

26 May 2014

CONFIDENTIAL TREATMENT REQUESTED

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

VIA EMAIL

Dear Ms. Jurgens,

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 (the "**Commission**"), hereby submits a self-certification for amendments to its Clearing Rules (the "**Amendments**") pursuant to Commission regulation 40.6(a).
- 1.2 This is an amendment to an earlier self-certification submission filed by SGX-DC on 27 February 2014.
- 1.3 The Submission Cover Sheet is attached as Appendix 1.

2 Intended Implementation Date

- 2.1 The Amendments are proposed to be implemented in July 2014, but will not be implemented prior to the Commission's 10 business day review period.

3 Explanation and Analysis

- 3.1 The Amendments relate to changes to the SGX-DC Clearing Fund, as detailed in paragraph 3.3, and changes to the default management process and the Clearing Fund in relation to OTC financial derivatives ("**OTCF**") contracts, as detailed in paragraph 3.4.

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3.2 SGX-DC is registered as an approved clearing house under the Securities and Futures Act of Singapore and regulated by the Monetary Authority of Singapore (“MAS”). The Amendments have been reviewed and approved by the MAS.

3.3 Changes to the SGX-DC Clearing Fund

3.3.1 SGX-DC is proposing the following Amendments in respect of its Clearing Fund:

Apportionment and use of Clearing Fund resources across contract classes

(a) SGX-DC operates a single Clearing Fund to cover losses arising from the default of its Clearing Members. In the event a Clearing Member defaults in a particular contract class, the Clearing Fund will be used in the following descending order of priority in accordance with Rule 7A.01A.2:

Order of usage	Clearing Fund resources
Source 1	Margins and Clearing Fund contributions of defaulting Clearing Member
Source 2	SGX-DC's first contribution to the Clearing Fund (the “ Clearing House First Loss Contribution ”)
Source 3	Clearing Fund contributions of non-defaulting Clearing Members who have been active in the same contract class in which the default occurred, in that they have, in the last six months, cleared that same contract class or had open positions in that same contract class
Source 4	SGX-DC's intermediate contribution to the Clearing Fund (the “ Clearing House Intermediate Contribution ”)
Source 5	Clearing Fund contributions of non-defaulting Clearing Members who have not been active in the same contract class in which the default occurred and unexhausted Clearing Fund contributions from Source 3
Source 6	SGX-DC's residual contribution to the Clearing Fund, if any

(b) The Amendments seek to clarify the following matters in the Clearing Rules:

- (i) when a Clearing Member defaults, the Clearing House First Loss Contribution and Clearing House Intermediate Contribution will be apportioned to meet the losses arising from each contract class in which a default has occurred, in such proportion as the Clearing House will determine (revised Rule 7A.01A.2.a and 7A.01A.2.c1 and new Rule 7A.01A.2A.a);
 - (ii) the Clearing Fund contributions of a Clearing Member who is active in more than one contract class will be apportioned, with a portion to be attributed to each of the contract classes that it is active in, in such proportion as the Clearing House will determine;
 - (iii) when a default occurs in a contract class, only the portion attributed to that contract class will form part of Source 3 for meeting the losses in that contract class. The portions attributed to other contract classes will form part of Source 5 to meet any remaining losses in that contract classes (revised Rules 7A.01A.2.d and 7A.01A.2.e); and
 - (iv) where a non-defaulting Clearing Member has not cleared any contracts and has no open position in a contract class, its contributions for that contract class will not be used in Source 3 but will be used in Source 5.
- (c) The apportionment of resources in each source of the Clearing Fund between contract classes as a result of the Amendments would result in a more equitable manner of usage of the Clearing Fund. Clearing Members will receive a greater degree of protection from losses in contract classes in which they are not active. The Amendments also contribute towards a proper segregation of the Clearing Fund between contract classes to minimise the risk of losses attributable to one contract class flowing into another contract class.

Redistribution of SGX-DC's Clearing Fund contribution

- (d) SGX-DC currently contributes S\$150 million to its Clearing Fund – S\$136 million is in the Clearing House First Loss Contribution, while the remaining amount is in the Clearing House Intermediate Contribution. This amount is in excess of what is required by the MAS under its capital conditions.
- (e) However, the large size of the Clearing House First Loss Contribution may have an adverse impact on the financial soundness of the clearing system in the case of a default resulting in a significant loss amount, as there may only be small amounts of

SGX-DC's contribution (if any) left for subsequent defaults by Clearing Members active in other contract classes.

- (f) The Amendments therefore redistributes SGX-DC's contributions to the Clearing Fund in the following manner:
 - (i) the Clearing House First Loss Contribution is to be maintained at 15% of the Clearing Fund and the remainder of SGX-DC contributions to the Clearing Fund (i.e. the contributions exceeding 15% of the Clearing Fund) will be placed in the Clearing House Intermediate Contribution; and
 - (ii) the Clearing House Intermediate Contribution will be changed from the current fixed contribution of US\$10 million to at least 10% of the Clearing Fund¹.
- (g) With the redistribution, SGX-DC's total contributions to the Clearing Fund remain at approximately S\$150 million and continue to meet with the MAS' capital conditions. SGX-DC will retain a high "skin-in-the-game" that compares favourably with other clearing houses. The Clearing Fund continues to be sized to cover the defaults of SGX-DC's largest and two financially weakest Clearing Members in a scalable manner. An increase in the Clearing House Intermediate Contribution provides further assurance that a sizable SGX-DC buffer is available prior to Clearing Members' contributions being used.

Changes to the use of SGX-DC's intermediate contribution layer in a multiple default scenario

- (h) Currently, resources in the Clearing House Intermediate Contribution are used to meet losses arising from defaults only arising from OTCF contracts. To reduce the risk of residual losses flowing across various contract classes in multiple defaults, the Amendments provide that the Clearing House Intermediate Contribution may be used to meet losses arising from defaults in any contract class.
- (i) The Amendments further provide that in a multiple default scenario, if a second default occurs in a different contract class from the first default in within a specified period of time, the resources in the Clearing House Intermediate Contribution layer will be used first to address the second default. Only after the Clearing House Intermediate Contribution is exhausted will Clearing Members' contributions, which are attributable to the contract class in which the second default occurred, be used.

¹ Based on an approximate Clearing Fund size of S\$500 million, at least S\$50 million (10% of the Clearing Fund) will be placed in the Clearing House Intermediate Contribution.

3.4 Changes to the default management framework and Clearing Fund in relation to OTCF contracts

3.4.1 SGX-DC is proposing the following changes to its default management framework and Clearing Fund in relation to OTCF contracts:

Removal of compulsory assignment, and award of auction to highest bidder

- (a) Under SGX-DC's current OTCF default management framework, SGX-DC may auction off open positions in OTCF contracts in which a default has occurred. On the auction date, a reserve price is determined and participating Clearing Members are obliged to bid in the auction. Generally, the disposal of a defaulted portfolio is effected through a successful auction. In the unlikely event that an auction fails, the defaulted portfolio may be compulsorily assigned to participating Clearing Members in proportion to their risk exposures in the clearing house and at the reserve price. Any losses that remain after this, and which are not met by the resources of the defaulting Clearing Member, will be satisfied by the Clearing Fund.
- (b) SGX-DC proposes to make changes to its default management framework to remove compulsory assignment and the reserve price, and provide for the award of the auctioned portfolio to the highest bidder. This will allow participating Clearing Members to quantify their potential liability arising from clearing OTCF contracts. Where there is any Residual Auction Loss² after an auction, a participating Clearing Member's liability for that loss will be limited to his Clearing Fund contributions apportioned to that auction. The removal of compulsory assignment and reserve price will also align SGX-DC's practices with international practices.
- (c) In certain exceptional cases, the general policy of awarding the auctioned portfolio to the highest bidder may be departed from. For instance, there may be scenarios where doing so would lead to instability of the market or appropriate bids were not received because of current market conditions (in which case, a re-auction may be conducted).

² "Residual Auction Loss" is the mark-to-market value of the auctioned portfolio (up to the point of auction and ancillary costs) *minus* the price at which the auctioned portfolio was awarded (or assigned, under the current framework) *minus* the defaulting clearing member's available collateral apportioned to the auction *minus* the Clearing House First Loss Contribution apportioned to the auction.

Consequential revisions to loss distribution mechanism to incentivise fair bids

- (d) The changes set out above may result in a larger Residual Auction Loss (compared to under the current default management framework) if participating Clearing Members do not put in *bona fide* bids. The following Amendments seek to incentivise fair bids:
- (i) SGX-DC's Clearing Fund contribution is to be redistributed to effectively reduce the size of the Clearing House First Loss Contribution (see paragraph 3.3.1(d) to (g) above). If the Clearing House First Loss Contribution remains as substantial as it currently is, non-defaulting clearing members may not be incentivised to submit fair bids as the Clearing House First Loss Contribution may greatly reduce the Residual Auction Loss that will be allocated to them;
 - (ii) where a default occurs in OTCF Contracts and more than one auction is held, the Clearing House First Loss Contribution, Clearing House Intermediate Contribution and non-defaulting Clearing Members' Clearing Fund contributions for OTCF contracts will be further apportioned to each auction in such proportion as the Clearing House will determine. The apportionment will be based on the relative risk of each auction for which there are remaining losses; and
 - (iii) SGX-DC's Clearing Fund loss distribution mechanism will be refined to take into account participating Clearing Members' bidding behaviour when determining (1) the order of priority in which their auction contributions will be used to meet Residual Action Loss, and (2) the amount of their auction contributions that will be used. Currently, the auction bidding behaviour of participating Clearing Members has no bearing on these matters³.

