

1 October 2015

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

VIA EMAIL

Dear Mr. Kirkpatrick,

Submission of Swaps Contract for the Commission's Mandatory Clearing Determination

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 the SGX FOB Singapore SLInG Swap Contract (the "Contract") for the Commission's mandatory clearing determination under Commission regulation 39.5(b).
- 1.2 The Submission Cover Sheet is attached as Appendix 1.

2 Commencement of Clearing

- 2.1 SGX-DC intends to begin accepting the Contract for clearing from October 2015 or later.

3 Eligibility to Clear

- 3.1 Pursuant to Commission regulation 39.5(a)(1), SGX-DC is eligible to clear the Contract as it is within the same class of swaps as those it already clears.

4 Required Information under Commission regulation 39.5(b)(3)

Existence of significant outstanding notional exposures, trading liquidity and adequate pricing data

- 4.1 LNG is projected to be the fastest growing fossil fuel source of power generation for the next two decades. Currently, Asia accounts for approximated 80% of global LNG demand, and Asian LNG demand is set to rise from 117 Million Tons Per Annum ("mtpa") to about 255 mtpa

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by 2020¹. Growth is thus expected in the spot LNG market and demand for spot LNG hedging and trading is expected to increase along with the overall Asian LNG market. The Contract is intended to meet the increase in LNG trading and to address the needs of market participants who will predominantly comprise LNG spot traders, Singapore power generation companies and financial energy traders. Market participants may use the Contract as a hedging tool for their LNG transactions, an instrument for spread trading, to lock in or speculate spot LNG prices and to trade spot LNG against pipeline gas.

- 4.2 The underlying index for the proposed SLInG Swaps and Futures is the FOB Singapore SGX LNG Index Group ("SLInG index"), an Asian spot LNG index published by the Energy Market Company ("EMC") and created by EMC as the index administrator. At the moment, the LNG spot market is a nascent market and the SLInG index is also a new index to promote spot LNG price discovery in Asia. Hence, the market will need to develop further before liquidity and notional exposure will gain momentum in the next couple of years. The index is open and accessible to relevant stakeholders, and can now be used to develop products such as financial swaps for hedging purposes, and can eventually be used in developing a physical delivery mechanism in Asia. The SLInG index is based on a weekly industry poll of major traders' fair assessments of LNG spot prices using Singapore as a virtual reference location, which ensures consistency of the basis of assessment.
- 4.3 The existing swap products in ICE and CME that are based on the similar underlying physical market have not seen volume or open interest in the past 6-12 months. Therefore, there is insufficient data to determine the notional exposures and trading liquidity.

Availability of rule framework, capacity, operational expertise and resources and credit support infrastructure to clear the contract

- 4.4 The Contract will be cleared under an established rule framework and operational infrastructure already in place and accepted by SGX-DC's Clearing Members.
- 4.5 SGX-DC has the appropriate risk management, operations and technology capabilities in place to ensure that it is able to liquidate positions in the Contract in an orderly manner in a default.
- 4.6 The Contract is subject to margin and clearing fund requirements set out under SGX-DC's Clearing Rules, which are available at the following link: http://rulebook.sgx.com/en/display/display_main.html?rbid=3271&element_id=1903

Effect on the mitigation of systemic risk, taking in account the market size and resources of SGX-DC

- 4.7 It is noted that one of the key drivers of the Dodd-Frank Act was to address systemic risk in the over-the-counter ("OTC") derivatives market through central clearing of such products.

¹ This demand will be met by new LNG supplies from North America, Australia, Russia and East Africa coming on stream from 2018 onwards.

- 4.8 The benefits of central clearing are well-documented and include standardisation of key contract terms when settling a contract, ease of position adjustment, reduction of counterparty risk by having the central counterparty interpose itself between the initial buyer and seller and the provision of efficiencies through the consolidation of collateral management at a central point.
- 4.9 These benefits need to be weighed against the concentration of risk in a select few central counterparties.
- 4.10 SGX-DC has the necessary capability to clear the Contract from a market size and resources perspective.

Effect on competition, including clearing fees and charges

- 4.11 SGX-DC does not believe that its clearing of the Contract would have a negative or material impact on competition. The fee schedule for the Contract is attached as Appendix 3.

