

26 May 2014

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,

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

- (a) SGX TSI CFR China Premium JM25 Coking Coal Swap;
- (b) SGX TSI FOB Australia Premium Coking Coal Swap;
- (c) SGX API 4 FOB Richards Bay Coal Swap; and
- (d) SGX API 5 FOB Newcastle Coal Swap.

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 July 2014.

Singapore Exchange Derivatives Clearing Limited

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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 SGX API 4 FOB Richards Bay Coal Swap and SGX API 5 FOB Newcastle Coal Swap

Thermal coal is a naturally occurring mineral substance used in power generation and cement production. It is mainly exported out of Indonesia, Australia and South Africa into key consuming countries led by China and India. Among them, Asian countries represent more than two-thirds of the sea-borne thermal coal trade.

SGX presently lists thermal coal derivatives on pricing benchmarks based on the largest exporting and importing countries namely – Indonesia (based on IHS Indonesian Sub-Bituminous Coal index) and China (based on API 8 CFR South China Coal index), respectively. With a secular shift in global seaborne coal supplies which hinges heavily on Asian demand, the need for wider array of risk management tools based on multiple origins on a single derivatives platform is compelling.

In meeting this customer need, SGX is now expanding its product suite based on Argus/McCloskey's API 4 (FOB Richards Bay, South African Coal) and API 5 (FOB Newcastle, Australian Coal) indices.

4.2 SGX TSI CFR China Premium JM25 Coking Coal Swap and SGX TSI FOB Australia Premium Coking Coal Swap

China, India and ASEAN represent the largest global market for steel production and consumption. Among the key raw materials in making steel, coking coal is second most important after iron ore. Coking coal represents approximately one-third of the variable cost in steel production.

The new coking coal contracts allows steel producers, coking coal miners and physical traders to hedge and manage their price risk. Listed on SGX-DC's commodity derivatives platform, these new coking coal derivatives complement SGX-DC's flagship iron ore derivatives, hot-rolled coil steel and dry-bulk freight derivatives to facilitate comprehensive end-to-end risk management along the entire steel production value chain.

SGX coking coal products provides a significant opportunity to all regional market participants. This is as nearly 60% of exported material originates from Australia to key Asian consumers located in China, Japan, India and Korea.

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

- 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.

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 collateral¹.
- 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.

¹ Please see <http://www.imf.org/external/pubs/ft/scr/2013/cr13345.pdf> for a detailed assessment of SGX-DC's observance of the PFMI by the International Monetary Fund under the Financial Sector Assessment Programme.

6 Participants Eligibility Standards

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

7 Pricing Sources, Models and Procedures

- 7.1 The daily settlement prices of the Contracts will be determined through the average of daily forward assessments provided by panellists, include independent price vendors and brokers.
- 7.2 The final settlement prices ("FSP") for the Contracts will be calculated in the following manner:

Contract Name	FSP
SGX TSI CFR China Premium JM25 Coking Coal Swap	The FSP will be based on the arithmetic average of all TSI Premium JM25 coking coal (Chinese Imports, CFR Jingtang port) index prices in the expiring month.
SGX TSI FOB Australia Premium Coking Coal Swap	The FSP will be based on the arithmetic average of all TSI Premium coking coal (Australian Exports, FOB East Coast Australian port) index in the expiring month.
SGX API 4 FOB Richards Bay Coal Swap	The FSP will be based on the arithmetic average of all API 4 Index published in the Argus/McCloskey's Coal Price Index report by the publishers in the expiring month.
SGX API 5 FOB Newcastle Coal Swap	The FSP will be based on the arithmetic average of all API 5 Index published in the Argus/McCloskey's Coal Price Index report by the publishers in the expiring month.

- 7.3 The mode of final settlement will be in cash.

8 Risk Management Procedures

- 8.1 SGX-DC's risk management policies and procedures are well-established through its experience in clearing OTC derivatives products.

- 8.2 Maintenance margin is collected from each Clearing Member to cover potential losses in the event of that Clearing Member's default. The margining methodology is based on a value-at-risk model utilising historical simulation methodology.
- 8.3 Variation margin is calculated three times a day but called once each day during the life of the 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.
- 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 May 2014.

10 Public Notice of Submission

- 10.1 SGX-DC has made publicly available a copy of this submission on its website at http://www.sgx.com/wps/portal/sgxweb/home/regulation/consult_pub/dco_submissions.

11 Contact Details

11.1 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
Fee Schedules

Clearing Fee Type	Description	SGX TSI CFR China Premium JM25 Coking Coal Swap	SGX TSI FOB Australia Premium Coking Coal Swap	SGX API 4 FOB Richards Bay Coal Swap	SGX API 5 FOB Newcastle Coal Swap
Cf 1	Trading Member (Individual)	US\$2.50	US\$2.50	US\$5.00	US\$5.00
Cf 2	Clearing Member House Account	US\$2.50	US\$2.50	US\$5.00	US\$5.00
Cf 3	Trading Member (Broker) House Account	US\$2.50	US\$2.50	US\$5.00	US\$5.00
Cf 5	Clearing Member Customer Account	US\$3.50	US\$3.50	US\$7.00	US\$7.00
Cf 6	Trading Member (Broker) Customer Account	US\$3.50	US\$3.50	US\$7.00	US\$7.00
Cf 7	Trading Member (Proprietary) (Customer)	US\$2.50	US\$2.50	US\$5.00	US\$5.00
Cf 8	Clearing Member Related Company House Account	US\$2.50	US\$2.50	US\$5.00	US\$5.00
Cf E	Trading Member's Trading Representatives (House)	US\$2.50	US\$2.50	US\$5.00	US\$5.00
Cf F	Trading Member's Trading Representatives (Customer)	US\$2.50	US\$2.50	US\$5.00	US\$5.00
Cf G	Clearing Member's Trading Representatives (House)	US\$2.50	US\$2.50	US\$5.00	US\$5.00
Cf K	Trading Member (Proprietary) (House)	US\$2.50	US\$2.50	US\$5.00	US\$5.00

