

26 February 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

VIA EMAIL

Dear Ms. Jurgens,

**Submission of Swaps Contracts 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 Malaysian ringgit ("**MYR**") and Thai baht ("**THB**") over-the-counter non-deliverable interest rate swaps ("**NDIRS**") (collectively, the "**Contracts**") 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 Contracts for clearing in March 2014.

**3 Eligibility to Clear**

- 3.1 Pursuant to Commission regulation 39.5(a)(1), SGX-DC is eligible to clear the Contracts 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 There is regular trading activity in the Contracts driven both by hedging demand and opportunities presented in the rates & fixed income sectors of the Asian marketplace. SGX-DC's Clearing Members are active participants in NDIRS products with the level of market activity level expected to be in excess of 10 billion United States dollars ("**USD**") per month.

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

- 4.2 The clearing of MYR and THB NDIRS contracts is similar to SGX's clearing of existing Interest Rate Swaps ("**IRS**"), save for the settlement of interest payments which are conducted in USD.
- 4.3 The Contracts will be cleared under an established rule framework and operational infrastructure already in place and accepted by SGX-DC's Clearing Members.
- 4.4 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.
- 4.5 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*

- 4.6 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.
- 4.7 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.

- 4.8 These benefits need to be weighed against the concentration of risk in a select few central counterparties.
- 4.9 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*

- 4.10 SGX-DC does not believe that its clearing of the Contract would have a negative or material impact on competition. The fee schedules for the Contracts are 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*

- 4.11 SGX-DC observes the Principles for Financial Market Infrastructures jointly promulgated by the Committee on Payment and Settlement Systems and International Organisation of Securities Commissions (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>.
- 4.12 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.
- 4.13 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 Contracts are attached as Appendix 3.

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<sup>1</sup> 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 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 rates benchmarks for the Contracts are obtained from independent established price vendors (for instance, Thomson Reuters) and brokers and price data is made publicly available. This is similar to existing price sources for Singapore dollar and USD interest rate swap trades currently cleared by SGX-DC.
- 7.2 The MYR and THB NDIRS benchmark against the MYR three-month Kuala Lumpur interbank offer rate and the THB six-month onshore swap offer rate, respectively.

## **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 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 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](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 Commission regulation 40.6 for the Clearing Rule amendments on 26 February 2014.

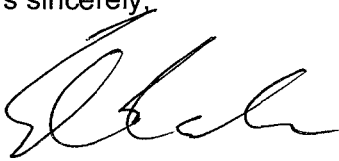
**10 Public Notice of Submission**

- 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/howwereg>.

**11 Contact Details**

- 11.1 Please do not hesitate to contact the undersigned at [eli.cohen@sgx.com](mailto:eli.cohen@sgx.com) or +65 6236 5104 should you require any clarification.

Yours sincerely,



Eli Cohen  
Head, Legal (Regulation)

**Appendix 1**

**Submission Cover Sheet**

## **Appendix 2**

### **Fee Schedules**

## **MYR and THB NDIRS**

### **(1) Clearing Fee**

<b>Tenor</b>	<b>Clearing Fee</b>
Less than 2 year	0.26 bp flat
2 year to < 5 year	0.30 bp flat
5 year to < 10 year	0.36 bp flat
10 year	0.42 bp flat

### **(2) Monthly Rebates**

<b>Monthly-Tiered Rebates*</b>	
Up to USD 30K	No rebate
> USD 30K to 50K	20% rebate
> USD 50K to 100K	40% rebate
> USD 100K	50% rebate

*\*Rebate applies to the incremental clearing fee within that tier.*

### **(3) Annual Fee Cap**

Annual fee cap of USD 400,000 shall apply for each calendar year (pro-rata for the first year of launch).



## **Appendix 3**

### **Contracts Specifications**

## **Over-The-Counter Non-Deliverable Interest Rate Swap Contract Terms**

The terms of a registered Over-The-Counter Non-Deliverable Interest Rate Swap Contract (“NDIRS Contract Terms”) are provided herein and shall comprise:

- (1) Interpretation; and
- (2) Economic Terms; and
- (3) Standard Terms.

In the event of any inconsistency between the Economic Terms and the Standard Terms, the Standard Terms will prevail.

Subject to the SGX-DC Rules (the “Rules”) and the Over-The-Counter Financial Derivatives Clearing Member Handbook (the “OTCF Clearing Member Handbook”), the Clearing House will use the NDIRS Contract Terms applicable to a NDIRS Contract to calculate the amounts due under the NDIRS Contract to, or from, the Clearing House in accordance with the OTCF Clearing Member Handbook.

### **1. Interpretation**

1.1. “ISDA Definitions 1” means the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. (“ISDA”), and the same are incorporated by reference herein.

1.2. “ISDA Definitions 2” means the 1998 FX and Currency Option Definitions (including Annex A thereto) as published by the International Swaps and Derivatives Association, Inc. (“ISDA”), the Emerging Markets Traders Association (“EMTA”) and the Foreign Exchange Committee (“FXC”), and the same are incorporated by reference herein.

1.3 Words and expressions used in these NDIRS Contract Terms shall have the same meaning as the ISDA Definitions 1 and ISDA Definitions 2, unless provided otherwise in the Rules or the OTCF Clearing Member Handbook.

1.3. References in the ISDA Definitions 1 to a “Swap Transaction” shall be deemed to be references to an “NDIRS Transaction” for the purposes of NDIRS Contracts.

1.4. Save when explicitly specified to the contrary, any occurrences of “Section” shall take on the same meaning as Sections in the ISDA Definitions 1.