Existence of reasonable legal certainty in the event of SGX-DC's or its clearing members' insolvency with regard to the treatment of customer and counterparty positions and collateral

- 4.12 SGX-DC observes the Principles for Financial Market Infrastructures jointly promulgated by the Committee on Payment and Settlement Systems and IOSCO (the "PFMI") and its procedures have been assessed to be legally certain in the event of its or its Clearing Members' insolvency with regard to the treatment of customer and counterparty positions and collateral².
- 4.13 SGX-DC has also previously provided a legal memorandum to the Commission on the ring-fenced treatment of cleared swaps customer collateral pursuant to Part 22 of the Commission's regulations.
- 4.14 SGX-DC's insolvency and the operation of default management mechanisms under its Clearing Rules will be governed by Singapore law, save for certain specific Clearing Rules that relate to cleared swaps customer collateral that are governed by U.S. federal laws.

5 **Contract Specifications**

- 5.1 The specifications of the Contract are attached as Appendix 2.

6 **Participants Eligibility Standards**

² Please see <http://www.imf.org/external/pubs/ft/scr/2013/cr13345.pdf> for a detailed assessment of SGX-DC's observance of the PFMI by the International Monetary Fund under the Financial Sector Assessment Programme.

- 6.1 The standards for participation in clearing of the Contract are similar to SGX-DC's usual membership standards for its Clearing Members as set out in Chapter 2 of its Clearing Rules.
- 6.2 SGX-DC imposes no participation criteria on its Clearing Members' customers, given that it faces its Clearing Members on a principal-to-principal contractual basis.

7 Pricing Sources, Models and Procedures

- 7.1 The daily settlement prices of the Contract will be derived based on the methods below and in the following order of preference:
- (a) the weighted average of the daily forward price assessment provided by price panelists, after removing the outliers;
 - (b) if the current month forward price assessment is not available, the daily spot prices from the index providers will be used for interpolation with the next month forward price assessment; and
 - (c) if any forward month price assessments are not available, the daily settlement price will be derived using an interpolation formula.
- 7.2 The final settlement prices for the Contract will be the arithmetic average of the relevant underlying index weekly spot assessments in the expiring month, rounded to three decimal places.
- 7.3 The mode of final settlement will be in cash.

8 Risk Management Procedures

- 8.1 SGX-DC's risk management policies and procedures are well-established through its experience in clearing OTC derivatives products.
- 8.2 Maintenance margin is collected from each Clearing Member to cover potential losses in the event of that Clearing Member's default. The margining methodology is based on a value-at-risk model utilising historical simulation methodology.
- 8.3 Variation margin is calculated three times a day but called once each day during the life of the Contract until final settlement. Such variation margin is marked-to-market during each cycle and settled in cash based on the settlement currency of the Contract.
- 8.4 Further to this, each Clearing Member contributes to a clearing fund which would be drawn down in the event of a default in accordance with the SGX-DC Clearing Rules. This fund is utilised to cover any shortfall over and above the margins posted by the defaulting Clearing Member due to the liquidation or auction of such Clearing Member's portfolio.

9 Applicable Rules, Policies and Procedures

- 9.1 The rules, policies and procedures that apply to the clearing of the Contract are set out in SGX-DC's Clearing Rules, which are publicly available at the following link: http://rulebook.sgx.com/en/display/display_main.html?rbid=3271&element_id=1903.

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9.2 Additional amendments to the Clearing Rules have been proposed in relation to the clearing of the Contract. SGX-DC has filed a self-certification submission pursuant to Commission regulation 40.6 for the Clearing Rule amendments on 29 September 2015.

10 Public Notice of Submission

10.1 SGX-DC has made publicly available 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.

11 Contact Details

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

Yours sincerely,

A handwritten signature in black ink, appearing to read "Dionna", written in a cursive style.