Increase in Clearing Members' Clearing Fund contributions for OTCF contracts

- (e) The Security Deposit requirement for OTCF clearing members is currently the higher of US\$5 million or 3.0% of the clearing member's average margin requirements in the last three months. The Security Deposit amount for OTCF clearing members is proposed to be increased from the current 3.0% to 6.0% of average margin requirements in the last three months, subject to a minimum contribution of US\$5 million.

³ However they are deterred from submitting throwaway bids and are incentivised to submit *bona fide* bids through the features of reserve price and compulsory assignment in the auction process.

- (f) The increase seeks to boost the size of the Clearing Fund for the OTCF business as it grows, and thereby minimise the risk of residual losses attributable to one contract class flowing to another contract class.
- (g) It should be noted that there will be no immediate impact on Clearing Members' contribution levels, as the increase in percentage from 3.0% to 6.0% of average margin requirements in the last three months will still be lower than the US\$5 million minimum Security Deposit requirement. Hence, the Security Deposit required will continue to be US\$5 million. Nonetheless, the higher scalar of 6.0% will allow the Clearing Fund to be scaled appropriately as the business and corresponding risk grows.

4 Description of Amendments

- 4.1 Rules 2.28, 7A.01A, 7A.01B, 7A.02, 7A.06 and 9.01.1 of the SGX-DC Clearing Rules will be amended. Practice Note 7A.02.1.5.c.ii will be deleted and new Practice Notes 9.01.1, 7A.01B and 7A.01A.2A will be enacted.
- 4.2 The text of the Amendments with the changes indicated is attached as Appendix 2. For ease of reference, the changes varying from the earlier self-certification submission filed by SGX-DC on 27 February 2014 are highlighted in grey.

5 Certification of Compliance with Core Principles

- 5.1 The Amendments have been promulgated in respect of SGX-DC's compliance with Core Principle D on risk management and seek to allocate losses arising from one or more defaults to resources available to SGX-DC in an equitable and efficient manner.
- 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 http://www.sgx.com/wps/portal/sgxweb/home/regulation/consult_pub/dco_submissions.

7 Opposing Views

- 7.1 There were no significant 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.
- 7.2 A summary of feedback received on a public consultation conducted from 6 November 2013 to 4 December 2013 and SGX-DC's responses to the same are set out in Confidential Appendix 3.
- 7.3 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 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

Text of the Amendments

PROPOSED RULE

CHAPTER 2: CLEARING MEMBERSHIP

2.28 Voluntary Suspension and Resignation

2.28.1

A Clearing Member may at any time request the Clearing House to suspend its Clearing Membership. The Clearing House may give effect thereto upon such terms and conditions as the Clearing House may decide.

2.28.2

Any Clearing Member may resign upon giving notice in writing thereof to the Clearing House. Such resignation shall be effective upon the Clearing Member closing out its positions in all Contracts, subject to a minimum period of 30 days from the Clearing House's receipt of its notice of resignation (such period of 30 days being hereafter referred to as the "Minimum Notice Period"). Notwithstanding the foregoing, the Clearing House shall have the discretion to vary the effective date of resignation in the case of a defaulted or suspended Clearing Member.

2.28.2A

In respect of all defaults declared by the Clearing House, which occurrence takes place at or after such time that the Clearing House receives a Clearing Member's notice of resignation and before its effective date of resignation (such period being hereafter referred to as the "Notice Period"), the following shall apply:

2.28.2A.1 the Clearing House shall apply the resigning Clearing Member's Security Deposit and Further Assessment Amount in accordance with Rule 7A.01A.2, except that the aggregate amount applied in respect of all such defaults shall be subject always to a limit of no more than two (2) times of the resigning Clearing Member's Security Deposit requirement and ~~two (2) times of its~~ Further Assessment Amount as at the time the Clearing House receives its notice of resignation; and

2.28.2A.2 ~~subject always to Rule 7A.02.1.5.c, the resigning Clearing Member shall not be assigned and transferred residual OTCF Contracts in respect of more than two (2) defaults occurring within the Notice Period.~~ [This rule has been deleted]

This Rule 2.28.2A shall apply provided always that the Clearing Member complies with Rule 2.28.2B.

2.28.2B

Unless otherwise permitted by the Clearing House or required under this Rules, a resigning Clearing Member shall not undertake any transactions which have the effect of increasing its positions in any Contract during its Notice Period.

2.28.2C

If a resigning Clearing Member breaches Rule 2.28.2B at any time during the Notice Period, Rule 2.28.2A.1 and ~~Rule 2.28.2A.2~~ shall not apply to such Clearing Member in their entirety and instead the following shall apply:

2.28.2C.1 such Clearing Member shall have all the obligations under this Rules of a non-resigning Clearing Member in respect of all events of default under Rule 7A.01A.1 occurring during the Notice Period; and

2.28.2C.2 if, due to the operation of Rule 2.28.2A.1, any amount of such Clearing Member's:

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- a. Security Deposit requirement; or
- b. Further Assessment Amount; or
- c. both,

has not been used and applied by the Clearing House in accordance with Rule 7A.01A.2, the Clearing House shall have the authority to call for and apply such amount as if the assessment had been utilised in the first instance in accordance with Rule 7A.01A.2.

2.28.2D

Notwithstanding Rule 2.28.2A, a resigning Clearing Member shall have no obligations in relation to any event of default, other than its own, occurring at or after such time that the following conditions have been met:

2.28.2D.1 the Minimum Notice Period has lapsed; and

2.28.2D.2 the resigning Clearing Member has no open positions in any Contract other than positions acquired in relation to an event of default occurring during the Notice Period, by way of:

- a. an auction pursuant to Rule 7A.02.1.5.b;⁵ or
- b. ~~an assignment and transfer of residual OTCF Contracts pursuant to Rule 7A.02.1.5.c.~~
[This rule has been deleted]

CHAPTER 7A: SUSPENSION AND DEFAULT

7A.01A Events of Default

7A.01A.1

On the occurrence of any of the following events, or if the Clearing House in its discretion determines that any of the following events has occurred, the Clearing House may declare an event of default:—

- a. the insufficiency of a Clearing Member's Collateral to discharge such Clearing Member's obligations to the Clearing House; or
- b. the insufficiency of the Collateral of any other Relevant Market, including a Participating Market, available to the Clearing House to fully meet such other Relevant Market's and/or its clearing house's obligations to the Clearing House; or
- c. the insolvency of a Clearing Member (as determined by Rule 7A.01.3), any other Relevant Market which clears the opposite side of any Contract, including a Participating Market, and/or its clearing house or any depository (as defined in Rule 2.35.4); or
- d. conversion, theft, breach of trust, embezzlement, or any other similar cause, caused or suffered by or in connection with a Clearing Member.

7A.01A.2 Clearing Fund Loss Allocation Mechanism

Subject to Rule 7A.06.6.4 (Use of the Clearing Fund in Respect of Events of Default Occurring Within a Multiple Default Period) and Rule 7A.01B (Clearing Fund Loss Allocation Mechanism for Default in OTCF Contracts), and provided that the defaulted Clearing Member's Collateral deposited with or provided to SGX-DC has been fully applied in accordance with Rule 7A.05.01, any loss suffered by

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the Clearing House arising from or in connection with an event of default shall be met and made good promptly by the use and application of funds from the following sources (collectively known as the "Clearing Fund") in the order of priority hereafter listed, with each source of funds to be completely exhausted, subject to the limitations contained therein, before the next source is applied:—

a. Clearing House First Loss Contribution. The losses in each Contract Class in which the default has occurred will be met with that part of the Clearing House First Loss Contribution that is apportioned to that Contract Class pursuant to Rule 7A.01A.2A.a. ~~Where an event of default is deemed to have occurred in more than one Contract Class, such funds shall be apportioned to each Contract Class, as prescribed under Rule 7A.01A.2A.a. If the Any unexhausted funds Clearing House First Loss Contribution apportioned to a particular Contract Class are is not exhausted, the unexhausted funds will shall be used and applied to meet any losses that may remain in the other another Contract Class(es), after the funds Clearing House First Loss Contribution apportioned to those other that Contract Class(es) have been are applied and exhausted.~~

b. Security Deposits of those Clearing Members, (excluding any Clearing Member who is insolvent or deemed to be insolvent,) ~~which have been where each Clearing Member active in any of the Contract Classes in which the default has occurred. A Clearing Member is active in a Contract Class if it has had:~~

- i. ~~cleared Contracts belonging to thethat Contract Class in which the event of default occurred, during the six (6) month period preceding the day the event of default was declared by the Clearing House Relevant Period; or~~
- ii. ~~had an open commitment in Contracts belonging to thatthe same Contract Class in which the event of default occurred, during the six (6) month period preceding the day the event of default was declared by the Clearing House (with the periods at Rules 7A.01A.2.b.i and 7A.01A.2.b.ii collectively referred to as the "Relevant Periods").~~

A Clearing Member's Security Deposits will be used under this Rule 7A.01A.2.b in respect of a Contract Class only if the Clearing Member has been active in that Contract Class. Further, only that part of each such Clearing Member's Security Deposits that has been apportioned, in the manner prescribed under Rule 7A.01A.2A.b, to the Contract Class will be used in respect of the Contract Class.

