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Regulatory Development & Policy
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Dear Sirs/Madams

Proposed Refinements to the SGX-DC Clearing Fund Structure and Requirements on Members

FIA¹ welcomes the opportunity to respond to the Consultation Paper on the Proposed Refinements to the SGX-DC Clearing Fund Structure and Requirements on Members (the "**Consultation Paper**") issued by Singapore Exchange Limited ("**SGX**") on 13 March 2018.

Below are our comments on the specific questions (adopting the numbering in the Consultation Paper):

(A) Do you have any comments on the proposed combining of exchange traded derivative (ETD) Contracts and Non-Relevant Market Contracts (NMC) Contracts into a single Contract Class?

1. We support the proposal to combine ETD contracts and NMC Contracts (mainly being OTC commodity contracts) into a single contract class. However, to mitigate the risk of underfunded mutualised protections, we strongly encourage SGX to consider ending the current practice of offsetting stress Profits and Losses between the various product classes and considering limiting offsets within asset classes.
2. Could SGX please clarify the intention in rule 7A.01A.5 which defines an event of default. The current amended rule states:

'...an event of default shall fall within either of the following:

- a. Contracts that are listed for trading on the Exchange or Relevant Market and Non-Relevant Market Contracts'.*

Should this 'and' be amended to 'or'?

(B) Do you have any comments on the proposed methodology for determining the Clearing Fund Deposit requirement?

¹ FIA is the leading trade organisation for the exchange traded and centrally cleared derivatives markets worldwide. FIA's membership includes international and regional banking organisations, clearing houses, exchanges, brokers, vendors and trading participants. FIA's mission is to support open, transparent and competitive markets, protect and enhance the integrity of the financial system and to promote high standards of professional conduct. As the principal members of derivatives clearinghouses worldwide, FIA's clearing firm members play a critical role in the reduction of systemic risk in global financial markets. Further information is available at www.fia.org.



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1. Paragraph 4.4 (b) of the Consultation Paper states the Clearing Fund Deposit will be determined by first determining the size of the total Clearing Fund through stress testing and then apportioning it between the two contract classes. The Clearing Fund will then be apportioned (as determined by SGX) to each individual clearing member on a pro-rata basis in proportion to the risk that the clearing member brings to the clearing system. SGX may consider risk margin requirements as well as trading or clearing volume of a clearing member when determining the clearing fund requirements for each member. We fully support clearing fund requirements being determined on a risk-based allocation methodology, however we note the methodology is not clearly set out in the Consultation Paper or the draft rule amendments. For example, when 'stress test losses' are referred to in the Consultation Paper, is this referring to stress losses over initial margin? Further, Rule 7A.06.2 only states that the amount '*...shall be an amount determined by the Clearing House*'. We request that SGX provide further clarity and written detail on the allocation methodology in the interests of greater transparency and providing certainty for clearing members.
2. Further, we request that when SGX determines the clearing fund requirements, these not be heavily weighted towards trading or clearing volume only and that allocation based on each member's total risk profile and stress loss also needs to be considered.
3. We note that under Rule 7A.06.2.2, the Clearing Fund Deposit shall be in cash, government securities or any other forms of collateral acceptable to the clearing house from time to time. As stated in the FIA CCP Risk Position Paper² we wish to reiterate that clearing houses should only be allowed to accept as non-cash collateral, the highest quality liquid assets that are capable of maintaining value throughout the economic/business cycle and must be readily convertible into cash without imposing further liquidity pressures on the clearinghouse in order to qualify.

(C) Do you have any comments on the proposed sizing of the Further Assessment Amount?

1. We are supportive of a Further Assessment Amount which is limited to a clearing member's Clearing Fund Deposit Requirement.
2. However, we note that SGX does not have a 'cooling-off period'. We recommend that SGX introduce a cooling off period (consistent with practices adopted at many other global CCPs) during which SGX may not call for assessments more than the cap on assessments.

* * * *

We appreciate SGX's consideration of these comments and would be happy to discuss further with you. If you have any questions, please do contact us.

Yours faithfully,

Phuong Trinh
Vice President
Legal & Policy, Asia-Pacific

² https://fia.org/sites/default/files/content_attachments/FIAGLOBAL_CCP_RISK_POSITION_PAPER.pdf