Dionna Tong
Assistant Vice President
Legal (Regulation)

Appendix 1

Submission Cover Sheets

Singapore Exchange Derivatives Clearing Limited

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SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): _____

Organization: Singapore Exchange Derivatives Clearing Limited

Filing as a: DCM SEF DCO SDR Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 10/01/2015 Filing Description:

Submission of Swaps Contract for the Commission's Mandatory Clearing Determination

SPECIFY FILING TYPE Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- | | |
|--|------------|
| <input type="checkbox"/> Certification | § 40.6(a) |
| <input type="checkbox"/> Approval | § 40.5(a) |
| <input type="checkbox"/> Notification | § 40.6(d) |
| <input type="checkbox"/> Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/> SIDCO Emergency Rule Change | § 40.10(h) |

Rule Numbers: _____

New Product

Please note only ONE product per Submission.

- | | |
|--|------------|
| <input type="checkbox"/> Certification | § 40.2(a) |
| <input type="checkbox"/> Certification Security Futures | § 41.23(a) |
| <input type="checkbox"/> Certification Swap Class | § 40.2(d) |
| <input type="checkbox"/> Approval | § 40.3(a) |
| <input type="checkbox"/> Approval Security Futures | § 41.23(b) |
| <input type="checkbox"/> Novel Derivative Product Notification | § 40.12(a) |
| <input checked="" type="checkbox"/> Swap Submission | § 39.5 |

Official Product Name: SGX FOB Singapore SLInG Swap Contract

Product Terms and Conditions (product related Rules and Rule Amendments)

- | | |
|--|----------------------|
| <input type="checkbox"/> Certification | § 40.6(a) |
| <input type="checkbox"/> Certification Made Available to Trade Determination | § 40.6(a) |
| <input type="checkbox"/> Certification Security Futures | § 41.24(a) |
| <input type="checkbox"/> Delisting (No Open Interest) | § 40.6(a) |
| <input type="checkbox"/> Approval | § 40.5(a) |
| <input type="checkbox"/> Approval Made Available to Trade Determination | § 40.5(a) |
| <input type="checkbox"/> Approval Security Futures | § 41.24(b) |
| <input type="checkbox"/> Approval Amendments to enumerated agricultural products | § 40.4(a), § 40.5(a) |
| <input type="checkbox"/> "Non-Material Agricultural Rule Change" | § 40.4(b)(5) |
| <input type="checkbox"/> Notification | § 40.6(d) |

Official Name(s) of Product(s) Affected: _____

Rule Numbers: _____

Appendix 2
Contracts Specifications

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SGX FOB Singapore SLInG LNG Swap Contract Specifications

Contract	SGX FOB Singapore SLInG LNG swap
Contract Size (1 lot)	10,000 mmBtu
Ticker Symbol	LN
Minimum Price Fluctuation	USD0.001 per million British Thermal Unit
Contract Months	12 consecutive months starting from the forward month
Trading Hours (Singapore Time)	T session: 8.00am – 8:00pm T+1 session: 8:00.01pm - 4.00am Last trading day: 8.00am – 8.00pm
Last Trading Day	Last publication day of the FOB Singapore SLInG Index for the relevant Contract Month
Settlement Basis and Final Settlement Methodology or Delivery Mechanism	Cash settlement using arithmetic average of FOB Singapore SLInG Index weekly spot assessments for the expiring contract month, rounded to three decimal places
Position Limit	A person must not own or control any combination of SGX FOB Singapore SLInG LNG Futures, Swaps and any other product traded by the Exchange and/or accepted by the Clearing House for clearing with an identical underlying, that exceeds an equivalent of 2,000 regular-sized full month contracts on the same side of the Market and in all Contract Months combined

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Appendix 3

Fee Schedule

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Clearing Fees

Clearing Fee Type	Description	SGX FOB Singapore SInG LNG swap
Cf 1	Trading Member (Individual)	USD10
Cf 2	Clearing Member House Account	USD10
Cf 3	Trading Member (Broker) House Account	USD10
Cf 5	Clearing Member Customer Account	USD10
Cf 6	Trading Member (Broker) Customer Account	USD10
Cf 7	Trading Member (Proprietary) (Customer)	USD10
Cf 8	Clearing Member Related Company House Account	USD10
Cf E	Trading Member's Trading Representatives (House)	USD10
Cf F	Trading Member's Trading Representatives (Customer)	USD10
Cf G	Clearing Member's Trading Representatives (House)	USD10
Cf K	Trading Member (Proprietary) (House)	USD10

*Prices shown are before GST.

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