Save as provided in Rule 7A.01B (Clearing Fund Loss Allocation Mechanism for Default in OTCF Contracts)(for OTCF Contracts), For losses in Contracts that are listed for trading on the Exchange or Relevant Market, or Non-Relevant Market Contracts, such Such a Clearing Member's liability shall be liable for the loss remaining in a Contract Class will be on a pro-rata basis, calculated as the proportion of its Security Deposit requirement as prescribed under Rule 7A.06.2.1.A for the relevant that Contract Class, and relative to the aggregate Security Deposit requirement for that same Contract Class of all for the category of Clearing Members that are active in that Contract Classreferred to in this Rule 7A.01A.5.2.b.

Where an event of default is deemed to have occurred in Contracts that are listed for trading on the Exchange or Relevant Market and Non-Relevant Market Contracts, the Security Deposit requirement for a Clearing Member apportioned to each Contract Class shall be calculated in the manner prescribed under Rule 7A.01A.2A.b.

In the event that Security Deposits apportioned to fora Contract Class are not exhausted pursuant to this Rule 7A.01A.2.bfully applied, the unexhausted funds will be used under Rule 7A.01A.2.d such Security Deposits shall be used to meet any losses that may remain in any arising in such other Contract Class(es) in which the event of default occurred, in the manner prescribed under Rule 7A.01A.2.d.

For losses in OTCF Contracts, the Security Deposit requirement as prescribed under Rule

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~~7A.06.2.1.B for each Clearing Member shall be used to meet losses in the manner prescribed under Rule 7A.01B.~~

- c. ~~Further Assessment Amounts of those Clearing Members, (as prescribed under Rule 7A.06.3, and excluding any Clearing Member who is insolvent or deemed to be insolvent,) which have been active (in the manner described in Rule 7A.01A.2.b) in any of the Contract Classes in which the default has occurred of the same category of Clearing Members referred to in Rule 7A.01A.2.b.~~

~~A Clearing Member's Further Assessment Amounts will be used under this Rule 7A.01A.2.c in respect of a Contract Class only if the Clearing Member has been active in that Contract Class. Further, only that part of each such Clearing Member's Further Assessment Amounts that has been apportioned, in the manner prescribed under Rule 7A.01A.2A.b, to the Contract Class will be used in respect of the Contract Class.~~

~~Save as provided in Rule 7A.01B (Clearing Fund Loss Allocation Mechanism for Default in OTCF Contracts)(for OTCF Contracts), For losses in Contracts that are listed for trading on the Exchange or Relevant Market, or Non-Relevant Market Contracts, such Such a Clearing Member's liability shall be liable for the loss remaining in a Contract Class will be on a pro-rata basis, calculated as the proportion of its Further Assessment Amount requirement for the relevant that Contract Class, relative to the aggregate Further Assessment Amount requirement for that same Contract Class of all for the category of Clearing Members that are active in that Contract Class referred to in this Rule 7A.01A.5.2.b.~~

~~Where an event of default is deemed to have occurred in Contracts that are listed for trading on the Exchange or Relevant Market and Non-Relevant Market Contracts, the Further Assessment Amount for a Clearing Member apportioned to each Contract Class shall be calculated in the manner prescribed under Rule 7A.01A.2A.b. In the event that Further Assessment Amounts for a Contract Class are not fully applied, such Further Assessment Amounts shall be used to meet losses arising in another Contract Class in which the event of default occurred in the manner prescribed under 7A.01A.2.e.~~

~~In the event that Further Assessment Amounts apportioned to fora Contract Class are not exhausted pursuant to this Rule 7A.01A.2.c fully applied, the unexhausted funds will be used under Rule 7A.01A.2.e such Further Assessment Amounts shall be used to meet any losses that may remain in any arising in such other Contract Class(es) in which the event of default occurred, in the manner prescribed under Rule 7A.01A.2.e.~~

~~For losses in OTCF Contracts, the Further Assessment Amount attributed to OTCF Contracts for each Clearing Member shall be used to meet such losses in the manner prescribed under Rule 7A.01B.~~

- c1. ~~Clearing House Intermediate Contribution Any contributions to the Clearing Fund by the Clearing House or any of its related entities to that Contract Class in which the event of default occurred, the amount of such contributions (if any) to be determined by the Clearing House in its sole discretion. The losses in each Contract Class in which the default has occurred will be met with that part of the Clearing House Intermediate Contribution that is apportioned to that Contract Class pursuant to Rule 7A.01A.2A.a. If the funds apportioned to a particular Contract Class are not exhausted, the unexhausted funds will be used and applied to meet any losses that may remain in the other Contract Class(es), after the funds apportioned to those other Contract Class(es) have been applied and exhausted.~~

- d. ~~Security Deposits of those Clearing Members, (excluding any Clearing Member who is insolvent or deemed to be insolvent, and) which are not available for use, or which have not been exhausted, pursuant to Rule 7A.01A.2.b where that each Clearing Member had:~~

i. ~~cleared Contracts, not belonging to the same Contract Class in which the event of default~~

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~~occurred, during the six (6) month period preceding the day the event of default was declared by the Clearing House; or~~

~~ii. an open commitment in Contracts, not belonging to the same Contract Class in which the event of default occurred, during the six (6) month period preceding the day the event of default was declared by the Clearing House; or~~

~~iii. not cleared or had no open commitment in Contracts belonging to the same Contract Class in which the event of default occurred, during the Relevant Periods; or~~

~~iv. Security Deposits that have not been fully applied pursuant to Rule 7A.01A.2.b.~~

~~A Such Clearing Member's liability shall be liable for the loss remaining in a Contract Class will be on a pro-rata basis, calculated as the proportion of its Security Deposit requirement available for use relative to the aggregate Security Deposit requirement of all Clearing Members that have Security Deposits available for use under for the category of Clearing Members referred to in this Rule 7A.01A.2.d, provided always that if such Clearing Member's Security Deposit had been applied pursuant to Rule 7A.01A.2.b, its Security Deposits shall not be applied again pursuant to this Rule 7A.01A.2.d.~~

~~e. Further Assessment Amounts, (as prescribed under Rule 7A.06.3 of Clearing Members, excluding any Clearing Member who is insolvent or deemed to be insolvent, which are not available for use, or which have not been exhausted, pursuant to Rule 7A.01A.2.c, the same category of Clearing Members referred to in Rules 7A.01A.2.d.i to 7A.01A.2.d.iii, Clearing Members who had Further Assessment Amounts that have not been fully applied pursuant to Rule 7A.01A.2.c and (excluding any Clearing Member which has been levied the maximum amount that may be levied against it pursuant to 7A.01A.2.c).~~

~~A Such Clearing Member's liability shall be liable for the loss remaining in a Contract Class will be on a pro-rata basis, calculated as the proportion of its Further Assessment Amount requirement available for use relative to the aggregate Further Assessment Amount requirement of all Clearing Members that have Further Assessment Amounts available for use under this Rule 7A.01A.2.e, for the category of Clearing Members referred to in Rule 7A.01A.2.d; and~~

~~f. Any other contributions to the Clearing Fund.~~

7A.01A.2A Apportionment of Clearing Fund Contributions across Contract Classes and across OTCF Auctions

~~a. Where an event of default is deemed to have occurred in more than one Contract Class, the Clearing House First Loss Contribution and Clearing House Intermediate Contribution will be apportioned to each such Contract Class in such proportion as the Clearing House will determine. The funds so apportioned will be used in the manner set out in Rule 7A.01A.2 (Clearing Fund Loss Allocation Mechanism) and Rule 7A.01B (Clearing Fund Loss Allocation Mechanism for Default in OTCF Contracts) in respect of OTCF Contracts.~~

~~b. Where an event of default is deemed to have occurred, the Security Deposits and Further Assessment Amounts of each Clearing Member will be apportioned. The Security Deposits and Further Assessment Amounts deposited by a Clearing Member in respect of OTCF Contracts pursuant to Rules 7A.06.2 and 7A.06.3 will be apportioned to OTCF Contracts. The rest of the Security Deposits and Further Assessment Amounts deposited by the Clearing Member will be apportioned to the other each Contract Classes (not including the OTCF Contract Class) in such proportion as the Clearing House will determine. The funds so apportioned will be used in the manner set out in Rule 7A.01A.2 (Clearing Fund Loss Allocation Mechanism) and Rule 7A.01B (Clearing Fund Loss Allocation Mechanism for Default in OTCF Contracts) in respect of OTCF Contracts.~~

