4th floor, Ropemaker Place
25 Ropemaker Street
London EC2Y 9LY
United Kingdom

+44 20 7260 2000Phone
+44 20 7260 2001Fax

ihsmarkit.com

Monetary Authority of Singapore
Capital Markets Policy Division
Markets Policy & Infrastructure Department
10 Shenton Way, MAS Building
Singapore 079117

Submitted by email via: capital_markets@mas.gov.sg

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Consultation Paper: Draft Regulations for Mandatory Trading of Derivatives Contracts (P005-2018)

Dear Sir/Madam,

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide.[1] Our company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed decisions. We have more than 50,000 key business and government customers, including all G20 governments, 85 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

General comments

IHS Markit has a deep understanding of the derivatives market developed through its derivatives processing platforms, which are widely used by market participants, trading venues and brokers to increase operational efficiency, reduce cost, and ensure legal certainty. Globally over 2,000 firms use the various IHS Markit trade processing platforms that process, on average, 90,000 derivative transaction processing events per day. IHS Markit's trade processing platforms form an important element of derivatives workflows, particularly in the credit, interest rate, equity, and foreign exchange asset classes.

We welcome the opportunity to comment on the consultation and support MAS's proposed approach to focus the trading obligation only on those derivatives that are more liquid and in ensuring consistency with the wider global picture. Research, as well as market practice, suggests that illiquid financial instruments become less liquid

[1] See www.ihsmarkit.com for more details

when subject to centralised trading and public transparency.[2] This is because the additional transparency associated with on-venue trading (resulting in publicly disseminated demand for liquidity) for an OTC derivative alerts market participants that there is demand for liquidity. Such information encourages liquidity providers to withdraw liquidity in order to force the liquidity demander to pay a premium. This 'predatory trading' deters liquidity providers from meeting end user demand for hedging transactions, effectively raising the cost for market users to reduce commercial risks.

We broadly support the proposed trading obligations and would urge MAS not to extend the trading obligation beyond a carefully chosen set of liquid instruments unless there is robust evidence (based on historical price forming transactions and the activity of a necessary number of market participants on multiple trading venues) that adequate liquidity exists. Furthermore, MAS should ensure adequate time is given to the market to prepare for the implementation of a trading obligation and consider adequate mechanisms to revoke a trading obligation if market conditions change and liquidity is affected. This can help avoid the negative consequences of a poorly calibrated trading obligation. Also, if an associated clearing obligation was revoked, it would be important to automatically revoke any trading obligation.

We would be happy to discuss any of the points we make here in further detail.

Question 1: MAS seeks views on the proposal to subject IRS denominated in USD, EUR and GBP, with the contract specifications set out in Table 1, to trading obligations.

Although we broadly support the MAS proposal for the reasons set out above, we do have some concerns about several of the benchmark tenors being proposed for the trading obligation. Prior to the adoption of the trading obligation in the EU, we undertook some liquidity analysis using trade data sourced from IHS Markit's derivatives processing business and shared it with ESMA. This revealed that some benchmarks were less liquid than previous analysis suggested. Based on this work, we believe that a number of the IRS proposed by MAS to fall under the trading obligation are actually illiquid and, therefore, should not be included until liquidity improves. We estimated that, for example, some of the proposed IRS can have fewer than 10 transactions per day and therefore MAS should consider carefully the potential negative impact of applying a trading obligation to all of these. This analysis is available in the Annexes of our submission to ESMA, available at:

https://cdn.ihs.com/www/pdf/IHS-Markit-response-ESMA-CP-Trading-Obligation-Jul-2017.pdf

[2] For example, see *Predatory Trading*, Markus K. Brunnermeier and Lasse Heje Pedersen, The Journal of Finance, Aug. 2005, at 1824-1825, available at http://pages.stern.nyu.edu/~lpederse/papers/predatory_trading.pdf

Question 2: MAS seeks views on the proposal to impose trading obligations on banks that exceed a threshold of S$20 billion gross notional outstanding of OTC derivatives contracts booked in Singapore for each of the last four quarters.

We welcome MAS's proposal to impose trading obligations only on banks with significant trading activity as an appropriate and proportionate way to apply the new requirements and maintain access to these markets for firms looking to hedge real commercial risks. The activity of such banks is likely to be a significant proportion of trading activity and, therefore, represent the vast majority of the market volume booked in Singapore.

We would suggest that the calculation of the S$20 billion gross notional is done on an annual rolling average basis. This would mean that those banks that may close to the threshold will not find themselves moving in an out of the obligation on a frequent basis. A rolling average would also have the advantage of not providing a particular point in time measure that could be manipulated by such banks (for example by artificially deflating positions over a short period to appear to fall below the threshold).

MAS may also want to consider the risk that in setting only an outstanding notional threshold it may capture infrequent traders with large outstanding thresholds from only a few long term transactions, rather than only frequent traders. In that case MAS should consider adding a second deminimus threshold based on trading activity.

Question 3: MAS seeks views on the proposal to exempt public bodies from trading obligations.

We agree with the proposal to exempt public bodies from trading obligations. We would encourage MAS to also permanently exempt commercial end users and other participants with similar trading activities and volumes for the same rationale (as in para 4.4) of enabling them to maintain flexibility to respond to a variety of circumstances.

