RESPONSE TO FEEDBACK RECEIVED

May 2018

Draft Regulations for Mandatory Clearing of Derivatives Contracts

MAS

Monetary Authority of Singapore

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1 Preface

1.1 On 1 July 2015, MAS issued a consultation paper on proposed regulations for the mandatory clearing of over-the-counter ("OTC") derivatives. The draft Securities and Futures (Clearing of Derivatives Contracts) Regulations ("SF(CDC)R") set out the implementation details on the set of products and persons subject to the clearing obligations under the Securities and Futures Act (Cap. 289) ("SFA").

1.2 The consultation period closed on 31 July 2015, and MAS would like to thank all respondents for their contributions. The list of respondents is in Annex A and the full submissions are in Annex B and Annex C.[1]

1.3 MAS has carefully considered the feedback received. The final SF(CDC)R incorporates the feedback where MAS is in agreement with. Comments that are of wider interest, together with MAS' response, are set out below.

2 Specified Derivatives Contracts to be Cleared

2.1 MAS sought views on the proposal to subject the Singapore-dollar ("SGD") fixed-to-floating interest rate swaps ("IRS") based on the Singapore Swap Offer Rate ("SOR") and the U.S. dollar ("USD") fixed-to-floating IRS based on the London Interbank Offered Rate ("LIBOR"), with maturity up to 30 years to the clearing obligations. In addition, MAS sought views on whether it would be appropriate to subject IRS denominated in Euro ("EUR"), Pound Sterling ("GBP") and Japanese Yen ("JPY"), and other types of interest rate derivatives (e.g. basis swaps, forward rate agreements or overnight index swaps) to the clearing obligations.

(a) <u>Fixed-floating Swaps Denominated in SGD and USD</u>

2.2 Respondents were supportive of mandating clearing of fixed-to-floating IRS denominated in SGD and USD. Some respondents commented that long-dated positions may not be suitable for clearing due to the lack of liquidity. Some respondents also commented that products subject to the clearing mandate should be available for clearing on more than one central counterparty ("CCP").

[1] Certain names and submissions have been omitted on request of confidentiality by the respondents.

MAS' Response

2.3 MAS intends to mandate clearing for the most significantly traded OTC derivatives in Singapore. MAS notes respondents' concerns over the lower liquidity of longer dated IRS contracts and the availability of CCPs for clearing. SGD and USD IRS with a tenor of 10 years or less form the bulk of the liquidity in Singapore. As such, MAS will limit the tenors to between 28 days and 10 years (inclusive). Both products are also available for clearing on more than one CCP that is regulated by MAS.

(b) EUR, GBP, JPY IRS and other types of interest rate derivatives

2.4 Respondents were generally in favour of mandating IRS denominated in EUR, GBP and JPY given the potential for margin efficiencies. Some respondents who operate bank branches in Singapore pointed out potential conflicts in meeting MAS' clearing obligations for such products as they may be required to clear on domestic CCPs in their home jurisdictions, which are currently not regulated by MAS.

2.5 MAS received varying views on whether other types of interest rate derivatives should be subject to the clearing obligation. A few respondents noted that certain products (e.g. JPY forward rate agreements) have not been mandated for clearing in other jurisdictions.

2.6 One respondent sought clarification on the treatment of structured or packaged trades (e.g. mandated IRS may be part of a complex structure such as a swaption). The respondent commented that breaking up such trades into their component parts and subjecting only one part of the trade to mandatory clearing may reduce efficiency and may change the cost structure of the trade.

MAS' Response

2.7 MAS has recently consulted on the introduction of mandatory clearing for EUR and GBP IRS, in view of the proposed trading obligations[2]. For other types of interest rate derivatives, we note respondents' concerns and will re-assess new products subject to clearing obligations at a later stage.

[2] Please refer to the consultation paper on Draft Regulations for Mandatory Trading of Derivatives Contracts available at http://www.mas.gov.sg/News-and-Publications/Consultation-Paper/2018/Consultation-Paper-on-Draft-Regulations-for-Mandatory-Trading-of-Derivatives-Contracts.aspx.

2.8 For packaged transactions, if the individual transaction in the package is a product that is subject to mandatory clearing, it will be subject to clearing obligations. A single complex transaction, whose economic components include a SGD or USD IRS, will not be subject to clearing obligations. Such an approach is similar to that taken by other jurisdictions such as Australia and Hong Kong.

3 Circumstances under which Contracts are to be Cleared

3.1 MAS sought views on the proposal to commence clearing obligations in relation to trades wherein both transacting counterparties have booked the transaction in their Singapore-based operations, i.e. a Singapore-incorporated company or a Singapore branch of a foreign entity. This seeks to address the risks residing in Singapore while avoiding potentially duplicative or conflicting requirements in other jurisdictions.

3.2 Some respondents noted the different approaches adopted by authorities in other jurisdictions and suggested that there should be substituted compliance or mutual recognition frameworks for contracts that may be subject to overlapping rules.

3.3 Some respondents requested to extend the timeframe for derivatives contracts to be cleared due to time-zone differences (e.g. when trades are executed in Singapore but cleared through an overseas CCP). One respondent also mentioned that a reasonable timeframe should be provided as trades may fail to clear due to technical or operational reasons.

MAS' Response

3.4 MAS notes the concerns of potentially having overlapping rules across jurisdictions. There was, however, no specific feedback that indicated any conflicting requirements that would arise as a result of MAS' new clearing obligation for SGD and USD IRS. Nonetheless, MAS has and will continue to engage with regulators globally to ensure the effective implementation of the rules and avoid potentially duplicative requirements.

3.5 Regarding the timeframe for clearing, MAS notes the concerns raised by respondents for trades to be cleared within the same business day. Therefore, we will extend the timeframe by one business day, i.e. T+1.

4 Specified Persons to be Subject to Clearing Obligations

4.1 MAS sought views on the proposal to exempt all banks from the clearing obligations ("bank exemption") as long as they do not exceed a maximum threshold of S$20 billion gross notional outstanding derivatives contracts booked in Singapore ("clearing threshold") for each of the last four calendar quarters. Respondents were generally supportive of the proposed bank exemption. Some respondents suggested for trades which are not mandated for clearing (e.g. intra-group transactions or trades entered into for hedging purposes) to be excluded from the clearing threshold computation.

4.2 One respondent requested for MAS to provide further exemptions for banks whose total clearing activity exceed the clearing threshold but have relatively small exposures in the products mandated for clearing. There were also suggestions for MAS to publish a list of parties who crossed the clearing threshold.

MAS' Response

4.3 The purpose of the clearing threshold is to subject the most active banks trading OTC derivatives in Singapore to clearing obligations. As such, the clearing threshold computation is based on a simple measure of activity. MAS expects these active banks to have clearing memberships or to be able to access clearing services via clearing members, to clear transactions on CCPs. Banks which exceed the clearing threshold should therefore have no issues complying with MAS' clearing mandate. In practice, they would already be voluntarily clearing OTC derivatives beyond products that are subject to clearing obligations. MAS will continue to assess the OTC derivatives markets for more products that are suitable to be subject to clearing obligations.

4.4 As mandated products are already widely cleared, MAS is of the view that there is no need for a list of entities subject to the clearing obligations to be published. Banks trading these products should presume that such products are to be cleared on CCPs and voluntarily clear these products even if they fall below the clearing threshold. In the event that a bank does not intend to clear a mandated product, that bank should provide confirmation to its counterparty that it is not subject to MAS' clearing obligations.

5 Exemptions from Clearing Obligations

5.1 MAS sought views on the proposal to exempt intra-group transactions and public bodies from the clearing obligations.

5.2 Most respondents were agreeable with the proposal. Some respondents recommended for MAS to exclude trades resulting from portfolio compression from the clearing obligations, so as not to dis-incentivise risk mitigation practices.

MAS' Response

5.3 MAS agrees with the feedback and will exempt intra-group transactions from the clearing obligations. Public bodies will also not be subject to the clearing obligations as they are not specified persons and thus not caught within the current ambit of the clearing obligations, which is limited to trades between banks.

5.4 MAS will also provide a limited exemption for trades resulting from multilateral portfolio compression. Conditions for the exemption include requiring the multilateral portfolio compression to be carried out by a third party operator and among at least three participants, and where the original trades are not contracts mandated for clearing.

6 Implementation of Clearing Obligations

6.1 MAS sought views on the approach to commence clearing and considerations to expand the scope of the mandatory clearing regime. Respondents generally supported the proposed approach to commence clearing for contracts that are entered into on or after the effective date.

6.2 On the possible expansion of scope of the mandatory clearing regime, some respondents mentioned that certain foreign exchange derivatives ("FX derivatives"), for example non-deliverable forwards, should not be considered for mandatory clearing as yet, given that FX derivatives clearing is still nascent and there may be a lack of infrastructure for the clearing of such products.

MAS Response

6.3 MAS agrees with the feedback and will not impose backloading requirements for the clearing obligations.

6.4 Regarding the scope of the mandatory clearing regime, MAS has recently consulted on the possible expansion of the product scope to EUR and GBP IRS[3]. For other options to expand the clearing regime, MAS will study the feasibility of these options at a later stage and consult on our proposals in due course.

MONETARY AUTHORITY OF SINGAPORE

2 May 2018

[3] Please refer to the consultation paper on Draft Regulations for Mandatory Trading of Derivatives Contracts available at http://www.mas.gov.sg/News-and-Publications/Consultation-Paper/2018/Consultation-Paper-on-Draft-Regulations-for-Mandatory-Trading-of-Derivatives-Contracts.aspx.

Annex A

LIST OF RESPONDENTS TO THE CONSULTATION PAPER ON DRAFT REGULATIONS FOR MANDATORY CLEARING OF DERIVATIVES CONTRACTS

1. Aberdeen Asset Management Asia Ltd.
2. The Alternative Investment Management Association
3. Asia Securities Industry & Financial Markets Association; and Futures Industry Association Asia
4. The Bank of Tokyo-Mitsubishi UFJ, Ltd., Singapore Branch
5. BNP Paribas Singapore Branch
6. CIMB Bank Berhad
7. Citibank N.A. Singapore Branch
8. CME Group Inc.
9. Credit Suisse AG, Singapore Branch
10. DBS Bank Limited
11. The Global Foreign Exchange Division of the Global Financial Market Association
12. ICE Clear Singapore Pte. Ltd.
13. The International Swaps and Derivatives Association Inc.
14. Japanese Bankers Association
15. KfW Bankengruppe
16. LCH.Clearnet Ltd
17. Liu Guanyan
18. Malayan Banking Berhad, Singapore Branch
19. Markit Group Ltd.
20. Mizuho Bank Ltd
21. OCBC Bank
22. RHTLaw Taylor Wessing LLP
23. WongPartnership LLP
24. Respondent A who requested for confidentiality of identity

25. Respondent B who requested for confidentiality of identity
26. Respondent C who requested for confidentiality of identity
27. Respondent D who requested for confidentiality of identity
28. Respondent E who requested for confidentiality of identity

10 other respondents requested for confidentiality of identity and submission

Please refer to Annex B and Annex C for the submissions.

