 [benjamin.kong@sgx.com](mailto:benjamin.kong@sgx.com) or +65 6236 8593 should you require any clarification.

Yours sincerely

A handwritten signature in blue ink, consisting of a stylized 'K' followed by a horizontal line and a small flourish.

Benjamin Kong  
Assistant Vice President  
Regulatory Development and Policy  
Regulation

## Appendix 1

### Amendments to the SGX-DC Clearing Rules

Proposed amendments are marked in red.

Proposed Amendments to SGX-DC Clearing Rules	
<b>Chapter 9 Definitions and Interpretation</b>	
<b>9.01 Definitions</b>	
...	
"clearing"	The process administered by the Clearing House by which all trades executed on or subject to the rules of the Exchange or any Relevant Market or executed pursuant to any Non-Relevant Market Transaction are confirmed and settled daily until each is liquidated by offset or until delivery takes place, or settled by such other means as provided in this Rules.
<b>Practice Note 2.28A.1.3 — Pre-Execution Checks</b>	
<b>1. Introduction</b>	
1.1	This Practice Note <del>provides further details on the</del> explains the parameters and functions which pre-execution checks <del>may contain as</del> contemplated in Rule 2.28A.1.3.
<b>2. Pre-Execution Checks</b>	
2.1	Rule 2.28A.1.3 requires a Clearing Member, in order to clear the trades of a Trading Member, to satisfy the Clearing House that it has in place automated pre-execution credit control checks to monitor the Trading Member's trades and manage its risk exposure to such trades. The purpose of this is to prevent overtrading and for credit risk management purposes. <u>As such, the checks must be appropriately set to effectively limit the firm's risk exposure to Trading Members to prevent the taking on of excessive risk.</u> The parameters of such pre-execution checks and filters may include but are not limited to:
	(a) — <del>total quantity limit (taking into account the total long and short positions, including all resting orders and executed orders);</del>
	(b) — <del>maximum long per contract (taking into account the total long positions, including resting long orders and net executed orders);</del>
	(c) — <del>maximum short per contract (taking into account the total short positions, including resting short orders and net executed orders);</del>
	(d) — <del>total maintenance margin requirements for the absolute worst positions (i.e. the higher of absolute maximum long and absolute maximum short), computed by using the margin rate prescribed by the Exchange; and</del>
	(e) — <del>net exposure limit (taking into account net long and short positions);</del>
2.2	<del>[This paragraph is deleted.] By way of illustration, pre-execution risk management control functions may include the following:</del>
	(a) — <del>the ability to adjust credit or quantity limits in real time during a trading session;</del>
	(b) — <del>the ability to set permission levels (e.g. access to selected products/ instruments) and</del>

**Proposed Amendments to SGX-DC Clearing Rules**

~~suspend the Trading Member during the trading session on a real time basis; and~~

~~(c) — the ability to intercept orders that exceed credit limits and trigger error-prevention alerts on a real-time basis.~~

2.3 Clearing Members will be able to meet the requirement in Rule 2.28A.1.3 by using the appropriate Exchange-hosted pre-execution checks, or by ~~being able to~~ directly setting and controlling the appropriate pre-determined automated limits in the Trading Member's system, having automated alerts whenever such limits are altered, and by conducting regular post-execution reviews of trades. Clearing Members should assess and continue to ensure that the pre-execution risk management control checks are robust on an ongoing basis.

**Practice Note 7.11.1.2 — Daily Settlement Price Methodology**

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**2.3 ~~Contracts Traded On the Singapore Commodities Exchange. [This paragraph is deleted.]~~**

~~In respect of Contracts traded on the Singapore Commodity Exchange ("SICOM"), the Clearing House shall use the Daily Settlement Price as derived by SICOM (or its clearing house).~~