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- c. ~~Where an event of default is deemed to have occurred in OTCF Contracts and there is more than one auction contemplated under Rule 7A.02.1.5.b, the part of the Clearing House First Loss Contribution, Clearing House Intermediate Contribution and of each Clearing Member's Security Deposit and Further Assessment Amount that is apportioned to OTCF Contracts will be further apportioned to each auction. The apportionment will be in such proportion as the Clearing House will determine. The funds so apportioned will be used in the manner set out in Rule 7A.01A.2 (Clearing Fund Loss Allocation Mechanism) and Rule 7A.01B (Clearing Fund Loss Allocation Mechanism for Default in OTCF Contracts in respect of OTCF Contracts).~~

~~Where an event of default is deemed to have occurred in more than one Contract Class, the funds referred to in Rule 7A.01A.2.a, Rule 7A.01A.2.b and Rule 7A.01A.2.c shall be apportioned to each Contract Class in the following manner:~~

- a. ~~the Clearing House First Loss Contribution referred to in Rule 7A.01A.2.a, shall be apportioned to each Contract Class in which there is loss remaining on a pro-rata basis, calculated as the proportion of the risk contribution of such Contract Class for all Clearing Members relative to the aggregate risk contribution of the Contract Classes in which there is loss remaining; and~~
- b. ~~the Security Deposits and Further Assessment Amounts referred to in Rule 7A.01A.2.b and c respectively of a Clearing Member who clears Contracts which are listed for trading on the Exchange or any Relevant Market and Non-Relevant Market Contracts shall be apportioned for each Contract Class on a pro-rata basis, calculated as the proportion of the daily average of the risk margin of such Clearing Member during the preceding three (3) month period for each Contract Class relative to the aggregate daily average of the risk margin of this Clearing Member during the preceding three (3) month period for both Contract Classes.~~

7A.01A.3

Where Clearing Members' Security Deposit or Further Assessment Amounts are used and applied in accordance with Rules 7A.01A.2.b, c, d or e, the limits to one or more Clearing Members' liabilities in respect of such funds as set out in Rule 2.28.2A or Rule 7A.06.6.6 may be reached. As a consequence of the foregoing, the contributions of Clearing Members which remain liable in respect of the relevant source of funds may remain unexhausted, while outstanding losses remain following such use and application of the source of funds. In such instances, the following shall apply:

- a. the remaining contributions of Clearing Members in respect of the relevant source of funds shall be applied to meet the outstanding loss, subject to their limits set out in Rule 2.28.2A and Rule 7A.06.6.6; and
- b. the liability of each Clearing Member for such loss shall be determined as described in Rules 7A.01A.2.b, c, d or e, whichever is applicable, subject always to the operation of Rule 7A.06.6.5.

7A.01A.4

If the Clearing House is unable to ascertain any of its losses in relation to a potential Flat Rate adjustment promptly after an event of default, the Clearing House may estimate its loss as if such estimated loss has already been ascertained, and apply the Clearing Fund accordingly. Upon ascertaining its actual loss suffered in relation to a Flat Rate adjustment, the Clearing House will debit or credit the monies to the Clearing Fund accordingly.

7A.01A.5

For the purpose of Rules 7A.01A.2.b, c, d, and e, an event of default shall fall within either of the following:

PROPOSED RULE

- a. Contracts that are listed for trading on the Exchange or Relevant Market;
- b. Non-Relevant Market Contracts; or
- c. OTCF Contracts

(each a "Contract Class", and collectively, "Contract Classes")

except as provided in Rules 7A.01A.7 and 7A.01A.9, when an event of default is deemed to fall within (i) any combination of Contract Class, or (ii) all of the Contract Classes, as the case may be.

7A.01A.6

An event of default shall be deemed to have fallen within a particular Contract Class if the defaulting Clearing Member had open commitment or outstanding obligations to the Clearing House in that Contract Class at the time of such default.

7A.01A.7

An event of default that is due to the insufficiency of a Clearing Member's Collateral deposited with, provided to or otherwise made available to the Clearing House to fully discharge such Clearing Member's obligations to the Clearing House, or is due to the insolvency of a Clearing Member, shall be deemed for the purpose of Rules 7A.01A.2.b, c, d and e to have occurred in each Contract Class that Clearing Member was clearing or had open commitment in at the time of default.

7A.01A.8

Where an event of default is due to the insufficiency of the Collateral of any other Relevant Market including a Participating Market, available to the Clearing House to fully meet the obligations of such Relevant Market and/or its clearing house to the Clearing House or the insolvency of the other Relevant Market, a default shall be deemed to have occurred in the class of Contracts that are listed for trading on the Exchange or the Relevant Market.

7A.01A.9

An event of default that is due to conversion, theft, breach of trust or embezzlement of a Clearing Member, or any other cause shall be deemed to have occurred in each Contract Class that Clearing Member was clearing or had open commitment in at the time of default.

7A.01A.10

While application of the Clearing Fund shall be mandatory, the detailed implementation of Rule 7A.05 and 7A.06 shall be the responsibility of the Clearing House.

7A.01A.11

Without prejudice to the generality of Chapter 1, the Clearing House shall not be liable to any Clearing Member or any Third Party in respect of any damage, loss, cost or expense of whatsoever nature (whether direct, indirect, special or consequential, including without limitation any loss of business, revenue, goodwill, bargain or profit), suffered or incurred by such Clearing Member or Third Party, arising out of or in connection with the declaration or non-declaration of an event of default by the Clearing House.

7A.01B Use of the Clearing Fund Loss Allocation Mechanism for in-Respect of a Default of a Clearing Member clearing in OTCF Contracts

PROPOSED RULE

7A.01B.1

Where an event of default is deemed to have occurred in OTCF Contracts, any losses that remain after an auction referred to in Rule 7A.02.1.5.b is held will be met by the sources of funds apportioned to OTCF Contracts, in the order of priority set out in Rule 7A.01A.2 (Clearing Fund Loss Allocation Mechanism), subject to Rule 7A.01B.3 (Clearing Fund Loss Allocation Mechanism for Contributions of Members Active in OTCF Contracts).

7A.01B.2

Where an event of default is deemed to have occurred in OTCF Contracts, and more than one auction referred to in Rule 7A.02.1.5.b is held:

- a. any losses that remain after each auction will be met by the sources of funds apportioned to OTCF Contracts and further apportioned to that auction pursuant to Rule 7A.01A.2A.e, in the order of priority set out in Rule 7A.01A.2 (Clearing Fund Loss Allocation Mechanism), subject to Rule 7A.01B.3 (Clearing Fund Loss Allocation Mechanism for Contributions of Members Active in OTCF Contracts);
- b. in the event that the Clearing House First Loss Contribution or the Clearing House Intermediate Contribution apportioned to an auction is not exhausted after losses in that auction are met, the unexhausted funds will be used in the corresponding source in the other auction(s), but only after the funds in that source apportioned to the other auction(s) have been exhausted.

7A.01B.1-7A.01B.3 Clearing Fund Loss Allocation Mechanism for Contributions of Members Active in OTCF Contracts

Subject to Rule 7A.01B.2, where an event of default occurs in OTCF Contracts and losses are incurred, the use and application of Security Deposits prescribed under Rule 7A.06.2.1.B and Further Assessment Amounts attributed to OTCF Contracts to meet losses from each auction referred to in Rule 7A.02.1.5.b shall follow the order of priority listed in this Rule Subject to Rule 7A.01B.4, Clearing Members' Security Deposits and Further Assessment Amounts apportioned to an auction will be used, notwithstanding Rules 7A.01A.2.b and c., to meet the losses remaining after the auction in the following descending order of priority and manner, with each source of fund to be completely Loss Contribution and the Clearing House Intermediate Contribution pursuant to Rule ied:—

- a. Security Deposits of Participating Clearing Members which are apportioned to the auction, (excluding any Clearing Member who is insolvent or deemed to be insolvent) where such Participating Clearing Members did not participate in the this-auction.

Each such Participating Clearing Member's liability shall be liable for the loss remaining will be on a pro-rata basis, calculated as the proportion of its Security Deposit requirement for OTCF Contracts as prescribed under Rule 7A.06.2.1.B relative to the aggregate Security Deposit requirement for OTCF Contracts as prescribed under Rule 7A.06.2.1.B for the category of all Participating Clearing Members that did not participate in the auction referred to in this Rule 7A.01B.1.a.

- b. Further Assessment Amounts of the same category of Participating Clearing Members which are apportioned to the auction, where such Participating Clearing Members did not participate in the auction referred to in Rule 7A.01B.1.a.

Each such Participating Clearing Member's liability shall be liable for the loss remaining will be on a pro-rata basis, calculated as the proportion of its Further Assessment Amount requirement for attributable to OTCF Contracts relative to the aggregate Further Assessment Amount requirement for attributable to OTCF Contracts for the category of all Participating Clearing

PROPOSED RULE

Members that did not participate in the auction referred to in Rule 7A.01B.1.a.