Annex B

FULL SUBMISSIONS FROM RESPONDENTS TO THE CONSULTATION PAPER ON DRAFT REGULATIONS FOR MANDATORY CLEARING OF DERIVATIVES CONTRACTS

S/N	Respondent	Full Responses from Respondent
1	Aberdeen Asset Management Asia Limited	**General comments:** We are supportive of the MAS' initiative in mandating the clearing of OTC derivatives. We cannot agree more with the MAS that jurisdictional differences (including the US and EU) which impact cross-border transactions is an ongoing concern and is a constant challenge for global companies like ourselves. We seek the MAS' understanding in possibly granting longer lead time, waivers and recognising substituted compliance of equivalent jurisdictions. **Question 2:** We suggest adopting a phased in approach when implementing the clearing of EUR, GBP and JPY IRS. Such an approach is consistent with that in the EU. **Question 3:** We feel that it is reasonable to subject IRS, cross currency swaps, basis swaps, forward rate agreements and overnight index swap to clearing obligations. In order to better assess margining efficiencies, we seek MAS' clarification on the margin requirements for the securities which have been mandated or are going to be mandated for clearing. **Question 5:** We welcome the proposed exemption on all other specified persons that are not banks from clearing obligations. We propose further consultation before the MAS lifts this exemption. **Question 7:** When clearing obligations are going to be imposed on specified persons that are not banks, we urge the MAS to consider a longer implementation period, between 12 to 18 months. We propose further consultation before such obligation takes effect on such persons. **Question 8:** We feel that foreign exchange (FX) forwards and non-deliverable forwards (NDFs) should not be mandated for clearing. Margining FX forwards is not commonly adopted in current market practice. Margining would have a substantial negative impact on the real economy. Exporters and importers, who are the key users of FX forwards, may not have the infrastructure nor capital required to

		margin (or if they did, it would have an impact on the cost of doing business). This would have a detrimental impact on the cost of goods and services globally. The ramifications are substantial and much broader than the investment community. We propose further consultation before the MAS includes non-banks financial institutions into the clearing regime. We seek MAS clarification on the definition of "active non-banks financial institutions trading OTC derivatives". We propose further consultation before the MAS widens the clearing nexus to include cross border transactions. Very often, cross border transactions would have been subject to similar obligations in another jurisdiction, so there could be duplicated and/or conflicting requirements. In summary, we propose further consultation before the MAS expands the scope of the mandatory clearing regime. **Question 9:** We suggest that buffer time for a specified person to commence clearing after meeting the clearing threshold amount be provided for in the Regulations. This is to allow the specified person to prepare and be ready for clearing.
2	Alternative Investment Management Association	Please refer to Annex C for this submission
3	ASIFMA and FIA Asia	Please refer to Annex C for this submission
4	The Bank of Tokyo-Mitsubishi UFJ, Ltd., Singapore Branch	**Question 1:** BTMU supports the proposal to introduce mandatory clearing requirements for USD and SGD IRS transactions. As BTMU has client clearing arrangements with LCHC, we would ask that it is included as either a "recognised clearing house" (RCH) or an "approved clearing house". LCHC is currently a major clearing facility for USD and SGD IRS transactions across international financial institutions. As USD and SGD IRS transactions are currently cleared through LCHC, BTMU will be unable to conduct these transactions in Singapore if LCHC is not approved as a RCH. BTMU are concerned that this may in turn, lower market liquidity in Singapore. In addition, BTMU must comply with Japanese regulations on using approved IRS Centralised Counterparties (CCPs). USD and SGD IRS

		transactions will subsequently be affected if LCHC (as an approved CCP in Japan) is not an approved RCH in Singapore. **Question 2:** BTMU supports the introduction of mandatory clearing requirements for EUR, GBP and JPY IRS. However, BTMU requests that LCHC and JSCC be included in the list of RCH's as these are currently the major clearing facilities for EUR, GBP and JPY IRS transactions across international financial institutions. As EUR and GBP IRS transactions are currently commonly cleared through LCHC, there will be difficulty conducting these transactions in Singapore if LCHC is not an RCH or ACH in Singapore. BTMU must comply with Japanese regulations on using approved IRS CCPs. EUR and GBP IRS transactions will be impacted if LCHC is not an RCH or ACH in Singapore. It is mandatory for BTMU to use JSCC for clearing JPY IRS transactions under Japanese regulations. JPY IRS transactions will be impacted if JSCC is not an approved RCH. This may in result in lower market liquidity in Singapore. More generally, the introduction of mandatory clearing for EUR, GBP and JPY IRS may cause the industry some issues in terms of (i) system enhancements to prepare for mandatory reporting; (ii) cross-border issues to resolve; and (iii) in some cases, financial institutions may need to obtain recognition from CCPs for cross-border transactions. BTMU suggests that MAS consider a phased-in introduction of the EUR, GBP and JPY IRS. **Question 3:** BTMU would like to clarify the definition of "basis swap" in this question. IRS interest rate derivative transactions are currently commonly traded on the "Markitwire" platform, which automatically processes and clears these transactions through LCH. BTMU does not forsee any other issues with subjecting more types of IRS products to clearing requirements, provided that they are cleared through industry common clearing facilities (such as LCHC or JSCC). As BTMU use LCHC and JSCC to clear IRS interest rate derivative transactions, BTMU will have difficulty conducting these transactions in Singapore if they are not a RCH or ACH.

		As stated above, this may result in lower market liquidity in Singapore. In the event that IRS products cannot be cleared through industry common clearing facilities (such as LCHC and JSCC), BTMU would ask MAS to consider an appropriate period of deferment before the implementation of the new regulations. BTMU's current platform is designed for a single currency but it does not cater for cross-border currencies. BTMU may need to enhance its systems to cater for cross-border currencies. **Question 4:** BTMU is supportive of this proposal. BTMU suggests that an appropriate period of deferment may be necessary before the introduction of regulations for mandatory clearing for transactions which currently do not employ a common clearing platform (such as currency or non-deliverable forwards) even if such transactions are to be cleared through industry common clearing facilities (such as LCHC or JSCC) in the future. BTMU also suggests that an appropriate period of deferment may be necessary before the introduction of regulations for mandatory clearing for non-interest rate derivative transactions (such as currency or non-deliverable forwards) not settled via industry common clearing facilities (such as LCHC and JSCC). There is currently neither a common market platform nor an automatically linked clearing facility (LCHC) for clearing non-interest rate derivative transactions (such as currency or non-deliverable forwards). Even if the transactions above are cleared through industry common clearing facilities (such as LCHC and JSCC), early implementation of mandatory clearing requirements may present difficulties for the industry due to heavy reliance on manual processing of these transactions. BTMU also asks MAS to consider that there may be difficulty conducting non-IRS interest rate derivative transactions in Singapore if these transactions are not cleared through industry common clearing facilities (such as LCHC and JSCC). BTMU are concerned that this may in turn lower market liquidity in Singapore. **Question 5:** BTMU suggests that MAS consider whether the threshold amount of $20 billion gross is viable, in light of the entire

		industry and compared with other jurisdictions. BTMU also suggests that MAS clarify whether the proposed exemptions from clearing obligations are limited to transactions only booked in Singapore. **Question 6:** BTMU agrees with this proposal. BTMU suggests MAS clarify the definition of "intra-group" transactions. **Question 7:** BTMU anticipates that the introduction of the clearing obligations may require both system enhancements and also it may require the Bank to apply for membership or registration with a CCP. Both would take time and is likely to impact other members of the industry. BTMU suggests that MAS consider these matters when determining the final timetable for implementation. BTMU would also like the MAS to clarify whether mandatory clearing will apply to all transactions, that is, new and existing, or only new transactions, from the date of commencement of the clearing obligations? **Question 8:** BTMU suggest MAS consider that the industry may require more time to prepare for expansion in the scope of the mandatory clearing scheme in terms of (i) system enhancements (depending on the type of derivative contract) and; (ii) the introduction of RCH's or ACH's; and (iii) if necessary, obtaining membership/registration from an RCH or ACH.
5	BNP Paribas Singapore Branch	**Question 1:** As such trades may also be subject to mandatory clearing under EMIR, one of the key points for us (and in this regard we are encouraged that MAS recognizes in the CP that "*the interaction of jurisdictions' rules on cross-border transactions remains an ongoing concern*" and that "*MAS continues to participate actively in international discussions to resolve this matter*") is that harmonization with existing clearing obligations be ensured, to avoid duplication or cross-border conflict of regulations. We believe that it would be extremely important for international dealers to clear / continue to be able to clear on other exchanges, subject perhaps to the appropriate equivalence test, and in this regard we would encourage MAS to recognize the ESMA and CFTC approved CCPs for such purpose. **Question 2:** Similar to Question 1, any additional mandates should be harmonised with existing clearing obligations, to avoid duplication or cross-border conflict of regulations.