Question 4: MAS seeks views on imposing trading obligations to products that are traded in Singapore by both counterparties that exceed the proposed threshold of S$20 billion gross notional outstanding of OTC derivatives contracts booked in Singapore.

We agree that MAS's proposals to only apply the trading obligation when both counterparties are banks exceeding the threshold of S$20 billion gross notional outstanding. As explained in our response to Question 2, this should capture the vast majority of trading while enabling other users the flexibility to trade in a way that is the most efficient and effective for their purposes. As MAS point out in their paper (para 5.3), 80% of the Singapore market is expected to be executed on organised markets under the proposed arrangements.

As the trading obligation will rightly apply only when both counterparties exceed the set threshold, to avoid disruptive uncertainty MAS should establish a mechanism by

which market participants can easily identify, before trading, whether a prospective counterparty would be subject to the trading obligation. This could take the form of a published list of banks which are in scope, similar to those maintained by HKMA in Hong Kong or ASIC in Australia to identify those banks in the scope of their clearing obligation.

Furthermore, MAS should clarify whether it expects the trading obligation to apply when in scope banks (above the threshold) *book* a trade in a relevant instrument in Singapore; whether it applies when in scope banks *trade* a relevant instrument in Singapore; whether it applies only if trades take place and are booked in Singapore; or whether it applies if trades take place or are booked in Singapore. Applying the trading obligation to trades that are either booked or traded in Singapore or are booked and traded in Singapore would be extremely onerous operationally as it would be difficult for traders to understand, ex ante, whether the trade they are looking to conduct would be in scope of the trading obligation. We would therefore recommend the obligation only applies to trades between in scope banks that are actually traded in Singapore.

As MAS point out (for example in para 4.3), the trading obligation and associated thresholds will be kept under review and action can be taken at the point when evidence of any suboptimal and/or unexpected developments arises. As stated above, MAS should also ensure it has a mechanism to quickly revoke or reduce the scope of the trading obligation (and clearing obligation) if the market changes, particularly due to falling liquidity.

Question 5: MAS seeks views on the proposal to exempt intra-group transactions from trading obligations.

We fully agree with the proposed treatment of intra-group transactions and package transactions. Package trades, being transactions bringing together a number of different components, cannot by their nature be standard and liquid enough to enable them to subject to a trading obligation without serious risks of disrupting the smooth and orderly functioning of the market.

Furthermore, MAS should ensure that there is some flexibility around the implementation of the trading obligation that ensures transactions that are outsized or wholesale in nature (known in the USA as 'block' transactions and in Europe as 'large in scale' transactions) are also exempted from the trading obligation. Trying to conclude such transactions on a trading venue can be disruptive for the market as using a venue means pre-trade information can leak on the intent to trade and post-trade information makes it harder for the dealer to hedge, making it less likely they will conclude such a trade.

Question 6: MAS seeks views on the proposed timing for the commencement of trading obligations in conjunction with the commencement of the SF(A) Act.

We believe that market participants and trading venues should be provided with a minimum notice of 6 months from the point that all the rules, including all associated

technical requirements, are finalised before the application of a trading obligation in order to ensure adequate time for clients to be onboarded and systems to be fully tested.

Additionally, a trading obligation should only be imposed after there is evidence that the conditions exist to for the instruments in question to have been successfully subjected to a clearing obligation. It would, therefore, be prudent to impose a trading obligation only after a clearing obligation has been successfully applied in that particular instrument for at least six months.

Question 8: MAS seeks feedback on any other considerations and timing concerns that may affect market participants' ability to access trading facilities for the trading of USD, EUR and GBP IRS.

The application of the MAS trading obligation would ideally be at least six months after the conclusion of equivalence decisions with the EU and CFTC (as the proposal covers GBP, EUR and USD instruments) to ensure a smooth transition for globally active banks.

Furthermore, as stated above, a trading obligation should only be imposed after there is evidence that the conditions exist to for the instruments in question to have been successfully subjected to a clearing obligation. Therefore it would be prudent to impose a trading obligation only after a clearing obligation has been successfully applied in that particular instrument for at least six months.

Question 10: MAS seeks views on the proposal to subject IRS denominated in EUR and GBP, with the contract specifications set out in Table 2, to clearing obligations.

As we mention above, we believe that a trading obligation should only be considered if the conditions first exist for a clearing obligation to be successfully imposed, something that has been the standard approach of a number of regulators, including the EU and US. A trading obligation should, therefore, not be imposed on any instruments that had not first been subject to the clearing obligation for at least six months.

Additionally, a trading obligation should only be applied in Singapore to instruments that have been subject to a clearing obligation in Singapore for at least six months and that are also demonstrated to be sufficiently liquid in Singapore. This should be apparent from reporting data and is likely to apply only to a subset of instruments subject to a clearing obligation.

Finally, whenever a clearing obligation is removed or suspended the trading obligation should also be removed or suspended automatically as the circumstances that enabled the initial application would have changed. MAS should develop a mechanism to ensure this happens.

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We hope that our above comments are helpful. We would be happy to elaborate or further discuss any of the points addressed above in more detail. If you have any questions, please do not hesitate to contact us.

Yours sincerely,

David Cook

Head of European Regulatory Affairs
IHS Markit
david.cook@ihsmarkit.com