1.5. Any amendments to the ISDA Definitions 1 and ISDA Definitions 2 shall apply to the NDIRS Contracts with a Trade Date falling after the date of such amendment with immediate effect.

**2. Economic Terms**

Reference Currency [see 1998 FX and Currency Option Definitions, Section 1.19 for definition]	Malaysian Ringgit (MYR)	Thai Baht (THB)
Settlement Currency	U.S. Dollars	U.S. Dollars
Trade Date [see Section 3.7 for definition]	Daily (on a business day)	Daily (on a business day)
Effective Date [see Section 3.2 for definition]	Effective Date is generally the same day as Trade Date.	Effective Date is generally 2 business days after Trade Date or any date as agreed by the parties to the Contract.
Termination Date [see Section 3.3 for definition]	Up to 10 year tenure, but no longer than 3,670 days from present.	Up to 10 year tenure, but no longer than 3,670 days from present.
Notional Amount [see Section 4.7 for definition]	In respective local currency as determined by the parties to the contract.	
Additional Payments/Fees	As determined by the parties to the contract.	
<p>(a) the Payer of the Additional Payments/Fees (if any)</p> <p>(b) the amount of the Additional Payments/Fees (specify zero if none)</p>		

Business Day [see Section 1.4 for definition]		
Business Day for Settlement	All Business Days for Settlement for NDIRS Contracts shall follow New York Fed Business Days.	All Business Days for Settlement for NDIRS Contracts shall follow New York Fed Business Days.
Business Day for Fixing of Floating Rate Option	MYR : Kuala Lumpur (Fixing shall be on the same day as the start of the interest period)	THB : Bangkok (Fixing shall be on two Bangkok business days prior to the start of the interest period)
Business Day Convention [see Section 4.12 for definition]	(a) Following (b) Modified Following (c) Preceding	(a) Following (b) Modified Following (c) Preceding
Fixed Amount: [see Section 4.4 for definition]	Notional Amt X Fixed Rate X Fixed Rate Day Count Fraction	
Fixed Rate Payer [see Section 2.1 for definition]	As determined by the parties to the contract.	
Fixed Rate Payer Payment Dates [see Section 4.9 for definition of "Payment Date"]	As determined by the parties to the contract.	
Fixed Rate [see Section 5.2(a) for definition]	As determined by the parties to the contract.	
Fixed Rate Day Count Fraction [see Section 5.2(b) for definition]	Actual/365 (Fixed) for both MYR and THB	

Fixed Rate Payer Period End Dates	As determined by the parties to the contract, provided that each Fixed Rate Payer Calculation Period shall be 1M, 3M, 6M or 1Y.	
Floating Amount: [see Section 4.5 for definition]	Notional Amt X [Floating Rate + Spread (if any)] X Floating Rate Day Count Fraction	
Floating Rate Payer [see Section 2.2 for definition]	As determined by the parties to the contract.	
Floating Rate Payer Payment Dates [see Section 4.9 for definition of "Payment Date"]	As determined by the parties to the contract.	
Floating Rate for initial Calculation Period [see Section 4.13 for definition of "Calculation Period"]	As determined by the parties to the contract.	
Floating Rate Option [see Section 6.2(h) for definition]	MYR 3 mth KLIBOR Rate Fixing page : KLIBOR (Reuters)	THB 6 mth Onshore Swap Offer Rate Rate Fixing page : THBFIX=TH (Reuters)
Designated Maturity [see Section 7.3(b) for definition of "Designated Maturity"]	As determined by the parties to the contract, provided that each Fixed Rate Payer Calculation Period shall be 1M, 3M, 6M or 1Y.	
Spread [see Section 6.2(e) for definition]	As determined by the parties to the contract.	
Reset Dates [see Section 6.2(b) for definition]	As determined by the parties to the contract.	

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Floating Rate Day Count Actual/365 (Fixed) for both MYR and THB  
Fraction  
[see Section 6.2(f) for  
definition]

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Calculation Agent SGX-DC shall be the calculation agent for NDIRS Contracts.  
[see Section 4.14 for  
definition]

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Settlement Net settled in US Dollar

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Settlement Rate Option THB (ABSFIX01): 11:30:00 Singapore time  
(with Reuters Ref Page) MYR (MYRFIX2): 11:10:00 Kuala Lumpur time  
[see 1998 FX and Currency  
Option Definitions, Section  
1.16(d) for definition]

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Fixing Date Scheduled valuation date.

Valuation Date  
[see 1998 FX and Currency  
Option Definitions, Section  
1.16(f) for definition]

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### **3. Standard Terms**

#### **3.1. Business Days**

The Business Days specified in the calendar published by the Clearing House from time to time will apply to a NDIRS Contract.

#### **3.2. Payments under a NDIRS Contract**

Payments under, and in respect of, a NDIRS Contract shall be calculated by the Clearing House and shall be made by, or to, the Clearing Member in accordance with the provisions of the Rules and OTCF Clearing Member Handbook.

#### **3.3. The Rules and OTCF Clearing Member Handbook**

A NDIRS Contract shall be subject to the Rules and OTCF Clearing Member Handbook, which shall form a part of its terms. In the event of any inconsistency between these NDIRS Contract Terms and the Rules and OTCF Clearing Member Handbook, the Rules and OTCF Clearing Member Handbook shall prevail.

#### **3.4. Governing Law**

Each NDIRS Contract shall be governed by and construed in accordance with the laws of Singapore.

#### **3.5. Third Party Rights**

A person who is not a party to this NDIRS Contract shall have no rights under or in respect of it. Save as otherwise provided in the Rules, rights of third parties to enforce any terms of this NDIRS Contract pursuant to the Contracts (Rights of Third Parties) Act (Chapter 53B) are expressly excluded.