6		**Question 3:** We would not be in favour of extending the clearing obligation to other products, at least not until the same products are in scope of (from our perspective) the EMIR clearing obligations. We also suggest that the proposed quarterly threshold tests match threshold tests run in the relevant other clearing regimes (eg. in the EU) in order for market participants to avoid being caught under one but not the other (due to timing producing different results in threshold figures). We believe participants would presumably also be looking to clear as much as possible through a single CCP to maximize any such efficiencies. **Question 4:** With reference to our comments to Question 1 above, we are ambivalent to this proposal, at least unless the cross-border issues can be satisfactorily addressed. (The same concerns/comments apply to any proposal to widen the nexus to include cross-border transactions.) **Question 6:** We support this proposal. **Question 7:** Assuming that EMIR clearing will not come on-stream until Q2 2016 at the earliest, we would propose for the MAS deadline to be later than mid-2016 - this would allow some time for the bedding in of the requirements in the EU, especially if there are equivalence tests. This would also enable the industry to consider what might be excluded, and to avoid duplications and identify any mismatch.
6	CIMB Bank Berhad	**Question 1:** For USD IRS, it is preferable to start clearing after MAS had approved or recognise more CCPs that are aligned with CFTC and ESMA. This will reduce any conflict in complying with multi-jurisdictions clearing requirements and availability of CCPs that will fulfil multi-jurisdictions. i.e. For USD IRS caught by both CFTC and MAS Clearing Mandate, Counterparty A has LCH as clearer while Counterparty B has SGX-DC and contention which to use when there can be only 1 Clearer per trade. **Question 2:** Different Cross jurisdictions' mandate on clearing regulations and recognised "Approved Clearing House" remained a concern in the industry. EUR and GBP may be caught in EMIR clearing initiatives. Harmonisation in terms of instruments, currencies and Approved Clearing houses across jurisdictions will help the industry to fulfil its obligations and speed up the process of more OTC derivatives cleared.

		Question 4: Post consultation paper, it will be good to have a list of potential counterparties mandated to clear. This would reduce the confusion in the industry if dealing counterparty is mandated to clear as trade has to be sent for clearing within the same day of execution. We also seek to clarify in situation where 1 counterparty is subjected to clearing obligations and the other is not, when an in-scope product for mandatory clearing was traded, do both counterparties centrally clear or it is exempted? I.e. Singapore branch execute trade with Non Singapore-based operations party. **Question 5:** There may be instances where the banks have exceeded the S$20bio gross notional outstanding but it is not due to the product that is in scope for clearing. We seek some leeway for exemption on a case-to-case basis as it would be non-feasible and not cost effective to take up clearing membership just for a minority product that is in scope.
7	Citibank N.A. Singapore Branch	**Question 1:** The bank supports the proposal to mandate clearing of SGD fixed-to-floating SOR IRS. For USD fixed to floating LIBOR IRS, the MAS should ensure that any clearing mandate is equivalent to what is mandated under Dodd-Frank and EMIR so as not to create conflicting clearing obligations for international banks operating in Singapore. In addition, we ask that the MAS recognise the major third-country CCPs already clearing these products as RCHs prior to commencing mandatory clearing. **Question 2:** As with response to Question 1, the MAS should ensure that any clearing mandate for all G4 rate products is equivalent to what is mandated under Dodd-Frank and EMIR and recognition of third-country CCPs already clearing these products is essential. **Question 3:** Whether margining efficiencies can be achieved is dependent on which clearinghouse(s) the bank is able to clear with. The ability to centrally clear with a single clearinghouse will allow the bank to achieve margining efficiencies. We do not see a need to mandate clearing of a wider range of products in order to achieve this. **Question 4:** The bank is supportive of limiting mandatory clearing to transactions booked in the Singapore-based operations of both transacting counterparties. **Question 6:** The bank is supportive of the approach to exempt intra-group transactions and public bodies from clearing obligations.

		However, it would like to seek confirmation that inter-branch trades are exempted as it is unclear based on the reading of the draft legislation, which exempt trades "entered … for *own account*, or for an account belonging to and maintained wholly for the benefit of a *related corporation*, and another *related corporation*". **Question 7:** The bank's ability to meet the commencement date will be largely dependent on which clearinghouse(s) the MAS will allow it to clear relevant trades on and the extent to which system enhancements are required to identify and route clearable trades. **Question 8:** We would appreciate it if the MAS can consult the industry well in advance so as to allow the industry to be operationally ready before increasing the range of products subject to clearing obligations. In addition, we would highlight that it is important to ensure international consistency in the implementation schedule of the clearing obligations, in particular noting the concerns highlighted for clearing of foreign exchange non-deliverable forwards. The bank is supportive of extending the clearing mandate to other financial institutions that are sufficiently active in OTC derivatives. However, as these additional entities may not necessarily be direct clearing members of either SGX-DC or another ACH/RCH, we would respectfully ask that the MAS have a separate consultation on the implementation of client clearing in Singapore prior to extending the clearing mandate beyond direct clearing members. The bank is of the view that clearing for cross-border trades should not be covered in a future mandate. The mandate should be limited to transactions booked to Singapore legal vehicles.
8	CME Group Inc.	Please refer to Annex C for this submission
9	Credit Suisse AG, Singapore Branch	**General Comment:** We encourage MAS to continue to develop their rules in line with other regulatory jurisdictions (e.g. Finra and EMIR also have exemptions for non-financial counterparties (NFC) that do not meet a specified minimum trading volume/portfolio size), with respect to any future plans on increasing scope of mandatory clearing to non-financial entities. It is proposed that clearing must be done via approved/recognized clearing house regulated by MAS. We would like to seek clarification from the MAS if LCH and JSCC are currently included as MAS Approved Clearing House (ACH) or Recognized Clearing House (RCH). If not, will MAS include these and other CCPs before the mandatory

		clearing mandate kicks in? In addition, what are other available ACH and RCH currently? **Question 4:** We would like to suggest that MAS publishes a list of banks in Singapore who are in scope for mandatory clearing so that the bank will know which are the transactions (transacted with counterparty who is also in scope) to include for mandatory clearing. **Question 5:** We would like to seek clarification on the composition of the clearing threshold of $20 billion (i.e. gross notional outstanding derivatives contracts booked in Singapore for each of the last four calendar quarters). Would it include: i. all derivatives contracts (as opposed to only SGD fixed-to-floating SOR IRS and USD fixed-to-floating LIBOR IRS); and ii. only transactions with Singapore-based counterparties (and exclude intercompany transactions)? **Question 6:** We would like to seek clarification on the definition of 'intra-group transactions' and 'corporate group'. For example, would trades between bank branches of a banking group and its wholly owned subsidiaries be considered as 'intra-group transactions'? **Question 8:** Please see General comments. **Question 9:** We note that the definition of "booked in Singapore" in the draft SF(CDC)R differs from the definition in the Securities and Futures (Reporting of Derivatives Contracts) Regulations 2013 ("SF(RDC)R") and would be grateful for MAS' clarification as to why a different definition of "booked in Singapore" is proposed in the draft SF(CDC)R. If the concept of "booked in Singapore" is intended to be the same for both the SF(CDC)R and the SF(RDC)R, we propose that the definitions be aligned to avoid any uncertainty. Based on the draft regulation, section 7 (2) on Exemptions state that: "A person who is a party to a specified derivatives contract shall be exempted from section 129C of the Act in respect of the specified derivatives contract, if (a) he is a person specified in the Second Schedule; or (b) the counterparty to the specified derivatives contract is a person specified in the Second Schedule." As per the Second Schedule: "Any specified person referred to in paragraph (a) of the definition of "specified person" in section 129B of the Act, whose aggregate outstanding gross notional amount of the total derivatives contracts

		booked in Singapore, as at the last day of each of the past 4 consecutive calendar quarters, does not exceed the clearing threshold amount” We would like to seek clarification if the above imply that transactions subject to clearing mandate must be done between 2 “specified persons” where both parties also have outstanding aggregate outstanding gross notional derivatives amounts exceeding the clearing threshold.
10	DBS Bank Limited	**General Comment:** We are generally supportive of the proposed mandatory clearing regime. **Question 1:** We are supportive of MAS’ proposal to subject SGD and USD interest rate derivatives to mandatory clearing. **Question 5:** We would like to clarify the exemption in part (a). • Is the threshold of S$20 billion gross notional outstanding derivatives contracts booked in Singapore based on the quarter end in any one of the last four quarters, or based on all of the last four quarters? • For banks which are subject to mandatory clearing for the first year but falls short of the threshold proposed by MAS in the second year, would they still be subject to mandatory clearing obligations? • Does the S$20 billion gross notional outstanding derivatives contracts include intra-group transactions, as we understand that MAS proposes to exempt intra-group transactions from the scope of clearing? Banks in scope for mandatory clearing will also need to know which of their counterparties are in scope to prepare themselves operationally and legally for clearing. We propose that the MAS publishes a list of banks that are subject to mandatory clearing on a regular basis. **Question 7:** We are supportive of the proposal that only in-scope derivative transactions which are entered on or after the effective date of the clearing mandate will be required to be cleared to maintain pricing certainty. We advocate that the MAS amends Regulation 5(2) such that it is clear that where a bank becomes in-scope after clearing commencement date, it is given 6 months to put in place the necessary infrastructure to comply with the regulations and only after the end of the 6 month period that it is required to clear new

		derivative transactions it enters into with other in-scope banks. This will give the banks pricing and contractual certainty at the point of trade and ample time to source for a clearing broker. **Question 8:** We hope that the MAS would consider cross-border implications prior to widening the scope. The nexus concept is overtly extra-territorial in nature and potentially creates confusion around threshold calculations. Foreign banks transacting in Singapore booked in the name of their Head Office will also be subject to home country clearing obligations and it is most appropriate that the relevant clearing obligation is that of the jurisdiction where the derivative risk is booked. **Question 9:** We noted that the definition of "booked in Singapore" in the draft SF(CDC)R is slightly different compared to the same definition in Securities and Futures (Reporting of Derivatives Contracts) Regulations. Unless there are specific reasons for the differences, we would propose having the same definition for both the reporting and clearing obligations.
11	The Global Foreign Exchange Division of the Global Financial Market Association	**Question 6:** We support the Asia Securities Industry & Financial Markets Association (ASIFMA) and FIA Asia's response to this question in their joint comment letter. **Question 7**: In our view, a gradual, phased-in approach to any introduction of mandatory clearing to the Singapore market would allow the MAS to fully assess the impact of any mandatory clearing determinations in the United States and Europe. We also support ASIFMA/FIA Asia's response to this question in their joint comment letter. **Question 8:** We strongly suggest that the MAS does not introduce a clearing mandate for FX products at this time. There currently exist significant challenges with the clearing and settlement of physically-settled FX forwards, swaps and options, and the voluntary clearing of NDFs is still very much in its infancy. We discuss each of our concerns in this regard below. **The MAS should not introduce a clearing mandate for physically-settled FX forwards, swaps or options.** As a general matter, the GFXD acknowledges the benefits that central counterparty clearing can bring to the OTC derivatives markets, for example in terms of operational efficiencies and counterparty credit risk reduction.

