

RESPONSE TO CONSULTATION PAPER

Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like (a) their whole submission or part of it, or (b) their identity, or both, to be kept confidential, please expressly state so in the submission to MAS. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.

Consultation topic:	Consultation Paper on Draft Regulations for Mandatory Clearing of Derivatives Contracts
Name¹/Organisation: <small>¹if responding in a personal capacity</small>	Markit Group Ltd.
Contact number for any clarifications:	Tiak-Peow Phua, +65 69224309
Email address for any clarifications:	tiak.phua@markit.com
Confidentiality	
I wish to keep the following confidential:	<i>(Please indicate any parts of your submission you would like to be kept confidential, or if you would like your identity to be kept confidential. Your contact information will not be published.)</i>

General comments:

Markit¹ is a leading global diversified provider of financial information services.² Founded in 2003, we employ over 4000 people in 10 countries and our shares are listed on Nasdaq (ticker “MRKT”). Markit has been actively and constructively engaged in the debate about regulatory reform in financial markets, including topics such as the implementation of the G20 commitments for over-the-counter (OTC) derivatives and the design of a regulatory regime for benchmarks. Over the past years, we have submitted more than 120 comment letters to regulatory authorities around the world and have participated in numerous roundtables.³

Markit’s derivatives processing services offer confirmation, connectivity, and reporting functionality to participants in the global OTC derivatives markets. In the trade workflow model prevalent in the OTC derivatives markets, the MarkitSERV platforms provide “middleware” services that generally occur post-execution and pre-clearing.⁴ Such services, which are offered also by various other providers, are widely used by participants in these markets today and are recognized as tools to increase operational efficiency, reduce cost, and secure legal certainty. With globally over 1,500 firms using the various MarkitSERV platforms that process, on average, 80,000 OTC derivative transaction processing events per day, our legal, operational, and technological infrastructure plays an important role in supporting the OTC derivatives markets. In addition to offering trade confirmation and matching services for OTC derivatives across regions and asset classes, we also provide connectivity to central counter parties (CCPs) and trade repositories (TRs). MarkitSERV reports derivatives transactions to TRs in Europe, the United States, Canada, Japan, Hong Kong, Singapore and Australia for a large number of counterparties and we submit transactions for clearing to 16 CCPs globally.

¹ Please see www.markit.com for further details.

² We provide products and services that enhance transparency, reduce risk and improve operational efficiency of financial market activities. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. By setting common standards and facilitating market participants’ compliance with various regulatory requirements, many of Markit’s services help level the playing field between small and large firms and herewith foster a competitive marketplace. For example, Markit’s KYC Services provide a standardized end-to-end managed service that centralizes “Know Your Client” (KYC) data and process management.

³ We also regularly provide relevant authorities with our insights on current market practice, for example, in relation to valuation methodologies, the provision of scenario analysis, or the use of reliable and secure means to provide daily mid-market marks. We have also advised regulatory authorities on appropriate approaches to enabling a timely and cost-effective implementation of newly established regulatory requirements, for example through the use of multi-layered phase-in or by providing market participants with a choice of means for satisfying regulatory requirements.

⁴ These services are collectively referred to as ‘trade processing’, and the service provider is referred to as ‘middleware’.

In Singapore, we provide regulatory reporting services, helping our clients meet their obligations under the MAS reporting rules for OTC derivatives (Rates and Credit) to reporting trades to the DTCC Data Repository (Singapore) PTE Ltd since February 2014. We have also delivered trade records in SGD IRS to clearing houses since 2005, and in Singapore, provide connectivity for counterparties to clear trades at SGX since 2010.

We appreciate the opportunity to comment on the Consultation Paper on Draft Regulations for Mandatory Clearing of Derivatives Contracts (Consultation).

Question 1: MAS seeks views on the proposal to subject, at a minimum, SGD fixed-to-floating SOR IRS and USD fixed-to-floating LIBOR IRS to clearing obligations.

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 should 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: MAS seeks views on whether it would be appropriate to mandate clearing of EUR, GBP and JPY IRS.

No comment.

Question 3: MAS seeks views on whether subjecting more types of SGD, USD, EUR, GBP and JPY IRS products, such as basis swaps, forward rate agreements, overnight index swap, to clearing obligations, would result in margining efficiencies for market participants.

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 4: In relation to the IRS proposed for clearing (see Section 3), MAS seeks views on subjecting transactions that are booked in the Singapore-based operations of both transacting counterparties, i.e. a Singapore-incorporated company or a Singapore branch of a foreign entity, to clearing obligations.

No comment.

Question 5: MAS seeks views on the proposed exemptions from clearing obligations approach: (a) all banks from mandatory clearing as long as they do not exceed a maximum threshold of S\$20 billion gross notional outstanding derivatives contracts booked in Singapore for each of the last four quarters; and (b) all other specified persons that are not banks.

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.⁵

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.⁶

Question 7: MAS seeks views on the proposed approach for the commencement of clearing obligations.

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

⁵ See e.g., Non-Financial Counterparties, <http://www.esma.europa.eu/page/Non-Financial-Counterparties-0>; Commodity Exchange Act, section 2(h)(7), available at <https://www.law.cornell.edu/uscode/text/7/2>.

⁶ See CFTC NA 15-24, <http://www.cftc.gov/ucm/groups/public/@lrllettergeneral/documents/letter/15-24.pdf> (April 22, 2015)

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.

Question 8: MAS seeks views on proposed considerations in expanding the scope of our mandatory clearing regime.

No comment.

Question 9: MAS seeks views on the draft SF(CDC)R attached in the Annex B.

No comment.