

A decorative horizontal bar with a blue segment on the left and a yellow segment on the right.

## Circular

20 June 2019

Circular No. DC/AM – 36 of 2019

### **SGX's decision on freight derivative contracts in light of announcement by Baltic Exchange dated 27 March 2019**

#### **Background**

SGX's freight derivatives contracts ("**SGX freight contracts**") reference the Baltic Exchange's ("**Baltic**") indices. Spot and forward dated assessments published by the Baltic are used to mark and settle the SGX freight contracts.

The International Maritime Organisation ("**IMO**") introduced regulations mandating a global reduction in sulphur oxide emissions for ships from 1 January 2020. Following a consultation process, the Baltic announced that it would add clarificatory wording to its vessel descriptions to confirm that its index vessels are not scrubber-fitted, while no changes to the index specifications were made. This took effect on 1 April 2019.

#### **SGX Consultation**

In light of the of the Baltic announcement, SGX issued a consultation notice on 28 March 2019 asking affected members and market participants whether a value adjustment to open interest in SGX freight derivatives contracts was required.

#### **Decision**

Based on the principles below and having carefully considered market feedback, SGX has decided that no value adjustment should be made to the SGX freight contracts.

#### **Principles**

As a market operator and clearing house, SGX stands as a neutral party. Its responsibility lies in facilitating market participants' ability to price and manage their risks. As such, SGX would:

- (1) uphold the price discovery process, including participants' ability to price the risks of circumstances changing;
- (2) respect the freedom of parties to calibrate their positions in the knowledge that such changes may occur; and

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- (3) therefore, not make any adjustments to open interest except in exceptional circumstances where the contract's underlying has changed.

The majority of participants who responded to the consultation agreed that no value adjustment should be made. Further, it is noted that IMO regulations relating to sulphur content levels are not new and previous regulatory changes were introduced without any value adjustments to the SGX freight contracts.

Please contact your SGX business partners should you require any further information.

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