		However, the physically-settled FX market presents different challenges to those seen with the more traditionally centrally-cleared products, such as interest rate derivatives. In particular, it is important to recognize the need to ensure the physical delivery of the full notional amount to settle a deliverable FX trade in the right currency and at the right time. The FX market has particularly large currency and capital needs because of its vast size and because FX trades are predominantly physically-settled via delivery of the full notional amount of each of the two underlying currencies being exchanged. As noted in the U.S. Treasury's Fact Sheet discussing its exemption of FX swaps and forwards from mandatory clearing in November 2012, *"settlement of the full principal amounts of the contracts would require substantial capital backing in a very large number of currencies, representing a much greater commitment for a potential clearinghouse in the FX swaps and forwards market than for any other type of derivatives market."* CPSS and IOSCO jointly issued in 2012 final 'Principles for financial market infrastructures' (PFMI). Included in the PFMI are a number of key principles to be considered when seeking to apply clearing to the OTC FX market, notably: Principle VII on liquidity risk; Principle VIII on settlement finality; and Principle XII on exchange-of-value settlement systems. As confirmed in a number of discussions with regulatory authorities and market participants, when applied to deliverable FX forwards, swaps and options, these principles would require physically-settled OTC FX products to be cleared only by CCPs that can provide a "guaranteed, on-time clearing and settlement model." The large currency and capital needs required by the FX market to physically settle OTC FX products would have to be met by CCPs if such products were to be made subject to mandatory clearing. Specifically, an OTC FX CCP must, for a physically-settled market: • guarantee the full and timely settlement of the currencies the subject of the trade; and • ensure the guarantee is credible and addresses extreme but plausible market conditions as identified by rigorous stress testing, including default scenarios. To date, even for the deliverable OTC FX options market, which is substantially smaller than the deliverable OTC FX swaps and forwards market, no model put forward by a CCP and/or market participant has demonstrated an ability to implement safe and sound measures that address the above requirements and ensure the market, working with the CCPs, can appropriately manage the liquidity and credit risks associated with clearing these products.

		It is reasonable to assume that central banks will be unlikely to embrace mandatory clearing requirements for the deliverable FX market in the absence of evidence that it can be implemented without causing more harm than good to sovereign currencies and existing settlement processes. In order to try and size the currency requirements facing a CCP when clearing physically-settled FX option trades, the GFXD produced the results of research[7] into the size of the deliverable (physically-settled) OTC FX options market, to establish the scale of the liquidity challenge of clearing physically-settled FX options. In 2013, the FX options market turnover accounted for approximately 6%[8] of the global FX market turnover. The study, which covered over 90% of OTC physically-settled FX option dealer flow over a number of years, estimated the size of the same-day liquidity risk from a failure of two clearing firms to be the equivalent of $161 billion for each day, across 17 currencies. Furthermore, the same-day liquidity risk for physically-settled OTC FX options is in addition to the replacement cost risk and market risk which a CCP must manage with respect to its clearing service, and which must also be understood and analyzed in relation to those (and other) risks. Quantifying the size of the problem informs not only potential solutions to the problem but also how interested stakeholders approach finding a solution in the first instance. While the industry is collectively working together to find a solution for FX options clearing and settlement, given the size of the same-day liquidity challenge identified, whether and when a credible, robust and safe solution for clearing physically-settled FX options will in fact be implemented remains uncertain. The FX swaps and forwards market itself represents some 55% of the global FX market. It could be argued that, therefore, the same-day liquidity risk for FX swaps and forwards might greatly exceed that for physically-settled FX options. Additionally, in considering factors relevant to the clearing of FX swaps and forwards, we reference the U.S. Department of Treasury's (DoT) 2012 exemption of FX swaps and forwards from mandatory clearing. In its determination to exclude FX swaps and forwards from a clearing mandate, the DoT concluded that, given the reduced counterparty credit risk profile of the FX swaps and forwards market, the challenges of implementing central clearing within this market

		significantly outweighed the marginal benefits that central clearing would provide. Regulating deliverable FX swaps and forwards would require insertion of a CCP into an already well-functioning and highly interconnected settlement process, which could result in unnecessary operational and settlement challenges. Three main reasons were outlined by the DoT for exempting FX swaps and forwards from a clearing requirement: • FX swaps and forwards involve **fixed terms and the physical exchange of currencies**. Market participants therefore know the full extent of their own payment obligations to the other party to a trade throughout the life of the contract. • The FX market already has a **well-functioning settlement process**. This is crucial, given that the predominant risk in FX transactions is settlement risk. • FX swaps and forwards are predominantly **short-term transactions.** According to the BIS 2013 Triennial Survey, approximately 70% of the market for FX swaps and approximately 40% of the market for FX forwards matured in one week or less, and approximately 96% of the market for FX swaps and approximately 95% of the market for FX forwards matured in one year or less, 15 meaning a significant reduction in counterparty credit risk as compared to other classes of derivatives with more long-dated tenors. The DoT also noted: • The complexities around introducing CCP clearing into the FX market, specifically the large currency and capital needs that would arise if CCPs were responsible for guaranteeing settlement, given the sheer size and volume of trades in the FX swaps and forwards market. • The operational challenges and potentially disruptive effects that arise from introducing a layer of clearing between trade execution and settlement. **The MAS should not introduce a clearing mandate for NDFs at this time.** As mentioned in the Executive Summary, clearing of NDFs is very much still in its infancy. The number of CCPs offering NDF clearing is small16and the number of firms offering client clearing services for NDFs is also small. As such, the ability for market infrastructures to develop to support NDF clearing, and implement processes for managing events such as a counterparty default, has not been established or, more importantly, tested. Premature introduction of mandatory clearing may unnecessarily introduce additional risk to

		the market and, as a result, undermine the benefits of central clearing. Such considerations were relevant in ESMA's recent response to its NDF clearing consultation in Europe: ESMA determined that the European NDF market was not yet ready to support a mandatory clearing obligation at that time. • **Application of EMTA published currency templates without modification**. As part of their commitment to derivatives reform, the G20 Leaders agreed that all standardised contracts would be cleared through CCPs. To ensure the level of standardisation achieved to date in the NDF market is preserved, any clearing mandate for NDF contracts should be sufficiently clear that it only applies to standardised contracts which incorporate industry standardised currency templates in the form published by the Trade Association for the Emerging Markets (EMTA) (*i.e.*, without modification). This would ensure the clearing mandate does not encompass instruments with non-standard terms. Faced with limited liquidity, CCPs would find it difficult to manage the default of a clearing member responsible for transactions in varying currencies and maturities. • **Tenor of One-Year.** Any clearing mandate for NDFs should be limited to contracts with a tenor of one year or less. Open interest in these contracts is concentrated in shorter-dated tenors, there is insufficient liquidity in these contracts beyond one year to support clearing and, given the limited liquidity, CCPs would find it difficult to manage the default of a clearing member responsible for transactions with maturities greater than one year. • **Extended Phase-In Period.** Any determination to introduce a clearing mandate for NDFs requires a sufficiently extended phase-in period, both in terms of timing and of the participants required to clear, to allow market participants to address issues arising from the fact that NDF clearing is in its infancy. **Global co-ordination in respect of clearing mandates is required because the FX market is a central component of the global payment system.** The FX markets are global and thus cross-border in nature. As reported by the BIS in its 2013 Triennial Survey, over 75% of FX activity was executed by counterparties across five global jurisdictions; hence the continued view of the GFXD that FX regulations should be harmonized at the global level.

		FX transactions are also overwhelmingly short-dated in nature.18For example, an analysis we conducted with Oliver Wyman in January 2015 estimated 98% of traded volume having less than one year maturity. Additionally, the FX market is automated and transparent. The existence of a large number of multi-dealer and single-dealer electronic communications networks in the FX market has led to a high degree of systemic redundancy and resiliency. Furthermore, this high level of electronic trading results in transparency for market participants through the diverse availability of pricing information. We emphasize the importance of ensuring that the regulatory treatment of FX products remains internationally consistent. Cross-border markets cannot operate in conflicting regulatory landscapes and the natural outcome, should this be the case, is unwanted fragmentation of what is an already highly automated, transparent and well-functioning FX market. For instance, how would counterparties to a trade executed between Singapore and Europe manage their regulatory obligations, should only one party be required to clear? The outcome would likely take one of three paths: • execution and thus liquidity would become concentrated with counterparties that have a mandatory clearing obligation; • the party that is not required to clear would be forced to clear, and incur extra costs (such as clearing and operational costs); or • the trade is not executed, impacting the end-user's ability to hedge. Clearly, in a global, cross-border market, any such increased bifurcation of liquidity is not desirable. For example, in the interest rate swaps market, indications have emerged that liquidity in cross-border pools has fragmented along geographic lines, coinciding with the introduction of the U.S. swap execution facility (SEF) regime in October 2013. Furthermore, situations where there is a clearing requirement in one counterparty's jurisdiction but not the other's could lead to conflicts of law, inconsistencies and legal uncertainty. All this could have possible negative impacts on competition as market participants select their counterparties for trading on the basis of regulatory rather than business factors. **The predominant risk in FX transactions is settlement risk.** In the FX market, the main counterparty risk is settlement risk, not mark-to-market risk. Settlement risk has been virtually eliminated due to the creation of CLS Bank in 2002, an organisation operating a

		payment-versus-payment settlement system and which is subject to a cooperative oversight arrangement among 22 central banks whose currencies CLS Bank settles (including the MAS). CCPs, on the other hand, are designed to mitigate 'mark-to-market' risk, which is managed in the FX markets through CSAs between counterparties. The MAS should take into consideration the predominant risks for FX OTC derivatives - settlement risk - and, in this context, aim for international convergence. **Conclusion** For the reasons explained above, the GFXD believes that the MAS should not implement a mandatory clearing obligation for physically settling FX forwards, swaps or options, or for NDFs, at this time.
12	ICE Clear Singapore Pte. Ltd.	Requested for all comments to be kept confidential
13	The International Swaps and Derivatives Association Inc.	Please refer to Annex C for this submission
14	Japanese Bankers Association	**Question 1:** Given global movements to mandate central clearing, we generally accept the implementation of the mandatory clearing regime for the U.S. dollar ("USD") and the Singapore-dollar ("SGD") interest rate swaps ("IRS"). However, as to "recognised clearing houses" ("RCHs") and "approved clearing houses" ("ACHs"), it should include wide range of CCPs, such as LCH. Clearnet ("LCH"), which major foreign financial institutions mainly use for clearing USD and SGD IRS currently. With regard to centrally cleared interbank transactions for USD and SGD IRS contracts, current common practice is to clear them on the LCH. If the LCH is not permitted, it would be difficult to execute such transactions, which might result in a decline in the liquidity of the Singapore market. Additionally, in Japan, the CCPs permitted for foreign currency-denominated IRS under applicable Japan's laws and regulations are currently limited to a "designated eligible foreign CCP". If LCH Limited (a UK entity) designated as such eligible foreign CCP is not