- c. Security Deposits of Participating Clearing Members which are apportioned to the auction, where such Participating Clearing Members submitted bids in the ~~this~~ auction and their bids were below the Reference Price.

Each such Participating Clearing Member's liability shall be liable for the loss remaining will be on a pro-rata basis, calculated as the proportion of the product of:

- i. the distance between such Clearing Member's bid price and the Reference Price; and
- ii. its Security Deposit requirement for OTCF Contracts apportioned to this auction,

relative to the aggregate of the product of Rule 7A.01B.3.c.i and ii for the ~~category of all Participating Clearing Members that submitted bids in the auction below the Reference Price referred to in this Rule 7A.01B.1.c.~~

- d. Further Assessment Amounts of the ~~same category of Participating Clearing Members which are apportioned to the auction, where such Participating Clearing Members submitted bids in the auction and their bids were below the Reference Price~~referred to in Rule 7A.01B.1.c.

Each such Clearing Member's liability shall be liable for the loss remaining will be on a pro-rata basis, calculated as the proportion of the product of:

- i. the distance between such Clearing Member's bid price and the Reference Price; and
- ii. its Further Assessment Amount requirement for OTCF Contracts apportioned to this auction,

relative to the aggregate of the product of Rule 7A.01B.3.d.i and ii for the ~~category of all Participating Clearing Members that submitted bids in the auction below the Reference Price~~referred to in this Rule 7A.01B.1.d.

- e. Security Deposits of Clearing Members which are apportioned to the auction and which are not available for use pursuant to Rule 7A.01B.3.a or c, or which have not been exhausted pursuant to Rule 7A.01B.3.c.:

- i. that have not been fully applied as prescribed under Rule 7A.01B.1.a or c., and which shall be used and applied to meet loss in accordance with Rule 7A.01B.2.c; or
- ii. that have not been used and applied under Rule 7A.01B.1.a or c and Rule 7A.01B.2.b.

Each Participating Clearing Member's liability shall be liable for the loss remaining will be on a pro-rata basis, calculated as the proportion of its Security Deposit requirement for OTCF Contracts available for use relative to the aggregate Security Deposit requirement for OTCF Contracts available for use for the ~~category of all Clearing Members that have Security Deposits available for use under referred to in this Rule 7A.01B.13.e~~ for the auction.

- f. Further Assessment Amounts of Clearing Members which are apportioned to the auction and which are not available for use pursuant to Rule 7A.01B.13.b or d, or which have not been exhausted pursuant to Rule 7A.01B.13.d

- i. that have not been fully applied as prescribed under Rule 7A.01B.1.b or d, and which can be used and applied to meet loss in accordance with Rule 7A.01B.2.c; or
- ii. that had not been used and applied under Rule 7A.01B.1.b or d and Rule 7A.01B.2.b.

Each Participating Clearing Member's liability shall be liable for the loss remaining will be on a

PROPOSED RULE

~~pro-rata basis, calculated as the proportion of its Further Assessment Amount requirement for OTCF Contracts available for use relative to the aggregate Further Assessment Amount requirement for OTCF Contracts available for use of all Clearing Members that have Further Assessment Amounts available for use under for the category of Clearing Members referred to in this Rule 7A.01B.13.f for the auction.~~

7A.01B.42

~~Notwithstanding the order of priority set out in Rule 7A.01B.3, the following applies wWhere there is more than one auction contemplated under Rule 7A.02.1.5.b for an event of default in OTCF Contracts, the Security Deposits and Further Assessment Amounts referred to in Rule 7A.01B.1 shall be apportioned to each auction and used in the following manner: If funds that are apportioned to an auction ("first auction") are not exhausted after application pursuant to Rule 7A.01B.3, the unexhausted funds will be used to meet the losses that remain in the other auction(s) ("other auction(s)") in accordance with the following principles:~~

~~a. the Security Deposit as prescribed under Rule 7A.06.2.1.B and Further Assessment Amount attributable to OTCF Contracts for each Clearing Member shall be apportioned in such manner prescribed by the Clearing House; and~~

~~a.b. following the use and application of funds to meet losses in respect of an auction ("the first auction") pursuant to any of Rules 7A.01B.1.a, b, c or d, if there is an unexhausted Security Deposit or Further Assessment Amount for a Participating Clearing Member in any given source of funds, such unexhausted Security Deposit or Further Assessment Amount for this Participating Clearing Member shall be used to meet any remaining loss in another auction ("the second auction") if this If a Participating Clearing Member is liable to meet the losses in the same order of priority as in the first auction and the other auctions, its unexhausted funds from the first auction will be used in the corresponding source in the other auction(s), but. The unexhausted Security Deposit or Further Assessment Amount for this Participating Clearing Member shall be used only after the Security Deposit or Further Assessment Amount which have been funds in that source apportioned for to the other second auction(s) and to be used in the same order of priority have been exhausted. This Participating Clearing Member shall be liable for the loss remaining on a pro-rata basis, calculated as the proportion of its Security Deposit requirement available for use relative to the aggregate Security Deposit requirement available for use for the category of Participating Clearing Members referred to in this Rule 7A.01B.2.b; and~~

~~b. If a Clearing Member is liable to meet losses in different orders of priority in the first auction and the other auctions, its unexhausted Security Deposits from the first auction will be used in the source described in Rule 7A.01B.3.e in the other auction(s) and its unexhausted Further Assessment Amounts from the first auction will be used in the source described in Rule 7A.01B.3.f in the other auction(s), but only after the funds in those sources apportioned to the other auction(s) have been exhausted.~~

~~c. following the use and application of funds to meet losses pursuant to any of Rule 7A.01B.1.e or f and there is an unexhausted Security Deposit or Further Assessment Amount for a Clearing Member in that source of funds, such remaining Security Deposit or Further Assessment Amount for this Clearing Member shall be used to meet any remaining losses incurred in another auction.~~

7A.01B.3

~~In the event that the Security Deposits and Further Assessment Amounts attributable to OTCF Contracts are not fully applied, such Security Deposits and Further Assessment Amounts shall be used to meet losses arising in another Contract Class in which the event of default occurred in the manner prescribed under 7A.01A.2.d and 7A.01A.2.e respectively.~~

PROPOSED RULE

7A.02 Open Positions of Defaulted /Suspended Clearing Members

7A.02.1

When a Clearing Member having open positions has defaulted upon its obligation to the Clearing House, or has been suspended, the Clearing House may:—

....

7A.02.1.5 Where the open positions relate to OTCF Contracts, take one or more of the following actions:

- a. hedge or otherwise liquidate such open positions in OTCF Contracts;
- b. conduct an auction of such open positions in OTCF Contracts, whether hedged or otherwise, and a Participating Clearing Member shall participate in such auction;
- c. ~~[This rule is deleted].~~ ~~c. where it is in the Clearing House's good faith opinion that (b) is impossible or impracticable, assign and transfer any residual OTCF Contracts, whether hedged or otherwise, to one or more non-defaulting Clearing Member(s) provided that:~~
 - ~~i. the residual OTCF Contracts, whether hedged or otherwise, assigned and transferred to the non-defaulting Clearing Member shall not be of such amount as to increase its risk margin requirement by more than 100% of its average end-of-day risk margin requirement for OTCF Contracts in the 30 days preceding, and excluding, the day on which the event of default occurs, as declared by the Clearing House; and~~
 - ~~ii. the non-defaulting Clearing Member has cleared such product group in such currency in the last three months.~~
- c1. where outstanding losses remain following the award of open positions pursuant to the auction as described in (b), attribute such outstanding losses in the manner as described in Rules 7A.01A.2 (Clearing Fund Loss Allocation Mechanism), 7A.01A.2A (Apportionment of Clearing Fund Contributions across Contract Classes and across OTCF Auctions) and 7A.01B (Clearing Fund Loss Allocation Mechanism for Default in OTCF Contracts).

provided that a Clearing Member participating in any activity set out in (b) and (c1) above may authorise a qualified third party to act in its place.

...

7A.06.2 Security Deposit

7A.06.2.1

Upon being granted eligibility by the Clearing House to clear a relevant Contract Class, each Clearing Member wishing to clear that Contract Class shall deposit with the Clearing House as security for its obligations to the Clearing House ("Security Deposit") the following amounts:

- A. for clearing Contracts which are listed for trading on the Exchange or any Relevant Market and/or Non-Relevant Market Contracts, the higher of:
 - a. S\$1,000,000 or such lower amount as prescribed by the Clearing House time to time in its discretion; or
 - b. 3.0%, or such lower amount as prescribed by the Clearing House from time to time in its discretion, of the daily average of the risk margin of such Clearing Member during the

PROPOSED RULE

preceding three month period;

- B. for clearing OTCF Contracts, the higher of:
- a. US\$5 million; or
 - b. 36.0%, or such lower amount as prescribed by the Clearing House from time to time in its discretion, the daily average of the risk margin of such Clearing Member for such OTCF Contracts during the preceding three month period; or
- C. for clearing (i) Contracts which are listed for trading on the Exchange or any Relevant Market and/or Non-Relevant Market Contracts, and (ii) OTCF Contracts, the sum of the amounts set out in Rule 7A.06.2.1.A ~~AND~~ and 7A.06.2.1.B.

