



Level 21 | Centennial Tower
3 Temasek Avenue
Singapore 039190
T +65 6549 7333 / 7337 | F +65 6549 7011

7 September 2015

Regulatory Development & Policy
Singapore Exchange
11 North Buona Vista Drive
#06-07 The Metropolis Tower 2
Singapore 138589

Email: rules@sgx.com

Dear Sirs and Madams

Consultation Paper on Introduction of Affiliate Segregation (“Consultation”)

On behalf of the membership of the Futures Industry Association Asia (“**FIA Asia**”) we welcome the opportunity to respond to the Consultation published by Singapore Exchange Limited (“**SGX**”) on behalf of Singapore Exchange Derivatives Clearing Limited (“**SGX-DC**”).

Unless otherwise defined, capitalised terms used in this letter will bear the same meanings ascribed to them in the Consultation.

We support the introduction of “Affiliate Segregation” which will be offered as an option to all clearing members of SGX-DC with the aim of assisting clearing member’s affiliates achieve greater capital efficiency. We welcome initiatives that promote and help foster participation and access to exchange traded and centrally cleared markets.

However, we would be grateful if SGX-DC can provide guidance and clarification on the following issues in relation to implementation of the initiative:

1. Consistency with applicable Singapore laws

Currently the collateral deposited in respect of a client of clearing member who is an affiliate will be deposited in the House account and will be commingled with the collateral for other House contracts (consistent with the Securities and Futures Act).

Under the proposed Affiliate Segregation, a clearing member can select to have the collateral and contracts of its affiliates designated as an “Affiliate Account” and an “Affiliate Contract” respectively. This will in effect, separate the Affiliate Contracts and Affiliate Account from the House Contracts and House Account. We understand that SGX-DC may physically commingle all such collateral despite the separate designations.

We would be grateful if SGX-DC can confirm that the proposed rule changes (including the treatment of collateral deposited for Affiliate Contracts and the transfer of positions in default circumstances) are consistent with the Securities and Futures Act and other applicable Singapore laws. We encourage SGX-DC to share legal opinions with clearing members or otherwise make representations to clearing members on these matters if possible.

2. Capital efficiencies for clearing member affiliates

One of the key reasons cited for the introduction of the Affiliate Segregation arrangements is to assist clearing member affiliates achieve greater capital efficiencies in light of the Basel III capital requirements. As noted in the

Consultation, the amount of capital required depends on the level of protection that the bank has from a default or insolvency of its clearing member and the clearing member's other clients. It is intended that Affiliate Segregation, if opted-in by a clearing member in respect of a bank affiliate, will increase the level of protection that that bank affiliate has from a default of the clearing member.

Each jurisdiction is individually adopting and implementing the Basel III requirements. Therefore, we would be grateful if SGX-DC could identify which jurisdictions it has considered in its analysis for where capital efficiencies may be available and provide further clarity on how the SGX-DC proposal assists to meet the requirements in those jurisdictions.

We are concerned that the proposed drafting of certain SGX-DC rule amendments are not sufficient to satisfy requirements in certain jurisdictions.

For example, under the EU Capital Requirements Regulation ("**CRR**"), clients of clearing members shall apply a bilateral risk weighting for their exposures to the clearing member in relation to CCP related transactions unless certain conditions in CRR Article 305(2) are met which make a risk weighting of 2% or 4% available. There are a number of conditions that need to be satisfied under CRR Article 305(2) including that the client's assets and positions are segregated and bankruptcy remote in the event of default/insolvency of the clearing member or one or more of its clients.

Under the proposed new Rule 7A.05.1.1A, there is no express exclusion of the Collateral deposited or provided in relation to Affiliate Contracts. The exclusion only relates to Collateral deposited or provided in relation to Customer Contracts. Therefore, SGX-DC could still apply and have access to Collateral deposited or provided in relation to Affiliate Contracts in the event of Clearing Member default.

Consequently, it appears that the bankruptcy remote condition under CRR Article 305(2) would not be met and a more favourable risk weighting is not achievable. We urge SGX-DC to review the drafting of the proposed rule amendments prior to implementation and make the necessary and appropriate amendments.

Further, one of the other requirements that needs to be met under CRR is reliance on an independent, reasoned and written legal opinion concluding certain matters including that the relevant courts and administrative authorities would find that the client would bear no losses on account of the insolvency of its clearing member or clearing member's clients. We would also be grateful if SGX-DC can confirm whether it is willing to share legal opinions that clearing members could rely on to meet legal requirements in jurisdictions.

3. Comments on rule amendments

We also seek further clarification on the following rule amendments:

- (a) Rule 7.3.1.2: Should this rule also apply to Affiliate Accounts?
- (b) Rule 7.31.1: Are there any specific notice and form requirements for the clearing member to comply with when designating Affiliate Accounts? How often is a clearing member required to update this designation? Is there a method for a clearing member to withdraw notice of affiliate designation? How will SGX maintain and record the designations made by members?
- (c) Rule 7A.02.1.1A: Under rule 7A.02.1.1 there is a provision that "all or any part of positions held in Cleared Swaps Customer Accounts may be transferred only to one (1) or more FCM Clearing Members designated by the Clearing House". Will a similar provision apply to Rule 7A.02.1.1A that applies to Affiliate Accounts?
- (d) Rule 7A.05.1.1A: Please see our comments in section 2 of this letter.
- (e) Rule 7A.05.1.3: Should paragraph c also refer to Affiliate Contracts?
- (f) Rule 7A.05.1.8: We note there is no similar rule for Affiliate Accounts, should this be included?

4. Conclusion

Thank you for your consideration of our comments. We would be happy to meet with you to discuss our comments and provide further information if required.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'P. Trinh', with a stylized flourish at the end.

Phuong Trinh
General Counsel, FIA Asia