* Prices shown are before goods and services tax

Appendix 3

Contracts Specifications

Contract Specifications for TSI CFR China Premium JM25 Coking Coal Swap

Contract Name	TSI CFR China Premium JM25 Coking Coal Swap
Underlying Index	TSI Premium JM25 coking coal (Chinese Imports, CFR Jingtang port) index
Contract Size	500 Metric Tons
Minimum Price Fluctuation	US\$0.01 per metric ton
Contract Months	Up to 24 consecutive months starting with the current month. Upon expiry of Dec contract, another 12 months will be listed.
Position Limits	A person must not own or control any combination of TSI China Premium JM25 Coking Coal Swaps, Futures and any other product traded by the Exchange and/or accepted by the Clearing House for clearing with an identical underlying, that exceeds an equivalent of 1,500 regular-sized full month contracts on the same side of the Market and in all Contract Months combined.
Trading Hours (Singapore Time)	T session: 8:00am – 8:00pm T+1 session: 8:00:01pm - 4:00am Last Trading Day: 8:00am – 8:00pm
Last Trading Day	Last publication day of the index in the contract month. If the last trading day is a holiday, the preceding business day will be the last trading day.
Final Settlement Price	Cash settlement using the arithmetic average of all publications of the relevant index published by TSI in the expiring contract month, rounded to 2 decimal places.

Contract Specifications for TSI FOB Australia Premium Coking Coal Swap

Contract Name	TSI FOB Australia Premium Coking Coal Swap
Underlying Index	TSI Premium coking coal (Australian Exports, FOB East Coast Australian port) index
Contract Size	500 Metric Tons
Minimum Price Fluctuation	US\$0.01 per metric ton
Contract Months	Up to 24 consecutive months starting with the current month. Upon expiry of Dec contract, another 12 months will be listed.
Position Limits	A person must not own or control any combination of TSI Australian Premium Coking Coal Swaps, Futures and any other product traded by the Exchange and/or accepted by the Clearing House for clearing with an identical underlying, that exceeds an equivalent of 1,500 regular-sized full month contracts on the same side of the Market and in all Contract Months combined.
Trading Hours (Singapore Time)	T session: 8:00am – 8:00pm T+1 session: 8:00:01pm - 4:00am Last Trading Day: 8:00am – 8:00pm
Last Trading Day	Last publication day of the index in the contract month. If the last trading day is a holiday, the preceding business day will be the last trading day.
Final Settlement Price	Cash settlement using the arithmetic average of all publications of the relevant index published by TSI in the expiring contract month, rounded to 2 decimal places.

Contract Specifications for API 4 FOB Richards Bay Coal Swap

Contract Name	API 4 FOB Richards Bay Coal Swap
Underlying Index	API 4 pricing Index that Argus and IHS regularly publish in Argus/McCloskey's Coal Price Index Report
Contract Size	1,000 Metric Tons
Minimum Price Fluctuation	US\$0.01 per metric ton
Contract Months	Up to 60 consecutive months starting with the current month. Upon expiry of Dec contract, another 12 months will be listed.
Position Limits	A person must not own or control any combination of API 4 COAL Futures, Swaps and any other product traded by the Exchange and/or accepted by the Clearing House for clearing with an identical underlying, that exceeds an equivalent of 1,500 regular-sized full month contracts on the same side of the Market and in all Contract Months combined.
Trading Hours (Singapore Time)	T session: 8:00am – 8:00pm T+1 session: 8:00:01pm - 4:00am Last Trading Day: 8:00am – 8:00pm
Last Trading Day	Last publication day of the API 4 marker in the contract month. If the last trading day is a holiday, the preceding business day will be the last trading day.
Final Settlement Price	Cash settlement using the arithmetic average of all publications of the API 4 index published in the Argus/McCloskey Coal Price Index Report in the expiring contract month, rounded to 2 decimal places.

Contract Specifications for API 5 FOB Newcastle Coal Swap

Contract Name	API 5 FOB Newcastle Coal Swap
Underlying Index	API 5 pricing Index that Argus and IHS regularly publish in Argus/McCloskey's Coal Price Index Report
Contract Size	1,000 Metric Tons
Minimum Price Fluctuation	US\$0.01 per metric ton
Contract Months	Up to 24 consecutive months starting with the current month. Upon expiry of Dec contract, another 12 months will be listed.
Position Limits	A person must not own or control any combination of API 5 COAL Futures, Swaps and any other product traded by the Exchange and/or accepted by the Clearing House for clearing with an identical underlying, that exceeds an equivalent of 1,500 regular-sized full month contracts on the same side of the Market and in all Contract Months combined.
Trading Hours (Singapore Time)	T session: 8:00am – 8:00pm T+1 session: 8:00:01pm - 4:00am Last Trading Day: 8:00am – 8:00pm
Last Trading Day	Last publication day of the API 5 marker in the contract month. If the last trading day is a holiday, the preceding business day will be the last trading day.
Final Settlement Price	Cash settlement using the arithmetic average of all publications of the API 5 index published in the Argus/McCloskey Coal Price Index Report in the expiring contract month, rounded to 2 decimal places.