7A.06.4 Aggregate Clearing House Contributions

7A.06.4.1

Subject to Rule 7A.06.4.2, the total contribution by the Clearing House to the Clearing Fund ("Aggregate Clearing House Contribution") shall be at least an amount equivalent to 25% of the Clearing Ffund size, and allocated which shall be applied to the Clearing Fund as follows the higher of:

- a. ~~SS\$136,000,000, which shall be applied to the Clearing House Contribution as referred to in Rule 7A.01A.2.a; or [This rule has been deleted]~~
- a1. an amount of not less than 15% of the Clearing Ffund size, which shall form be applied to the Clearing House First Loss Contribution as referred to in Rule 7A.01A.2.a;
- b. ~~the Minimum Aggregate Clearing House Contribution [This rule has been deleted]~~
- b1. an amount of not less than 10% of the Clearing Ffund size, which shall form be applied to the Clearing House Intermediate Contribution as referred to in Rule 7A.01A.2.c1; and
- c. any remaining amount any other amount not otherwise applied to the Clearing House Contributions referred to in Rules 7A.06.4.1.a1 and b1, and which shall form be applied to the any other contributions to the Clearing Fund as referred to in Rule 7A.01A.2.f.

7A.06.4.2

In the event that any part of the Aggregate Clearing House Contribution is applied in accordance with Rule 7A.01A, such that it falls below the Minimum Aggregate Clearing House Contribution, the Clearing House shall restore the Aggregate Clearing House Contribution up to the Minimum Aggregate Clearing House Contribution. The Clearing House shall thereafter maintain Aggregate Clearing House Contribution equivalent to the Minimum Aggregate Clearing House Contribution.

7A.06.4.3

Aggregate Clearing House Contribution shall comprise the following, where such funds are available:

- a. the capital of the Clearing House;
- b. the net proceeds of such financial guarantee and/or default insurance; and
- c. any other financial instrument.

7A.06.6 Use of the Clearing Fund in Respect of Events of Default Occurring Within a Multiple

PROPOSED RULE

Default Period

7A.06.6.1

A Multiple Default Period shall be a fixed period of 90 days commencing on the day an event of default occurs as declared by the Clearing House, where such event of default results in the use and application of the Clearing Fund.

7A.06.6.2

An event of default occurring within a Multiple Default Period shall not trigger the commencement of a new Multiple Default Period.

7A.06.6.3

The Clearing House shall notify Clearing Members of the commencement date of any Multiple Default Period.

7A.06.6.4

The Clearing Fund in the order of priority listed in Rule 7A.01A.2 shall be used and applied in the following manner in respect of events of default occurring within a Multiple Default Period:

a. The Clearing Fund shall only be drawn upon after the monies of the defaulted Clearing Member with the Clearing House have been exhausted in accordance with this Rules;

b. Subject to Rule 7A.06.6.4.b1, The Clearing Fund shall be utilised in respect of each event of default occurring within the Multiple Default Period in the order of priority listed in Rule 7A.01A.2 irrespective of the number of draw downs on the Clearing Fund;

~~b1. Where an event of default occurs in one or more Contract Classes for which all preceding events of defaults is not deemed to be involved in, the Clearing House Intermediate Contribution shall be used and applied as the source of funds provided for in Rule 7A.01A.2.a and the Clearing House First Loss Contribution shall be used and applied as the source of funds provided for in Rule 7A.01A.2.c.i;~~

c. Subject to the use and application of funds in the manner provided for in Rule 7A.06.6.4.b and b1, In the event that a utilisation of the Clearing Fund draws on only part of the funds available at any source under Rule 7A.01A.2, the next utilisation of the Clearing Fund in connection with the next an event of default occurring within the same Multiple Default Period, shall:

i. subject to Rule 7A.06.6.4.c.ii, draw first from the remaining funds available at the unexhausted source before drawing from the next source, taking into account, at all times, the relevant Contract Class;

ii. where the next event of default occurs in one or more Contract Classes in which all preceding events of defaults in that same Multiple Default Period were not involved, the draw down will revert to the start of the sequence of priority listed in Rule 7A.01A.2 (Clearing Fund Loss Allocation Mechanism) and:

(1) the source of funds provided for in Rule 7A.01A.2.a will consist of any remaining amount in the Clearing House First Contribution, or any remaining amount in the Clearing House Intermediate Contribution, whichever amount is the higher; and

(2) the source of funds provided for in Rule 7A.01A.2.c1 will consist of any remaining contributions to the Clearing Fund as referred to in Rule 7A.01A.2.f, after which, either any

PROPOSED RULE

~~remaining resources in the Clearing House Intermediate Contribution or any remaining resources in the Clearing House First Contribution, whichever has not already been used as the source of fund provided for in Rule 7A.01A.2.a pursuant to (1) above.~~

~~(1) any remaining resources in the Clearing House Intermediate Contribution will be used as the source of funds provided for in Rule 7A.01A.2.a; and~~

~~(2) any remaining contributions to the Clearing Fund as referred to in Rule 7A.01A.2.f, after which, any remaining resources in the Clearing House First Contribution, will be used as the source of funds provided for in Rule 7A.01A.2.e1.~~

d. Once all the sources of the Clearing Fund have been exhausted, any current or subsequent utilisation of the Clearing Fund in connection with an event of default occurring within the same Multiple Default Period shall revert to the start of the sequence of the priority listed in Rule 7A.01A.2 (Clearing Fund Loss Allocation Mechanism) in respect of the replenished Clearing Fund; and

e. Upon the commencement of a new Multiple Default Period, the first draw down on the Clearing Fund in connection with an event of default occurring in the new Multiple Default Period shall commence from the first source of funds listed in Rule 7A.01A.2, subject to Rule 7A.06.8.2, and the subsequent sources of funds shall follow accordingly. This applies regardless of the source from which the last payment out of the Clearing Fund was made in connection with an event of default which occurred in any previous Multiple Default Period.

7A.06.6.5

A resigning Clearing Member whose Security Deposit and Further Assessment Amount have been applied fully as specified in Rule 2.28.2A shall thereafter:

a. not be taken into account for the calculation of the aggregate Security Deposit requirement referred to in Rules 7A.01A.2.b and d.; and

b. not be taken into account for the calculation of the aggregate Further Assessment Amount referred to in Rules 7A.01A.2.c and e.

7A.06.6.6

Nothing in this Rule 7A.06.6 shall be construed as permitting the Clearing House to apply more than the Clearing Member's Security Deposit and Further Assessment Amount as at the time of the event of default, to meet losses arising from or in connection with any individual event of default.

CHAPTER 9: DEFINITIONS AND INTERPRETATION

9.01 Definitions

9.01.1

Unless the context otherwise requires, the following words and expressions shall be defined as follows:—

"Clearing House Contribution"	shall have the meaning ascribed to it in Rule 7A.06.4.1
"Clearing House First Loss Contribution"	shall is that part of the Aggregate Clearing House Contribution which is allocated as such pursuant to have the meaning ascribed to it in Rule 7A 06 4 1 a1

PROPOSED RULE

<p>“Minimum Aggregate Clearing House Contribution”</p>	<p>shall be is an amount equivalent to 25% of the Cclearing Ffund size, which shall be applied to the Clearing Fund as follows:</p> <p>(i) an amount of not less than 15% of the clearing fund size shall be applied to the Clearing House Contribution as referred to in Rule 7A.01A.2.a.; and</p> <p>(ii) the balance of the Minimum Aggregate Clearing House Contributions shall be applied to any or both of the sources referred to in Rules 7A.01A.2.c1 and 7A.01A.2.f.</p>
<p>“Clearing House Intermediate Contribution”</p>	<p>shall is that part of the Aggregate Clearing House Contribution which is allocated as such pursuant to have the meaning ascribed to it in Rule 7A.06.4.1.b1</p>
<p>“Participating Clearing Member”</p>	<p>in relation to an auction referred to in Rule 7A.02.1.5.b shall means a Clearing Member who has cleared or had an open commitment in such the product group of OTCF Contracts being auctioned during the three (3) month period preceding and ending on the day of an the relevant event of default</p>
<p>“Reference Price”</p>	<p>in relation to an auction referred to in Rule 7A.02.1.5.b will shall be determined by the Clearing House based on the bids submitted by Participating Clearing Members in that an auction referred to in Rule 7A.02.1.5.b</p>
<p>“Relevant Periods”</p>	<p>in relation to an event of default, refers to a period of six (6) months preceding the day the event of default was declared by the Clearing Houses shall have the meaning ascribed to it in Rule 7A.01A.2.b.ii.</p>

Practice Note 7A.02.1.5.c.ii OTCF Product Group By Currency

<u>7 August 2012</u>	Clearing Rules <u>7A.02.1.5.c.ii</u>	Please contact: <u>Risk Management</u> E-Mail Address : <u>rmd@sgx.com</u>
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1. Introduction

