

27 November 2014

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

Dear Ms. Jurgens,

**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 following contracts (the "**Contracts**") for the Commission's mandatory clearing determination under Commission regulation 39.5(b):

- (a) SGX MB Iron Ore CFR China (58% FE Fines) Swap; and
- (b) SGX TSI Iron Ore CFR China (58% FE Fines) Swap.

1.2 The required submission cover sheets are attached as Appendix 1.

**2 Commencement of Clearing**

2.1 SGX-DC intends to begin accepting the Contract for clearing from January 2015.

**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.

**Singapore Exchange Derivatives Clearing Limited**

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

2 Shenton Way, #02-02 SGX Centre, Singapore 068804  
Main: (65) 6236 8888 Fax: (65) 6535 0775

[www.sgx.com](http://www.sgx.com)

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

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

- 4.1 The Contracts are intended to address the needs of market participants who will predominantly comprise producers and consumers of physical iron ore, commodity traders and financial institutions. The market participants may also use the Contracts as a hedging tool for their 58% grade physical iron ore transactions and as an instrument for inter-commodity spread trading.
- 4.2 Currently no other exchange has listed an iron ore 58% derivatives contract and the introduction of the Contracts will allow Singapore Exchange Derivatives Trading Limited ("**SGX-DT**") to maintain its competitive advantage over other exchanges in the iron ore derivatives market.
- 4.3 The underlying indices for the proposed Iron Ore 58% Swaps are as follows:
- 4.3.1 For SGX MB Iron Ore CFR China (58% FE Fines) Swap the following published by the Metal Bulletin ("**MB**"):
- (a) MBIOT - 58% FE Fines, CFR Qingdao Index; and
  - (b) MBIOT - 58% Premium FE Fines, CFR Qingdao Index.
- 4.3.2 For SGX TSI Iron Ore CFR China (58% FE Fines) Swap the TSI Iron Ore Fines 58% Fe (Low Alumina) - CFR Qingdao Port Index as published by The Steel Index ("**TSI**").
- 4.4 The above indices were selected as they track the physical seaborne 58% grade iron ore exported from Australia and delivered to China. From historical prices of the indices, the daily prices of the MB indices and the TSI index moved in lockstep with price deviation reflecting mean-reverting feature. It is also not uncommon to list contracts with the same underlying commodity but based on different price indices.
- 4.5 MB is in the process of aligning its internal policies and pricing procedures with IOSCO Principles for Financial Benchmarks ("**IOSCO Principles**"). We understand that MB intends to obtain external audit compliance with the IOSCO Principles in early 2015. We understand that TSI is in the process of adjusting its internal systems for compliance with the IOSCO Principles and expects to commence external audit on the same in early 2015.

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

- 4.6 The Contracts will be cleared under an established rule framework and operational infrastructure already in place and accepted by SGX-DC's Clearing Members.
- 4.7 SGX-DC has the appropriate risk management, operations and technology capabilities in place to ensure that it is able to liquidate positions in the Contracts in an orderly manner in a default.
- 4.8 The Contracts are 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](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*

- 4.9 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.
- 4.10 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.
- 4.11 These benefits need to be weighed against the concentration of risk in a select few central counterparties.
- 4.12 SGX-DC has the necessary capability to clear the Contracts from a market size and resources perspective.

*Effect on competition, including clearing fees and charges*

- 4.13 SGX-DC does not believe that its clearing of the Contracts would have a negative or material impact on competition. The fee schedules for the Contracts will be provided to the Commission shortly after the notification of the same to the Monetary Authority of Singapore ("MAS").

*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*

- 4.14 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 collateral.<sup>1</sup>
- 4.15 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.
- 4.16 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**

- 6.1 The standards for participation in clearing of the Contracts are similar to SGX-DC's usual membership standards for 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.

---

<sup>1</sup> Please see <http://www.imf.org/external/pubs/ft/scr/2013/cr13325.pdf> for a detailed assessment of SGX-DC's observance of the PFMI by the International Monetary Fund under the Financial Sector Assessment Programme.



## 7 Pricing Sources, Models and Procedures

7.1 The daily settlement prices (“**DSP**”) of the Contracts 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 the index providers and price panelists, after removing the outliers. Price panelists will include inter-dealer brokers (“**IDBs**”);
- (b) if 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;
- (c) if any forward month price assessments are not available, they will be derived using an interpolation formula.

This methodology is the same as the DSP methodology for SGX’s existing iron ore contracts.

7.2 The final settlement prices (“**FSP**”) for the Contracts will be based on the arithmetic average of all of the relevant index providers’ sport price assessments in the expiring month, rounded to 2 decimal places. This FSP methodology is in line with the existing practice for SGX’s iron ore contracts.

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 for 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 utilizing historical simulation methodology.

