

Application for SGX –DC Enhanced Customer Collateral Protection Background to Client Segregation

Singapore Exchange Ltd – Derivatives Clearing (“SGX-DC”) existing client clearing framework offers a high level of protection for customer’s assets, due primarily to the Securities and Futures (Clearing Facilities) Regulations 2013 (“SF(CF)R 2013”) , which accords statutory trust on customer collateral deposited with SGX-DC.

Regulation 23 of the SF(CF)R 2013 imposes statutory trust on customer collateral deposited with SGX-DC, where customer is held separate from the Clearing Members’ own collateral and SGX-DC funds. Hence, customer funds are protected against the risk of Clearing Members’ and SGX-DC insolvency.

Customers remain exposed to the risk of their collateral being utilised in the event that a fellow customer causes the default of the Clearing Member (“fellow-customer risk”). SGX-DC is therefore introducing the option of Enhanced Customer Collateral Protection (“ECCP”), providing added protection against fellow-customer risk – customers who wish to be protected from this type of risk may choose to opt in.

The SGX-DC’s ECCP is in line with that promulgated by the US Dodd-Frank Act for swaps clearing and the European Union European Market Infrastructure Regulation (“EU EMIR”).

What is Client Segregation?

SGX-DC’s ECCP model gives customers clearing OTC Commodities contract and OTC Financial Contracts the option to “ring-fence” themselves from fellow-customer risk. Accounts of such customers will be designated as “Applicable Customer Accounts” in the SGX-DC rules. The following applies to such accounts:

1. Positions: Positions held in individual position accounts and not commingled with other customer’s positions
2. Collateral: Collateral will be recorded by SGX-DC based on Clearing Member’s input. In the event of a double default, i.e and event where a Clearing Member has defaulted on its obligations to SGX-DC in relation to a customer contract and such Clearing Member default is due to the default of one of its customers, SGX-DC will only use collateral posted in the Applicable Customer Account for its holder’s own obligations and not for that of customers
3. Margins: Additional Margin Requirement (“AMR”) of 10% will be imposed to compensate for the loss of access to the collateral of other customers in the event of a double default caused by the customer holding an Applicable Customer Account.

ECCP provides the following key benefits

1. Protection from fellow-customer risk

Non-Applicable Customers are technically exposed to a degree of risk in the default of another non-Applicable Customer. Section 60(1)(b) of the SFA and Regulation 24(1) of the Securities and Futures (Clearing Facilities) Regulations 2013 (“SFR (Clearing Facilities)”) provide that the Clearing House may use Customer Collateral of non-Applicable Customers to meet obligations of a Clearing Member that arise from other non-Applicable Customers’ contracts where certain conditions are met. In contrast, Applicable Customers are protected from fellow-customer risk because SFR (Clearing Facilities) Regulation 24(2) provides that in the event of a default of a Clearing Member caused by a Customer, Collateral of a non-

defaulting Applicable Customer will not be used to satisfy the obligations arising from the Contracts of such defaulting Customer. In the event of a default of a Clearing Member caused by an Applicable Customer, only the Collateral of such defaulting Applicable Customer will be used. Other Customers' Collateral will not be used.

2. Clear identification of positions and associated Collateral in respect of each Applicable Customer Account enables Clearing House to accurately determine the minimum amount of Collateral each Applicable Customer has to deposit and will potentially expedite the porting of positions and associated Collateral in an event of default.

What is the “cost” for customers who opt for ECCP?

Customers should note that the following will apply to Applicable Customer Accounts:-

1. AMR currently set at 10% of their margin requirements, will be applicable.
2. Applicable Customer Accounts should only hold OTC contracts – meaning that customers with positions in related OTC contracts and futures/options contracts will not be able to enjoy margin offsets.
3. An account maintenance fee will be payable for Applicable Customer Accounts, but will be waived until further notice.
4. Clearing members may impose fees and/or other requirements.

In view of the above ECCP model by SGX,

I am keen and would like to opt in to client segregation and I understand that in addition to the margin add-on of 10%, the Company will be imposing an additional fee of S\$10,000.

I am not keen and would like to opt out of client segregation.

Kindly tick off in one of the boxes.

Customer Account Number: _____

Name of Authorized Signatory: _____

Signature: _____

Date: _____