		permitted, Japanese financial institutions cannot execute USD and SGD IRS in the Singapore market. As many CCPs have been established worldwide in line with each relevant regulation, accessing multiple CCPs will bring enormous cost and administrative burden as well as inefficient margin management. The use of the CCPs authorized by the U.S. Commodity Futures Trading Commission ("CFTC"), the European Securities and Markets Authority ("ESMA"), the Financial Services Agency of Japan ("JFSA") and other key authorities should therefore be permitted. **Question 2:** Given global movements to mandate central clearing, we generally accept the implementation of the mandatory clearing regime for Euro ("EUR"), Pound Sterling ("GBP") and Japanese Yen ("JPY") IRS contracts. In mandating clearing, both public and private sectors need to undertake efforts for systems development and the establishment of operational process. Particularly, if currencies other than mother currency are subject to the mandatory clearing upon commencement of the mandatory clearing regime, operational flow and margin management may need to be developed additionally. As proposed in this Consultation Paper, the following step-by-step approach is considered to be appropriate: first, subjecting USD and SGD IRS (based on London Interbank Offered Rate ("LIBOR")) to the mandatory clearing, and after taking into account the degree of application of those, then considering expansion of the scope to IRS denominated in EUR, GBP and JPY. In expanding the scope of the mandatory clearing, the RCHs should include CCPs which major foreign financial institutions mainly use (such as the LCH and the Japan Securities Clearing Corporation ("JSCC")). In such case, it is necessary to ensure consistency of regulations between the relevant regulators and establish a smooth process for approval of the ACHs and the RCHs accordingly. Further, in determining whether to subject JPY IRS booked in Singapore branches of Japanese banks to the mandatory clearing, it is requested to separately determine the timing and scope of the application, taking into account their condition As LCH dominates EUR and GBP IRS inter-bank market currently, if the LCH is not permitted, it would be difficult to execute such

		transactions, which might result in a sharp decline of market liquidity of the Singapore market. Additionally, under the applicable Japan's laws and regulations, the CCPs permitted for non-Japanese Yen IRS are currently limited to a "designated eligible foreign CCP". If the LCH, designated as such "eligible foreign CCP", is not permitted, Japanese financial institutions cannot execute EUR and GBP IRS in the Singapore market. Further, in accordance with the Japan's laws and regulations, Japanese financial institutions are required to clear JPY IRS on the JSCC. If the JSCC is not permitted, JPY IRS cannot be executed in the Singapore market. As such, it is necessary to designate the JSCC as the RCHs. Even when the JSCC is designated as the RCHs, JPY IRS may not be cleared, since financial institutions in Singapore, which are a counterparty to the transaction, are not currently a clearing member of the JSCC. Consequently, market liquidity for JPY IRS booked in Singapore branches of Japanese banks may not be ensured. Given this specific circumstance, in adding JPY IRS in the scope, it is requested to consider taking certain measures, such as postponement of the application of mandatory clearing to Singapore branches of Japanese banks, depending on certain situations. If the above measures are not implemented, not only Japanese banks but also Singapore financial institutions and other foreign financial institutions in Singapore may not be able to ensure sufficient market liquidity. **Question 3:** For interest rate derivatives that can be centrally cleared through major CCPs (LCH and JSCC), we generally accept subjecting such derivatives to the mandatory clearing, provided that an appropriate grace period is set. However, products such as forward rate agreements ("FRAs") and overnight index swaps ("OIS") cannot be cleared through some CCPs. It would therefore be more appropriate to commence imposing the mandatory clearing on major currencies and plain IRS. With regard to certain interest rates derivatives, e.g. cross currency basis swaps and other products with optionality, which currently have a difficulty in executing through centrally clearing for a technical reason, a hasty conclusion to subject such derivatives to mandatory clearing should be avoided.

		As some CCPs cannot clear certain products and currencies, unnecessary market confusion could be avoided by commencing the mandatory clearing from plain products. If interest rate derivatives, which are currently difficult to execute through CCPs for a technical reason, would be subject to mandatory clearing, such derivatives may not be executed in the Singapore market. **Question 5:** It would be appropriate to first impose the mandatory clearing on banking entities since other financial institutions would require considerable lead time. Further, it is considered reasonable to set a threshold to determine whether to be covered by the mandatory clearing regime. To ascertain which counterparty is covered by the mandatory clearing regime, MAS is requested to disclose the specified persons subject to the mandatory clearing. In addition to client clearing scheme, there are other indirect clearing schemes including ScD scheme, which is an approach of using an affiliate. To reflect this, the description included in this Consultation Paper ("specified persons entering into client clearing arrangements or taking up direct clearing membership on CCPs") should be changed to the wording "specified persons entering into client clearing and <u>other indirect clearing schemes,</u> or taking up direct clearing membership on CCPs" (paragraph 5.2). **Question 7:** It is requested to determine whether to impose clearing obligations on cross-border transactions, considering coordination with regulators of key jurisdictions. It is also requested to permit substitute compliance where a foreign bank to comply with the regulations taken effect in its jurisdiction. Addressing regulations on cross-border transactions is one of the important matters for each jurisdiction. Compliance with the regulations in other jurisdictions (double regulations) will impose a significant burden on users such as for system development. It is therefore requested to proceed with discussions through international coordination. **Question 8:** When particular products are not executed through trading platforms commonly used in markets, it is desirable to thoroughly consider the necessity of implementing the regime, and

		ensure appropriate grace period, before including such transaction in the scope of the mandatory clearing regime, even if the transaction is a non-interest rate derivative (e.g., non-deliverable forward (“NDF”), which has already been centrally cleared on certain CCP, such as CME). Unlike IRS, NDF and some other derivatives do not have any trading platforms commonly used in markets, which provides automated trade processing with major CCPs. (For interest rate derivatives, such as IRS, Markitwire is used as a common platform.) Technically, such transactions can be centrally-cleared through CCPs (such as CME), while the clearing forces transaction details to be managed manually. If the mandatory clearing is imposed for such products without sufficient lead time, it will place a significant burden on market participants. **Question 9:** The Annex B sets out that the time of clearing on CCP is (a) within the same day the specified derivatives contract is executed or (b) where the specified derivatives contract is executed on a day other than a business day, within the next business day. In clearing on CCP outside of the jurisdiction of MAS, there may be a case where transaction debts will be assumed in the next business day of a Singapore’s business day, depending on the timing of a contract executed in Singapore. We would like to confirm whether such practice is also acceptable. (For example, in clearing on JSCC, there may be a case where transaction debts will be assumed in the following day, depending on the timing in which a contract is executed.)
15	KfW Bankengruppe	**Question 6:** The MAS has proposed to exempt "public bodies" from the clearing obligations, including all central banks and governments. This is reflected in the Second Schedule of the draft Securities and Futures (Clearing of Derivatives Contracts) Regulations 2015 ("**SF(CDC)R**"), which prescribes that the following types of person are exempted from section 129A of the Securities and Futures Act (Cap. 289) ("**SFA**") in respect of the requirement to clear specified derivatives contracts: "1. The Government 2. Any statutory board established under any written law 3. Any central bank in a jurisdiction other than Singapore

		4. Any central government in a jurisdiction other than Singapore 5. Any agency (of a central government in a jurisdiction other than Singapore) that is incorporated or established, in a jurisdiction other than Singapore, for non-commercial purposes 6. Any of the following multilateral agencies, organisations or entities: (a) the African Development Bank (b) the Asian Development Bank (c) the Bank for International Settlements (d) the European Bank for Reconstruction and Development (e) the European Economic Community (f) the European Investment Bank (g) the Inter-American Development Bank (h) the International Bank for Reconstruction and Development (World Bank) (i) the International Finance Corporation (j) the International Monetary Fund 7. Any specified person referred to in paragraph (a) of the definition of ''specified person'' in section 129B of the Act, whose aggregate outstanding gross notional amount of the total derivatives contracts booked in Singapore, as at the last day of each of the past 4 consecutive calendar quarters, does not exceed the clearing threshold amount 8. Any specified person referred to in paragraph (a) of the definition of ''specified person'' in section 129B of the Act, who has commenced its business or operations for less than 4 quarters but only until the end of the fourth quarter 9. Any specified person referred to in paragraph (b), (c), (d), (e), (f) and (g) of the definition of ''specified person'' in section 129B of the Act." We note, however, that "agency" is not expressly defined in the SF(CDC)R, the SFA or any of its related subsidiary legislation, or the

