

7 February 2015

Ms. Melissa Jurgens
Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st 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 Dated Brent Swap (the "**Contract**") for the Commission's mandatory clearing determination under Commission regulation 39.5(b).
- 1.2 The required submission cover sheet is attached as Appendix 1.

2 Commencement of Clearing

- 2.1 SGX-DC intends to begin accepting the Contract for clearing in April 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.

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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 Contract is intended to address the needs of market participants, predominantly refineries, Singapore power generation companies and users of liquefied natural gas. Market participants may use the Contract as a hedging tool for their exposure to physical oil and gas contracts, electricity futures contracts, and as an instrument for inter-commodity spread trading.
- 4.2 The introduction of the Contract would also be aligned with the development of Singapore as an energy hub.
- 4.3 Brent crude oil is the benchmark for oil prices in Europe, Middle East and Africa and is used to determine the prices of roughly two-thirds of the global oil trade. The underlying index for the Contract is the Platts Dated Brent Index. The index tracks crude oil (Brent, Forties, Oseberg and Ekofisk) sourced from the North Sea which are light and low in sulphur, and assigned a delivery date 10 to 25 days from the date of publication of the index, and with a minimum three day laycan (i.e. laydays and cancellation period).

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.
- 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 2.

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 collateral¹.
- 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.

¹ 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.

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 3](#).

6 **Participants Eligibility Standards**

6.1 The standards for participation in clearing of the Contract 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.

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 the index providers and 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, it will be derived using an interpolation formula.

7.2 The final settlement prices for the Contract will be the arithmetic average of all the daily values of the Platts Dated Brent Index published in the expiring contract 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.
- 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 7 February 2015.

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.

11 **Contact Details**

11.1 Please do not hesitate to contact the undersigned at jeth.lee@sgx.com or +65 6236 8513 should you require any clarification.

Yours sincerely,



Jeth Lee
Assistant Vice President
Legal (Regulation)

Appendix 1

Submission Cover Sheet

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): SGX-DC

Organization: Singapore Exchange Derivatives Clearing Limited

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

Filing Date (mm/dd/yy): 02/07/2015 Filing Description:

Submission of Dated Brent Swap 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: Dated Brent 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

Fee Schedule

Clearing Fee Type		Fee
Cf 1	Trading Member (Individual)	USD 1.00
Cf 2	Clearing Member House Account	USD 1.00
Cf 3	Trading Member (Broker) House Account	USD 1.00
Cf 5	Clearing Member Customer Account	USD 1.20
Cf 6	Trading Member (Broker) Customer Account	USD 1.20
Cf 7	Trading Member (Proprietary) (Customer)	USD 1.00
Cf 8	Clearing Member Related Company House Account	USD 1.00
Cf E	Trading Member's Trading Representatives (House)	USD 1.00
Cf F	Trading Member's Trading Representatives (Customer)	USD 1.00
Cf G	Clearing Member's Trading Representatives (House)	USD 1.00
Cf K	Trading Member (Proprietary) (House)	USD 1.00

Appendix 3
Contract Specifications

Product	Dated Brent Swap
Underlying	Platts Dated Brent Index
Ticker Symbol	DB
Contract Size	1,000 barrels
Minimum Price Fluctuation	US\$0.01 per barrel (US\$10 per lot)
Contract Months	Up to 36 consecutive months starting with the current 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 Platts Dated Brent index in the contract month
Settlement Basis and Final Settlement Methodology or Delivery Mechanism	Cash settlement using arithmetic average of Platts daily spot assessments in the contract month, rounded to three decimal places.
Position Limit	5,000 lots