- 1.1. ~~Rule 7A.02.1.5.c.ii states that the Clearing House may assign residual OTCF positions of a suspended or defaulted Clearing Member to a non-defaulting Clearing Member which has cleared such product group in such currency in the last three months. The residual OTCF positions may be assigned if it is in the Clearing House's good faith opinion that an auction of such positions is impossible or impracticable.~~
- 1.2. ~~This Practice Note explains what is meant by a product group and sets out the OTCF product group by currency referred to in Rule 7A.02.1.5.c.ii, which are cleared through the Clearing House.~~

2. Product Group By Currency

- 2.1. ~~A product group means a distinct group of OTCF Contracts in a specified currency for which the Clearing House offers clearing services.~~
- 2.2. ~~The Product Groups by currency cleared through the Clearing House are as follows:~~

<u>Product Group</u>	<u>Currency</u>
Interest rate swaps	(a) Singapore dollars (b) US dollars
Non-deliverable foreign exchange forwards	(a) Chinese Yuan (b) Indian Rupee (c) Indonesian Rupiah (d) Korean Won (e) Malaysian Ringgit (f) New Taiwan Dollar (g) Philippine Peso

- 2.3. ~~As an example, a suspended or defaulted Clearing Member's residual OTCF positions in Singapore-dollar interest rate swaps may only be assigned to a non-defaulting Clearing Member which has cleared Singapore-dollar interest rate swaps in the last three months. The residual OTCF positions may not be assigned to a non-defaulting Clearing Member which has cleared US dollar interest rate swaps, but not Singapore dollar interest rate swaps in the last three months.~~

New Practice Note 9.01.1 – OTCF Product Groups

<u>Issue Date</u>	<u>Cross Reference</u>	<u>Enquiries</u>
[•]	<u>Clearing Rule 9.01.1</u>	Please contact: <u>Risk Management</u> E-Mail Address : rmd@sgx.com

1. Introduction

- 1.1. Rule 7A.02.1.5.b states that, when a Clearing Member having open positions has defaulted upon its obligation to the Clearing House, or has been suspended, the Clearing House may conduct an auction of such open positions in OTCF Contracts, whether hedged or otherwise, and a Participating Clearing Member shall participate in such auction.
- 1.2. Rule 9.01.1 defines Participating Clearing Member as a Clearing Member who has cleared or had an open commitment in such product group of OTCF Contracts being auctioned during the three (3) month period preceding and ending on the day of the relevant event of default.
- 1.3. This Practice Note explains what is meant by a product group and sets out the OTCF product groups which are cleared through the Clearing House.

2. Product Group By Currency

- 2.1. A product group means a distinct group of OTCF Contracts in a specified currency for which the Clearing House offers clearing services.
- 2.2. The different product groups cleared by the Clearing House are as follows:
 - Singapore Dollar interest rate swap
 - US Dollar interest rate swap
 - [Thai Baht non-deliverable interest rate swap]¹
 - [Malaysian Ringgit non-deliverable interest rate swap]²
 - Chinese Yuan non-deliverable foreign exchange forward
 - Indian Rupee non-deliverable foreign exchange forward
 - Indonesian Rupiah non-deliverable foreign exchange forward
 - Korean Won non-deliverable foreign exchange forward
 - Malaysian Ringgit non-deliverable foreign exchange forward
 - New Taiwan Dollar non-deliverable foreign exchange forward
 - Philippine Peso non-deliverable foreign exchange forward

¹ Subject to MAS approval

² Subject to MAS approval

New Practice Note 7A.01B – Illustrations of the Application of Clearing Member’s Security Deposits and Further Assessment Amounts in respect of OTCF Contracts

Issue Date	Cross Reference	Enquiries
[•]	Clearing Rules 7A.01B.3.c, Rule 7A.01B.3.d and Rule 7A.01B.4.a	Please contact: Risk Management E-Mail Address : rmd@sgx.com

1. Introduction

1.1. This Practice Note illustrates the use of Clearing Member’s Security Deposits and Further Assessment Amounts for OTCF Contracts as set out in Rule 7A.01B.3.c, Rule 7A.01B.3.d and Rule 7A.01B.4.

2. Allocation of loss between Participating Clearing Members which are liable for loss remaining in an auction under Rule 7A.01B.3.c and Rule 7A.01B.3.d

2.1 When an event of default has occurred in OTCF Contracts and losses remain after the auction(s) referred to in Rule 7A.02.1.5.b, the Security Deposits and Further Assessment Amounts that are apportioned to OTCF Contracts, of a Clearing Member that is active in OTCF Contracts (as described in Rule 7A.01A.2.b), will be used to meet those losses.¹

2.2 Rule 7A.01B.3 sets out the order of priority in which such funds of such a Clearing Member will be used to meet the losses that remain after an auction. There are three general levels in that order of priority.

i. The first level is described in Rule 7A.01B.3.a (Security Deposits) and Rule 7A.01B.3.b (Further Assessment Amounts). All Clearing Members that are obliged to participate in the auction (i.e., Participating Clearing Members) but that did not submit a bid will fall within this first level.

ii. The second level is described in Rule 7A.01B.3.c (Security Deposits) and Rule 7A.01B.3.d (Further Assessment Amounts). All Clearing Members that are obliged to participate in the auction (i.e., Participating Clearing Members) but that bid below the Reference Price² will fall within this second level.

iii. The third level is described in Rule 7A.01B.3.e (Security Deposits) and Rule 7A.01B.3.f (Further Assessment Amounts). All Clearing Members with Security Deposits and Further Assessment Amounts which are apportioned to the auction and which are not available for use pursuant to Rule 7A.01B.3.a, b, c and d, or which have not been exhausted pursuant to Rule 7A.01B.3.c and d, will fall within this third level.

2.3 Each Clearing Member that is liable in that second level will be liable for the loss remaining on a pro-rata basis, calculated as the proportion of the product of:

i. the distance between that Clearing Member’s bid price and the Reference Price; and

ii. that Clearing Member’s Security Deposits/Further Assessment Amount requirement apportioned to OTCF Contracts.

¹ The Clearing Member’s funds will be used only if losses still remaining after the defaulting Clearing Member’s Clearing Fund contributions and the relevant portion of the Clearing House First Loss Contribution are used.

² Unless otherwise notified by the Clearing House, the Reference Price will be the median bid (if there are at least 5 bids submitted by Participating Clearing Members) or the winning bid (if there are few than 5 bids submitted by Participating Clearing Members).

relative to the aggregate of the product of i and ii for all Clearing Members that is liable in the same second level.

- 2.4 By way of illustration, the liability of Participating Clearing Members, A and B, for the loss remaining in an auction will be in the following proportions, assuming the following bidding behaviour:

	<u>Distance of bid from Reference Price (A)</u>	<u>Security Deposit/Further Assessment Amount requirement apportioned to OTCF Contacts (B)</u>	<u>A x B</u>	<u>Proportion</u>
Participating Clearing Member A	S\$48 million	S\$10 million	$48 \times 10 = 480$	$480 / (480 + 240) = 2/3$
Participating Clearing Member B	S\$12 million	S\$20 million	$12 \times 20 = 240$	$240 / (480 + 240) = 1/3$

3. Use of unexhausted Security Deposit or Further Assessment Amount in another Auction

- 3.1. Rule 7A.01B.4.a states that if a Clearing Member is liable to meet losses in the same order of priority in two or more auctions held in respect of an event of default, its unexhausted funds from the first auction will be used in the corresponding source in the other auction(s), but only after the funds in that source apportioned to the other auction(s) have been exhausted.
- 3.2. By way of illustration, Participating Clearing Member A ("PCM A") and Participating Clearing Member B ("PCM B") are required to bid in two auctions held in respect of a default in OTCF contracts. The OTCF contribution of PCM A and PCM B that is apportioned to each auction ("auction contribution") is \$3m respectively. The bidding behaviour of PCM A and PCM B and the consequent priority of usage of their auction contribution are summarised below: ~~there are three auctions for each of a defaulting Clearing Member's SGD IRS portfolio, KRW NDF portfolio and INR NDF portfolio, and Participating Clearing Members, A and B, had the following bidding behaviour:~~

	<u>KRW NDF auction</u> <u>Losses after auction = \$2m</u>	<u>INR NDF auction</u> <u>Losses after auction = \$20m</u>
PCM A - <u>Bidding behaviour:</u> - <u>Priority of usage of auction contribution:</u>	Did not bid <u>First level</u>	Did not bid <u>First level</u>
PCM B - <u>Bidding behaviour:</u> - <u>Priority of usage of auction contribution:</u>	Bid below Ref. Price <u>Second level</u>	Bid below Ref. Price <u>Second level</u>

<u>Bidding behaviour</u>	<u>SGD IRS portfolio</u>	<u>KRW NDF portfolio</u>	<u>INR NDF portfolio</u>
Did not bid		Participating Clearing Member A	Participating Clearing Member A
Bid below the Reference Price	Participating Clearing Member B	Participating Clearing Member B	Participating Clearing Member B

<u>Bidding behaviour</u>	<u>SGD IRS portfolio</u>	<u>KRW NDF portfolio</u>	<u>INR NDF portfolio</u>

In such a case:

- i. PCM A's KRW NDF auction contribution (\$3m) will be used to fully meet all the losses in the KRW NDF auction (\$2m), with \$1m remaining. That \$1m will be used to meet the losses in the INR NDF auction. As PCM A lies in the first level in both auctions, the \$1m will be used in the INR NDF auction, like in the KRW NDF auction, at the first level. However, the \$1m will be used only after the INR NDF auction contributions of all Clearing Members that fall within the first level in the INR NDF auction (which would include PCM A) have been exhausted.
- ii. PCM B's KRW NDF auction contribution will not be used because PCM A's auction contributions are more than sufficient to meet the losses in that auction. PCM B's KRW NDF auction contributions (\$3m) will be used to meet the losses in the INR NDF auction. As PCM B lies in the second level in both auctions, the \$3m will be used in the INR NDF auction, like in the KRW NDF auction, at the second level. However, the \$3m will be used only after the INR NDF auction contributions of all Clearing Members that fall within the second level in the INR NDF auction (which would include PCM B) have been exhausted.