		Interpretation Act (Cap. 1), and urge that the MAS provide clarification on the meaning of "agency (of a central government in a jurisdiction other than Singapore) that is incorporated or established, in a jurisdiction other than Singapore, for non-commercial purposes" for these purposes. In line with the MAS' intention to exempt "public bodies" from the clearing obligations, we are strongly of the view, and seek the MAS' confirmation, that KfW, as a public law institution (*Anstalt des öffentlichen Rechts*) under German law, should fall within the scope of paragraph 5 of the Second Schedule of the SF(DCD)R as an "*agency (of a central government in a jurisdiction other than Singapore) that is incorporated or established, in a jurisdiction other than Singapore, for non-commercial purposes*" and/or be expressly listed in paragraph 6 of the Second Schedule of the SF(CDC)R as an exempted person. This would be consistent with KfW's regulatory status under EU and US law as a "public sector entity" and a "foreign government", respectively. We describe this in further detail below. ***Legal Status, Ownership and Statutory Guarantee of KfW*** KfW is a public law institution organised under the Law Concerning KfW (*Gesetz über die Kreditanstalt für Wiederaufbau*, or "**KfW Law**"). The Federal Republic of Germany (the ''**Federal Republic**'') holds 80% of KfW's subscribed capital and the German federal states hold the remaining 20%. The KfW Law provides that the Federal Republic guarantees all existing and future obligations of KfW in respect of money borrowed, bonds and notes issued and derivative transactions entered into by KfW (KfW Law, Article 1a). Under this statutory guarantee, if KfW fails to make any payment of principal or interest or any other amount required to be paid with respect to any of KfW's obligations mentioned above, the Federal Republic will be liable at all times for that payment as and when it becomes due and payable. The Federal Republic's obligation under the Guarantee of the Federal Republic ranks equally, without any preference, with all of its other present and future unsecured and unsubordinated indebtedness. Creditors who have a claim against KfW resulting from one of the obligations mentioned in the first sentence of this paragraph may enforce this obligation directly against the Federal Republic without first having to take legal action against KfW. Against this background, these obligations of KfW, both financially and in terms of legal recourse, are viewed as sovereign credits and KfW, like the Federal Republic, enjoys a triple A credit rating from Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings. Further,

		claims on KfW are treated as claims to the Federal Republic and thus assigned a zero risk-weighting under the standardised approach for credit risk in accordance with Paragraph 58 of the Basel II revised framework *International Convergence of Capital Measurements and Capital Standards* of June 2006. As a public law institution, KfW also benefits from the German administrative law principle of *Anstaltslast*, according to which the Federal Republic, as the constituting body of KfW, has an obligation to safeguard KfW's economic basis. Under *Anstaltslast*, the Federal Republic must keep KfW in a position to pursue its operations and enable it, in the event of financial difficulties, through the allocation of funds or in some other appropriate manner, to meet its obligations when due. Although *Anstaltslast* is not a formal guarantee of KfW's obligations by the Federal Republic, the effect of this legal principle is that KfW's obligations are fully backed by the credit of the Federal Republic on this basis as well, in addition to the Guarantee of the Federal Republic referred to above. ***Purpose of KfW*** KfW was established in 1948 by the Administration of the Combined Economic Area, the immediate predecessor of the Federal Republic. Originally, KfW’s purpose was to distribute and lend funds of the European Recovery Program, which is also known as the Marshall Plan. KfW has expanded and internationalized its operations over the past decades. Today, KfW serves domestic and international public policy objectives of the German Federal government, primarily by engaging in various promotional lending activities. We highlight that KfW does not seek to maximize profits. It does, however, seek to maintain an overall level of profitability that allows it to strengthen its equity base in order to support its promotional activities and to grow the volume of its business. KfW is prohibited under the KfW Law from distributing profits, which are instead allocated to statutory and special reserves. KfW is also prohibited from taking deposits, conducting current account business or dealing in securities for the account of others. ***KfW’s Funding Activities and Derivatives Transactions*** KfW finances the majority of its lending activities from funds raised by it in the international financial markets. KfW issues debt instruments in various currencies, primarily the Euro and the U.S. dollar. As of December 31, 2014 KfW’s total outstanding funded debt amounted to EUR 432.0 billion. Due to their high credit quality – as

		mentioned above, KfW is rated triple A by all major rating agencies - and liquidity, KfW's bonds and notes are purchased by a wide variety of investors worldwide, including, in particular, a large number of central banks based in Europe, the Americas and Asia looking for a safe investment for their currency reserves. KfW enters into derivatives transactions in order to manage the risks incurred by it and its wholly-owned subsidiaries KfW IPEX-Bank GmbH and DEG in connection with its own and its subsidiaries' financing and funding activities. Such risks are almost entirely associated with changes in interest rates and foreign exchange rates. We highlight that KfW does not and, in accordance with Article 2 paragraph 3 of the KfW Law, may not, engage in proprietary or speculative trading. Further, KfW does not accommodate demand for swaps from other parties nor enter into swaps in response to interest expressed by other parties in the manner a dealer would customarily do, except that, in the context of centralising and aggregating market-facing hedging activities within the group at the parent level, KfW accommodates demand for swaps by its wholly-owned subsidiaries KfW IPEX-Bank GmbH and DEG for their hedging activities. KfW therefore considers itself as an end-user customer of derivatives. ***Treatment of KfW under OTC derivatives regulations in the EU and the US*** KfW is a "public sector entity" within the meaning of Article 1 Paragraph 5(b) of Regulation (EU) No. 648/2012 (''**EMIR**''). Article 1 Paragraph 5 of EMIR provides that, with the exception of the reporting obligation, EMIR shall not apply to (a) multilateral development banks, (b) public sector entities owned and explicitly guaranteed by a central government, and (c) the European Financial Stability Facility and the European Stability Mechanism. As a "public sector entity", KfW is hence, except for the reporting obligation, not subject to the obligations imposed by EMIR, including the clearing obligation and margin requirements. We strongly suggest that KfW, as a public sector entity under EU law, be exempted from the clearing obligations as an "agency (of a central government in a jurisdiction other than Singapore) that is incorporated or established, in a jurisdiction other than Singapore, for non-commercial purposes" for the purposes of paragraph 5 of the Second Schedule to the SF(CDC)R, as it had been established by the legal predecessor of the Federal Republic for non–commercial purposes. The U.S. Commodity Futures Trading Commission (''**CFTC**'') has stated that foreign governments, foreign central banks and

		international financial institutions will not be subject to the clearing requirement under Dodd-Frank for swap transactions. As noted above, the CFTC has confirmed KfW is a "foreign government" for this purpose. Further to the above, we would be grateful if the MAS would confirm that KfW is an "agency (of a central government in a jurisdiction other than Singapore) that is incorporated or established, in a jurisdiction other than Singapore, for non-commercial purposes" for the purpose of paragraph 5 of the Second Schedule of the SF(CDC)R and/or would be expressly listed in paragraph 6 of the Second Schedule of the SF(CDC)R as a person exempt from the clearing mandate.
16	LCH.Clearnet Ltd	**Question 1:** We support the proposal to include USD IRS in the mandate for the reasons identified by MAS, however we believe that the tenor for SGD swaps should be reduced. LCH.Clearnet's SwapClear service regularly assesses liquidity and potential close-out costs in long-dated SGD SOR swaps, and has determined that there is sufficient liquidity only in tenors below ten years to enable positions to be reliably liquidated or transferred on a member default without recourse to punitive initial margin levels. We propose therefore that ten years is set as the maximum maturity subject to regular review to assess developments in market liquidity and other factors that affect clearing eligibility. Conversely, we believe that it would be appropriate for the maximum tenor for USD LIBOR swaps to be extended from 30 to 50 years. Our experience is that there is adequate liquidity in USD LIBOR swaps between 30 and 50 years to enable satisfactory default management, and this definition would be consistent with the mandate in place in the US and with proposals made in the EU and Australia. **Question 2:** We would support a proposal to include EUR, GBP and JPY IRS in the mandate for the reasons identified by MAS, in the tenors proposed. **Question 3:** We would support a proposal to include certain basis swaps, forward rate agreements and overnight index swaps in the mandate. We also believe that in certain currencies swaps with a variable notional principal should be included. Further to the reason identified by MAS, we note that margin efficiency is an economic incentive which is available to market participants as soon as a product is eligible for clearing at an authorised CCP even in the absence of a mandate.

		We would however exclude SGD FRAs and OISs. Decisions regarding eligibility for clearing remain with individual CCPs and their regulators, based on an assessment of the CCP's ability to process transactions in the products and to manage risk in the product following a default. In our view, a clearing mandate for a specific class of derivative should only be contemplated once clearing of that that class has become established, liquidity in the cleared market has developed, end to end operational and settlement workflow is proven, and there is adequate market access for all participants. **Question 4:** We support a common approach across jurisdictions. The proposed approach is, we believe, sensible as it is consistent with, for example, EMIR, which applies the clearing obligation to two counterparties entering into the OTC derivative contract via their branches in the EU. **Question 6:** As in respect to Question 4, we support a common approach across jurisdictions. The proposed approach is, we believe, sensible as it is consistent with, for example, EMIR, which exempts intra-group transactions and public bodies from the clearing obligation to two counterparties entering into the OTC derivative contract via their branches in the EU. **Question 7:** Timetables for the introduction and any extension of any mandate(s) should allow for orderly transitions to cleared markets where adequate infrastructure exists. **Question 8:** On the question of increasing the range of products open to clearing obligations, MAS raises the specific question as to whether foreign exchange OTC derivatives should be the next asset classes to be included in a clearing mandate. We would support such a proposal, with Non-Deliverable Forwards (NDFs) being the first class of foreign exchange derivatives to be mandated, pending the development of robust clearing services for instruments with physical settlement within CLS. It is very difficult for LCH.Clearnet to quantify the average daily notional of NDFs or other FX products traded by Singapore entities but this would of course be assessed as part of any proposed mandate. However, the take-up in Asia of clearing NDFs as part of LCH.Clearnet's ForexClear service in has been positive - most of ForexClear's cleared volumes (over $90bn in June 2015) are executed in Asian time zones for IRN, CNY, and KRW, and we believe that 30%-40% may be traded in Singapore.

		On the question of lowering the threshold and/or widening the institutional scope, we note that in the US and the EU there was (or will be) phased approaches towards introducing sectors of the financial markets into a mandate. If it is MAS's intention that, at any point the future, entities that are initially below the threshold, or are not banks, might be subject to a mandate we recommend that clear guidance is provided for those affected to make appropriate plans. We have no comments on the question of widening the nexus. **Question 9:** Reflecting our answers to Questions 1 and 3, we propose that: • For Singapore Dollar-SOR Fixed-to-floating Interest rate derivatives contracts: o Maturity should be reduced to "Up to 10 years"; • For US Dollar-LIBOR Fixed-to-floating Interest rate derivatives contracts o Maturity should be increased to "Up to 50 years"; o Notional Type should be "Constant or Variable"; • The following products be added: o Fixed-to-floating Interest rate derivatives: ▪ Settlement Currency Euro; Reference Index EURIBOR; Maturity up to 50 years; Optionality "No"; Notional Type "Constant or Variable"; ▪ Settlement Currency Pound Sterling; Reference Index LIBOR; Maturity up to 50 years; Optionality "No"; Notional Type "Constant or Variable"; ▪ Settlement Currency Japanese Yen: Reference Index LIBOR; Maturity up to 40 years; Optionality "No"; Notional Type "Constant"; o Basis swaps: ▪ Settlement Currency Singapore Dollar; Maturity up to 10 years; Optionality "No"; Notional Type "Constant"; ▪ Settlement Currency US Dollar; Maturity up to 50 years; Optionality "No"; Notional Type "Constant or Variable"; ▪ Settlement Currency Euro; Maturity up to 50 years; Optionality "No"; Notional Type "Constant or Variable"; ▪ Settlement Currency Pound Sterling; Maturity up to 50 years; Optionality "No"; Notional Type "Constant or Variable"; ▪ Settlement Currency Japanese Yen; Maturity up to 40 years; Optionality "No"; Notional Type "Constant";