8.3 Variation margin is calculated three times a day but called once each day during the life of the Contracts until final settlement. Such variation margin is marked-to-market during each cycle and settled in cash based on the settlement currency of the Contracts.

- 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 utilized 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 Contracts 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](http://rulebook.sgx.com/en/display/display_main.html?rbid=3271&element_id=1903)
- 9.2 Additional amendments to the Clearing Rules have been proposed in relation to the clearing of the Contracts. SGX-DC has filed a self-certification submission pursuant to the Commission regulation 40.6 for the Clearing Rules amendments on 27 November 2014.

**10 Public Notice of Submission**

- 10.1 SGX-DC has made publicly available a copy of this submission on its website at:  
[http://www.sgx.com/wps/portal/sgxweb/home/regulation/consult\\_pub/dco\\_submissions](http://www.sgx.com/wps/portal/sgxweb/home/regulation/consult_pub/dco_submissions)

**11 Contact Details**

- 11.1 Please do not hesitate to contact the undersigned at ludovico.cardone@sgx.com or +65 6713 7765 should you require any clarification.

Yours sincerely,



Ludovico Cardone  
Assistant Vice President  
Legal

(Regulation)

**Appendix 1**

**Submission Cover Sheets**

## SUBMISSION COVER SHEET

**IMPORTANT:** Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): \_\_\_\_\_

Organization: \_\_\_\_\_

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

Filing Date (mm/dd/yy): 11/27/2014 Filing Description:

Submission of SGX iron ore swaps contracts for 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 MB Iron Ore CFR China (58% FE Fines) Swap

### 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: \_\_\_\_\_



## SUBMISSION COVER SHEET

**IMPORTANT:** Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): \_\_\_\_\_

Organization: \_\_\_\_\_

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

Filing Date (mm/dd/yy): 11/27/2014 Filing Description:

Submission of SGX iron ore swaps contracts for 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 TSI Iron Ore CFR China (58% FE Fines) Swap

**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

#### Contract Specifications for SGX MB Iron Ore CFR China (58% FE Fines) Swap

<b>Product</b>	SGX MB Iron Ore CFR China (58% FE Fines) Swap
<b>Underlying Indices</b>	(a) MBIOI 58% Fe Fines, CFR Qingdao Index (b) MBIOI 58% Premium Fe Fines, CFR Qingdao Index
<b>Ticker Symbol</b>	M58
<b>Contract Size</b>	500 metric tons
<b>Minimum Fluctuation</b>	<b>Price</b> US\$0.01 metric tons
<b>Contract Months</b>	Up to 48 consecutive months starting with current month. 12 consecutive months will be added upon expiry in December
<b>Trading Hours (Singapore time)</b>	T session: 8.00am – 8:00pm T+1 session: 8:00.01pm - 4.00am Last Trading Day: 8.00am – 8.00pm
<b>Last Trading Day</b>	Last publication day of the relevant Metal Bulletin iron ore reference prices in the contract month
<b>Settlement Basis and Final Settlement Methodology or Delivery Mechanism</b>	Cash settlement using the arithmetic average of all the aggregate daily values of MBIOI - 58% FE Fines, CFR Qingdao Index and MBIOI - 58% Premium FE Fines, CFR Qingdao Index reference prices in the expiring contract month, rounded to 2 decimal places.
<b>Position Limit</b>	A person must not own or control any combination of Iron Ore Futures, Swaps, Options 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 3,000 regular-sized Iron Ore Swap contracts on the same side of the Market and in all Contract Months combined.

**Contract Specifications for SGX TSI Iron Ore CFR China (58% FE Fines) Swap**

<b>Product</b>	SGX TSI Iron Ore CFR China (58% FE Fines) Swap
<b>Underlying Index</b>	TSI Iron Ore Fines 58% Fe (Low Alumina) - CFR Qingdao Port Index
<b>Ticker Symbol</b>	T58
<b>Contract Size</b>	500 metric tons
<b>Minimum Fluctuation</b>	<b>Price</b> US\$0.01 metric tons
<b>Contract Months</b>	Up to 48 consecutive months starting with current month. 12 consecutive months will be added upon expiry in December
<b>Trading (Singapore time)</b>	<b>Hours</b> T session: 8.00am – 8:00pm T+1 session: 8:00.01pm - 4.00am Last trading day: 8.00am – 8.00pm
<b>Last Trading Day</b>	Last publication day of the relevant The Steel Index iron ore reference prices in the contract month
<b>Settlement Basis and Final Settlement Methodology or Delivery Mechanism</b>	Cash settlement using the arithmetic average of all TSI Iron Ore Fines 58% Fe (Low Alumina) - CFR Qingdao Port Index reference prices in the expiring month, rounded to 2 decimal places
<b>Position Limit</b>	A person must not own or control any combination of Iron Ore Futures, Swaps, Options 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 3,000 regular-sized Iron Ore Swap contracts on the same side of the Market and in all Contract Months combined.