In such a case:

- i. unexhausted OTCF contributions of Participating Clearing Member A apportioned to KRW NDF will be used to meet remaining losses in the INR NDF auction, after the OTCF contributions apportioned to INR NDF of Participating Clearing Member A, and of any other Participating Clearing Members that did not bid in the INR NDF auction, have been applied and exhausted; and
- ii. unexhausted OTCF contributions of Participating Clearing Member B apportioned to SGD IRS will be used to meet any remaining losses in the KRW NDF auction and the INR NDF portfolio, after the OTCF contributions apportioned to KRW NDF and INR NDF of Participating Clearing Member B, and any other Participating Clearing Members that bid below the Reference Price in the KRW NDF auction and the INR NDF auction, have been applied and exhausted.

In summary, funds will be used to meet the losses in each auction in the following descending order of priority:

	<u>KRW NDF auction Losses after auction = \$2m</u>	<u>INR NDF auction Losses after auction = \$20m</u>
<u>First level</u>	<u>Part of PCM A's auction contribution (\$2m)</u>	<u>(1) All of PCM A's auction contribution (\$3m); then (2) PCM A's unexhausted KRW NDF auction contribution (\$1m)</u>
<u>Second level</u>	=	<u>(1) All of PCM B's auction contribution (\$3m); then (2) PCM B's unexhausted KRW NDF auction contribution (\$3m)</u>

New Practice Note 7A.01A.2A – Apportionment of Clearing Fund Contributions across Contract Classes and across OTCF auctions

Issue Date	Cross Reference	Enquiries
[•]	<u>Clearing Rule 7A.01A.2A</u>	Please contact: Risk Management E-Mail Address : rmd@sgx.com

1. Introduction

1.1. This Practice Note describes:

- i. the apportionment of the Clearing House First Loss Contribution and the Clearing House Intermediate Contribution pursuant to Rule 7A.01A.2A.a across Contract Classes where an event of default is deemed to have occurred in more than one Contract Class;
- ii. the apportionment of the Security Deposits and Further Assessment Amounts of each Clearing Member pursuant to Rule 7A.01A.2A.b across Contract Classes where an event of default is deemed to have occurred; and
- iii. the further apportionment of the part of the Clearing House First Loss Contribution, Clearing House Intermediate Contribution and Security Deposits and Further Assessment Amounts of each Clearing Member that is apportioned to OTCF Contracts across auctions, where an event of default is deemed to have occurred in OTCF Contracts and there is more than one auction.

1.2. In this Practice Note, contracts that are listed for trading on the Exchange or Relevant Market will be referred to as “ETD Contracts” and Non-relevant Market Contracts will be referred to as “NMC Contracts”.

2. Apportionment of Clearing House First Loss Contribution and the Clearing House Intermediate Contribution across Contract Classes

2.1. Where there is a default in more than one Contract Class, the Clearing House intends to apportion the Clearing House First Loss Contribution and the Clearing House Intermediate Contribution across Contract Classes in the following manner:

- i. first, the Clearing House First Loss Contribution or the Clearing House Intermediate Contribution will be apportioned between (a) OTCF Contracts and (b) ETD and NMC Contracts collectively, in the proportion of Clearing Members’ aggregate Security Deposits and Further Assessment Amounts for (a) OTCF Contracts, relative to those for (b) ETD and NMC Contracts collectively;
- ii. second, the part of the Clearing House First Loss Contribution or the Clearing House Intermediate Contribution that is apportioned to ETD and NMC Contracts collectively will be further apportioned between (a) ETD Contracts and (b) NMC Contracts, based on the relative risk¹ of the defaulted Clearing Member in respect of ETD Contracts and NMC Contracts.

3. Apportionment of Security Deposits and Further Assessment Amounts of each Clearing Member across Contract Classes

¹ SGX intends to use relative risk margins as a measurement of relative risk, but may use any other measurement as appropriate.

3.1. Where there is a default, the Clearing House intends to apportion the Security Deposits and Further Assessment Amounts of each Clearing Member across Contract Classes in the following manner:

- i. first, the Security Deposits and Further Assessment Amounts deposited in respect of OTCF Contracts will be apportioned to OTCF Contracts, and the Security Deposits and Further Assessment Amounts deposited in respect of ETD and/or NMC Contracts collectively will be apportioned to ETD and/or NMC Contracts collectively;
- ii. second, the Security Deposits and Further Assessment Amounts deposited for ETD and/or NMC Contracts collectively will be further apportioned between ETD Contracts and NMC Contracts based on the relative risk² of the defaulted Clearing Member in respect of ETD Contracts and NMC Contracts. If, however, a non-defaulting Clearing Member has not been active³ in one of the ETD and NMC Contract Classes, all of that Clearing Member's Security Deposits and Further Assessment Amounts deposited for ETD Contracts and/or NMC Contracts collectively will be apportioned only to the Contract Class in which it has been active.

4. Further apportionment of Clearing House First Loss Contribution, Clearing House Intermediate Contribution, and Security Deposits and Further Assessment Amounts of each Clearing Member that is apportioned to OTCF Contracts across auctions

4.1. Where there is a default in OTCF Contracts, a separate auction will be held for each product group of OTCF Contracts. In that event, the Clearing House intends to apportion, across auctions, the part of the Clearing House First Loss Contribution, Clearing House Intermediate Contribution and Security Deposits and Further Assessment Amounts of each Clearing Member that is apportioned to OTCF Contracts. Such apportionment will be based on the relative risk⁴ of the defaulted Clearing Member in respect of each product group.

² SGX intends to use relative risk margins as a measurement of relative risk, but may use any other measurement as appropriate.

³ A Clearing Member is active in a Contract Class if it has cleared Contracts belonging to that Contract Class or had an open commitment in Contracts belonging to that Contract Class during the Relevant Period.

⁴ SGX intends to use relative risk margins as a measurement of relative risk, but may use any other measurement as appropriate.

Confidential Appendix 3

Summary of Public Consultation Feedback and SGX-DC's Responses



26 May 2014

Assistant Secretary of the Commission for
FOI, Privacy and Sunshine Acts Compliance
CFTC FOIA Compliance Office
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581
FOIAsubmissions@cftc.gov

Dear Sir / Madam,

VIA EMAIL

RE: FOIA Confidential Treatment Request for SGX-DC

Singapore Exchange Derivatives Clearing Limited (the "**Requesting Party**") hereby respectfully requests confidential treatment in accordance with Commodity Futures Trading Commission ("**Commission**") Regulation 145.9 of a Confidential Appendix 3 to a Commission Regulation 40.6 submission that it has filed with the Commission on 26 May 2014 in relation to certain amendments to its Clearing Rules (the "**Confidential Information**").

This request for confidential treatment is made pursuant to Commission Regulation 145.9(d)(1) because the Requesting Party believes that the Confidential Information is covered by one or more exemptions in the Freedom of Information Act (the "**FOIA**") (5 U.S.C. §552(b)) and is therefore exempt from the Commission's public disclosure requirements. In particular, 5 U.S.C. §552(b)(4) and Regulation 145.9(d)(1)(ii) exempt disclosure that would reveal the Requesting Party's trade secrets or confidential commercial or financial information. Requesting Party believes that the Confidential Information contains confidential commercial and financial information as well as proprietary information regarding business procedures and systems that should be protected from public disclosure. Confidential treatment is requested for a period of five years.

Singapore Exchange Derivatives Clearing Limited

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

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This request is not to be construed as a waiver of any other protection from disclosure or confidential treatment accorded by law and the Requesting Party will rely on and invoke any such confidentiality protection. The Requesting Party requests that the Commission advise the undersigned, pursuant to Commission Regulation 145.9(e)(1), in advance of any disclosure of the Confidential Information pursuant to the FOIA, so that this request for confidential treatment may be substantiated. The undersigned should be contacted if you require substantiation of this request for confidential treatment.

If you should have any questions or comments or require further information, please do not hesitate to contact the undersigned at +65 6236 5104 or eli.cohen@sgx.com.

Yours sincerely,



Eli Cohen
Head, Legal (Regulation)