		o Forward Rate Agreements: ▪ Settlement Currency US Dollar; Maturity up to 3 years; ▪ Settlement Currency Euro; Maturity up to 3 years; ▪ Settlement Currency Pound Sterling; Maturity up to 3 years; ▪ Settlement Currency Japanese Yen; Maturity up to 3 years; o Overnight Index Swaps: ▪ Settlement Currency US Dollar; Reference Index Fed Funds; Maturity up to 30 years; Optionality “No”; Notional Type “Constant”; ▪ Settlement Currency Euro; Reference Index EONIA; Maturity up to 30 years; Optionality “No”; Notional Type “Constant”; ▪ Settlement Currency Pound Sterling; Reference Index SONIA; Maturity up to 30 years; Optionality “No”; Notional Type “Constant”; ▪ Settlement Currency Japanese Yen; Reference Index TONA; Maturity up to 30 years; Notional Type “Constant”.
17	Liu Guanyan	**General comments:** I believe that this move to implement mandatory clearing of derivative contracts would help strengthen the financial system against systemic risk if implemented correctly. **Question 1:** Reasonable. Considering that these IRS mentioned affect the Singapore Financial System significantly, these IRS should not have much problematic issues when subjected to clearing obligations. **Question 2:** I believe that MAS should assess the amount of EUR, GBP, and JPY IRS and assess the systemic risk involved in the Singapore Financial System due to these IRS. If there’s substantial risk involved, it would be appropriate to mandate these IRS, before adjustments to the laws should be taken. However, if the risk is not that significant yet, MAS could consider measuring the effects of the initial mandate on SGD and USD IRS and use it as a stepping stone to mandate clearing of IRS in other currencies. **Question 4:** I believe it is reasonable to subject these transactions to clearing obligations. However, the amount involved may or not be significant for the counterparties involved. The situation could be better assessed.

		Question 5: a) What would be the notional amount of derivatives that is to be cleared if the banks hit the S$20 billion? Is there going to be an amount that they have to clear? In future assessments (should the S$20 billion threshold be implemented), will MAS lower the maximum threshold if the risk is high for a smaller notional amount (e.g. S$15 billion gross notional outstanding derivatives). On current note, S$20 billion gross notional outstanding derivatives contracts should be a relatively large but fair amount for banks to be subject to mandatory clearing. b) For financial institutions there are not banks, would they be subject to mandatory clearing if they are involved in a large notional value of derivatives contracts? Especially if they pose a risk of facing default or large losses in this contracts. For individual persons, I think exemptions are reasonable, but there could be a rule to monitor the contracts which individuals are involved, such that they do not exceed a certain threshold (Not just the 10% of bank's trades, but could be a lower figure, since derivatives could potentially bring about larger losses.) Increasing the range of products subject to clearing obligations is good (if implemented gradually), as other forms of Derivatives such as Credit Default Swaps and other products that may pose systemic risks could be considered. **Question 8:** Lowering the threshold is also a good, reasonable measure, as I previously mentioned in 5a, which would be done eventually. Regarding the widening of the nexus, I am not as sure if we should delve into it immediately, but we could adopt a more cautious attitude to see how it affects the Financial Systems across the globe.
18	Malayan Banking Berhad, Singapore Branch	Requested for all comments to be kept confidential
19	Markit Group Ltd.	**Question 1:** Markit supports regulatory initiatives to increase financial stability and reduce systemic risk as these initiatives are good for the long-term development and growth of the financial

		markets. There exists already a market infrastructure for market participants to clear for the products mandated to be cleared by MAS. This infrastructure includes MarkitSERV. We are of the view that the MAS does not extend the clearing mandate to products that are not cleared at more than one CCP. If only one CCP is available for a mandatorily cleared product, this will result in a number of undesirable externalities. These externalities include the costs associated with excessive market power, heightened potential for discriminatory access to the CCP, and the increased systemic importance of the single CCP (and the increased likelihood that no other CCP will be able to take positions from a failing CCP). In order to ensure a competitive market for clearing and related services (e.g., execution and processing), the MAS should only extend the clearing mandate to products that are cleared across multiple clearinghouses. **Question 2:** Markit is of the view that it is important to consider the existing market infrastructure when looking at extending the scope for mandatorily clearable products. The single point of connectivity MarkitSERV provides market participants to different OTC derivatives clearing houses globally, including those recognized in Singapore, facilitates the transition to a mandatory clearing requirement. In this regard, we note that the above instruments – basis swaps, FRAs and OIS – are already supported for clearing at a number of CCPs and may be cleared for cross margin efficiency today. Markit believes that a phased approach to any mandatory clearing obligations would enable market participants to fully test systems and operational processes in advance of the mandate and to thereby ensure systemic stability during the transition process. **Question 5:** We commend the approach proposed in the Consultation that focuses on what firms may be systemic, i.e. certain large banks, and exempts small banks and all non-banks. The costs of requiring small banks and non-banks to clear the transactions within scope of the Consultation may exceed the limited systemic benefits. We note that the concept of a clearing exemption (or exception) for firms that are not systemically important has been adopted by European and American regulators, although their criteria for what firms should be exempted from their respective clearing requirements differs.

		Markit cautions that using a gross notional threshold could be challenging from a definitional, implementation and tracking perspective. MAS may need to provide further guidance and details on how to calculate these thresholds. For example, if a firm crosses the threshold, there may be need for more clarity on whether they are required to backload four quarters of trades to clearing. MAS may also wish to consider guidance to the industry in the scenario where a trade fails to clear, for technical or operational reasons. Markit is of the view that mandated to clear trades which fail to clear due to technical or operational reasons should be allowed to be resubmitted to clearing within a reasonable period of time, e.g., three business days as allowed under CFTC rules. **Question 7:** Based on Markit's experience working with its customers to comply with clearing mandates in other regions, it is important to give affected entities enough time to prepare for and implement the clearing mandate. For example, banks will have to design and implement operational and technical controls to ensure that mandated trades are sent to clearing, and develop reconciliation tools to ensure that no trades were missed. Affected entities may also need time to onboard, contract with clearing brokers and set up collateral accounts. Markit further notes that many of the entities that are intended to be mandated to clear (as described in section 5.3, "…most active major global banks, regional or domestic banks trading OTC derivatives…") could already be clearing OTC derivatives on a voluntarily basis. Markit supports the MAS' intention to recognise more CCPs as this will provide a competitive landscape for derivative clearing in Singapore. This it will also help avoid the concentration risk that arises when a mandatorily cleared derivative is only cleared by a single CCP. Providing clarity, in terms of the possible approval or recognition of CCPs (as per the current regime) will also allow the banks to clear trades, on a voluntary basis, with confidence about the regulatory status of these CCPs ahead of the mandate.
20	Mizuho Bank Ltd	**Question 1:** We agree with the proposed approach to subject the proposed products to clearing obligations but would suggest for MAS to consider inclusion of CCPs in other jurisdictions which are already performing voluntary clearing as RCHs. As an example, our bank is currently clearing with LCH. Therefore, we would like to suggest for the inclusion of LCH as RCH in Japan and Singapore for the products and currencies mentioned above.

		Question 2: We understand that JFSA does not permit Japanese banks to clear JPY IRS with any clearing house other than JSCC. As such, should clearing of JPY IRS be mandatory, we would suggest for JSCC to be included as RCH. Otherwise, it will reduce our counterparties. **Question 3:** Our preference would be for the products mentioned above to be subjected to voluntary clearing instead of mandatory clearing. **Question 4:** Agree. **Question 5:** We would like to seek clarification on how do we ascertain whether our counterparty has exceeded the maximum threshold and thereby subject the transactions between our bank and the counterparty to mandatory clearing. Alternatively, would MAS be providing a list of Specified Persons that will be subjected to mandatory clearing? **Question 6:** Agree. **Question 7:** We would like to suggest for MAS to disseminate a list of the ACH and RCH at least 12 months prior to commencement of clearing obligations so that the banks would have sufficient time to prepare for the clearing obligations.
21	OCBC Bank	Requested for all comments to be kept confidential
22	RHTLaw Taylor Wessing LLP	**Question 1:** We are concerned with the proposed scope of the requirement to subject USD fixed-to-floating LIBOR IRS to clearing obligations. We understand that SGX-DC's registration with the CFTC as a Derivatives Clearing Organisation and recognition by the ESMA as an equivalent third party CCP resolves some potential issues of regulatory arbitrage. However, the EMIR and Dodd-Frank requirements are already in effect, while the proposed regulations will not come into force for some time. The implementation time differences will temporarily cause compliance confusion. Thus, we propose that the mandatory clearing requirements be imposed only on non-Us and non-EU persons, as Us persons dealing in such swaps are already subject to the Dodd-Frank Act or EMIR **Question 2:** While SGX-DC's registration with the CFTC and recognition with the ESMA resolves clearing issues with regards to those jurisdictions, we are concerned with the potential conflicting requirements that may arise from the clearing of JPY IRS, as upcoming Japanese regulations on the clearing of OTC derivatives

		have not yet been harmonised with the proposed requirements from MAS. **Question 5:** We would like to inquire as to how the threshold amount of S$20 billion was reached, and why this number was selected, and would suggest that the threshold be raised to a minimum of $3billion dollars instead, so as to have equivalence to the gross notional values stipulated in EMIR. We would also like to clarify how this S$20 billion amount will allow room for fluctuation between the quarters, for example, in the event a bank meets the threshold for one quarter but not the next. **Question 6:** Roundtable participants agree with the reasoning behind the proposed exemptions. However, we would suggest that the exemption be extended to sovereign wealth funds here as well. There is an obvious dichotomy between the nature and structure of sovereign wealth funds with that of public bodies that would make the extension a logical movement. Furthermore, sovereign funds are already required to adhere to Dodd Frank and European requirements. Not granting the exemption from the regulations to such funds would also impact bond market liquidity. **Question 7:** We would request for the deadline to be extended for the requirements take effect, especially due to various other reporting regulations that institutions need to be put in place concurrently, for entities such as banks especially. We suggest that the phase-in period be extended to 2016 instead. **Question 8:** Together with the other options currently being considered, we would like to request that the definition of 'eligible collateral' to be used for the initial margin should include non-cash collateral. We propose that the definitions be aligned with those provided in the MAS Notice on Risk Based Capital Adequacy Requirements for Holders of Capital Markets Services Licenses. Allowing for non-cash assets as collateral would also be in line with several other international frameworks. We also suggest that, for future consideration, a longer timeline be allowed for fund managers to comply with the mandatory regime

		requirements, as they are riot as well equipped to deal with major operational changes as larger institutions, such as banks, are. **Question 9:** We would like MAS to consider the issue of CCPs being 'too big to fail' and whether they would be willing to provide central bank emergency liquidity assistance in the form of funding or lending, in the event that a clearing member defaults. We note that this consideration has not been addressed in the SF(CFC)R. In the event of large credit default events, we have concerns that CCPs would have limited capital to cover potentially large losses. We recognize the major benefit of having CCPs serve as firewalls that limit counterparty credit risk. However, they also increase concentration risk by substituting for a whole network of financial institutions. This large exposure is likely to cause market-wide contagion events due to their interconnectedness, such as an event as seen in Annex I. Clearly, CCPs are highly systemically important, and fall into the category dubbed by the IMF as 'too important to fail' It is important to all market participants that the significant expenses of operating CCPs be worth the costs by ensuring that, in the event of a disruption, the liquidity be available to prevent further contagion. Thus, we propose that MAS take guidance from the Us Dodd-Frank Act that allows the Federal Reserve to act as a 'last resort clearing house' to avert the collapse of systematically important CCPs. These regulations, under Title Vlll's financial market utility provisions, give access to systematically important clearing houses access to Federal Reserve bank accounts and services. Similarly, the European Central Bank and Bank of England are considering regimes that allow for timely provision of emergency liquidity assistance to solvent and viable CCPs. However, we have concerns on the issue of international coordination. Defaults, particularly interest rate swaps, frequently impact multiple jurisdictions. In such event, we would like clarity from MAS whether it would be MAS or the Federal Reserve providing emergency liquidity assistance, or whether neither of them would do so.
23	Wong Partnership LLP	Requested for all comments to be kept confidential

24	Respondent A	**Question 5:** Agree
25	Respondent B	**Question 1:** We recommend MAS consult with market participants and CCPs prior to enforcing clearing obligations to ensure that CCPs offer products in those currencies. We encourage cross product margining to promote greater margin efficiencies. We recommend MAS have an equivalency or passport regime that recognizes foreign CCPs prior to the commencement of clearing obligations to ensure they do not place foreign market participants at a competitive disadvantage. **Question 5:** MAS should consider alignment with exemption regimes such as Dodd Frank or EMIR that allows for a wide range of exemption categories. This recognizes that the costs of clearing may act as a barrier to entry for smaller market participants. **Question 7:** We recommend MAS ensure their implementation approach is harmonized with international regulations to avoid regulatory arbitrage opportunities.
26	Respondent C	**Question 4:** In relation to the IRS proposed for clearing, Nomura would like to clarify with the Authority whether transactions of a Singapore-incorporated company or a Singapore branch of a foreign entity with an individual who is a Singapore based client is subjected to IRS clearing. **Question 5:** We would like to clarify with the Authority whether the computation of the S$20b threshold of gross notional outstanding derivatives contracts in each quarter refer to IRS only or it includes all types of interest rate, credit and FX derivatives contract. We would like to check with the Authority whether there would be further guidance provided in terms of notification to the Authority when banks exceed a maximum threshold of S$20 billion gross notional outstanding derivatives contracts booked in Singapore for each of the last four quarters. In addition, Nomura would like to know if there is a grace period to commence IRS clearing after the thresholds are exceeded in each of the last four quarters.
27	Respondent D	**Question 1:** We fully support and agree with this proposal. At present, we are already voluntarily clearing inter-dealer SGD Interest Rate Swaps ("IRS") and (limited volumes of) USD IRS. Any increase in

		the volume of cleared trades involving one or both IRS classes will be supported. It is important, however, that where a bank is clearing a particular product on an existing CCP, then the mandatory clearing regulations should not break the netting set that is in place in such instance by carving out a sub-portion and forcing it to another CCP. **Question 2:** We fully support this expansion to EUR, GBP and JPY IRS. This allows for improved risk management, increases margining efficiencies as well as supports good capital efficiency. **Question 3:** We agree and support the proposal to subject additional product types as listed in the Consultation Paper to clearing obligations. We would additionally like to propose the inclusion of cross-currency swaps in the mandate for clearing; naturally, subject to the relevant CCP being able to offer this product for clearing. For each product type mandated for clearing, it would be prudent that two or more CCPs are authorised/registered for clearing. For example, where a relevant CCP discontinues or otherwise removes the particular product from clearing, it is unclear how clearing banks will be able to satisfy the clearing requirement if there no alternative CCPs available to take over. **Question 4:** We support limiting the clearing mandate to trades that are "booked" in the Singapore based operations of both transacting entities. We believe that this is the correct approach to address risk that resides in Singapore, while limiting any unnecessary extraterritorial reach **Question 5:** We would like to refer to (live and proposed) clearing mandates under other relevant regimes such as under the European Market Infrastructure Regulations ("EMIR") and the Dodd Frank Act ("DFA") and respectfully request MAS to work towards consistency and harmonisation across the different regimes. (a) We support the application of threshold levels as proposed by MAS and agree that the initial threshold of S$20 billion is a reasonable level to start with. Whether an entity has breached the threshold is usually a fact known only to itself. Therefore, it would have to be the responsibility of each entity to declare if it is in scope for mandatory clearing. A trading entity should not bear any obligations/responsibility with

		regard to whether its counterparty has exceeded the clearing threshold and thus is subject to mandatory clearing obligations. No liability should attach to such trading entity if a clearable trade was not cleared on account of the failure of its counterparty to indicate that it is subjected to the clearing mandate. In line with the foregoing, we would suggest that entities to which the clearing mandate applies should be identified officially, perhaps under an official list maintained and published by MAS (for example, on the MAS website). Another suggestion we would submit for consideration would be to have assistance from industry bodies, such as ISDA, to implement a formal notification process by which counterparties officially identify themselves as clearing entities to facilitate compliance with clearing mandates. (b) With regard to application of the clearing mandate to other specified persons that are not banks, it may make sense to include them in due course, where such entities are classified as systemically important (as an example, "major swap participant" as classified under DFA or "NFC+" under EMIR) and who have outstanding derivatives contracts in excess of the relevant threshold level (booked in Singapore). **Question 6:** We fully support this, and this is generally in line with other regimes that have or plan to impose the clearing mandate such as DFA and EMIR. **Question 7:** We agree with the proposal in the Consultation Paper for the SF(CDC)R to be issued by 2015 year end, with a six month notice period before commencement of the clearing obligations. We believe that this six month notice period provides sufficient time for technical/operational matters to be attended to and finalised in preparation. **Question 8:** We fully support further expansion in the scope of the mandatory clearing regime, provided that sufficient consultations are held beforehand; and with sufficient implementation times which allow for any new technical/operational work and development. In any future expansion of scope to the clearing regime, we respectfully request MAS to continuously work towards consistency and harmonisation across the different international regimes, such as under DFA, EMIR, as well as other jurisdictions that have indicated

		an intention to introduce the clearing mandate (such as Hong Kong and Australia). We note that under EMIR, the proposed clearing entities under "category 1" would be existing clearing members of CCPs authorised or recognised by ESMA that clear the mandated class of OTC derivative. "Category 2" entities are entities (which are not category 1 entities) which are financial counterparties or alternative investment funds which are non-financial counterparties which belong to a group whose aggregate month-end average notional amounts of non-centrally cleared derivatives in excess of EUR8 billion. Separately, under DFA, the mandatory clearing obligation applies currently (with respect to standardized interest rate swaps and index credit default swaps) to all US market participants other than commercial end-users. The term "commercial end-users" refers to entities that are not financial entities and who are using the swap to hedge or mitigate risks intrinsic to their operating businesses. We note that no aggregate swap notional threshold level is applied under DFA. In light of developments under other clearing regimes, we are supportive of the clearing mandate being applied to banks, as well as systemically important entities with large derivative positions. We would also be supportive of an application of EMIR threshold levels (as this is currently proposed). From a product perspective, we would be supportive of an expansion of scope to cover a wider set of IRS denominated in regional currencies - primarily ASEAN, South Asian and Middle East-North Africa currencies. This not only increases critical mass for the local CCP, but it also promotes and reflects the trade flows of regional investors across these regions. We would additionally submit that widening the scope of the mandatory clearing regime would not be appropriate if a "Singapore nexus" (traded in Singapore but booked offshore) is introduced and applied (unlike for transaction reporting). This would be the case where a trade is not booked in the Singapore based operations of both transacting entities. The clearing mandate is justified in policy terms on the basis of increased efficiency, integrity and stability of the (Singapore) financial markets and not market surveillance, unlike trade reporting.

		Question 9: We would suggest the need for consistency and harmonisation against other regimes such as EMIR and DFA; which in turn may facilitate equivalence determinations of one regime against another as well as allow for the application of "substitutive compliance" insofar as possible.
28	Respondent E	**Question 2:** JPY IRS (conducted by Japanese banks regardless of where the transaction is booked) are required under Japanese regulations to be centrally cleared via a domestic central counterparty. There is no confirmation as to whether any regulatory changes may be made to allow JPY IRS to be cleared by a foreign central counterparty. The only domestic central counterparty that holds the required license is the Japan Securities Clearing Corporation ("JSCC"). As such, if central clearing of JPY IRS is mandated in Singapore, there will likely be clearing difficulties encountered by the Japanese banks if JSCC is not recognised by MAS as an approved clearing house. We would like MAS to take into consideration clearing obligations of Japanese banks under Japanese regulations when approving or recognising central counter party as approved clearing house or recognised clearing house. **Question 3:** In order to minimize impact to the bank's' operation, if more types of products have to be mandatorily cleared, we would like to request MAS to provide at least one year's notice (preferably longer than one year's notice) before the clearing obligations take effect. **Question 6:** Please specify the definition for "Intra-group" **Question 9:** We would like MAS to consider the mandatory clearing regimes of other jurisdictions in particular United States, Europe Union and Japan. This is so that banks do not find themselves in a position that they have to comply with conflicting requirements.

Monetary Authority of Singapore