

SGX'S BALANCE OF COMMERCIAL OBJECTIVES AND REGULATORY RESPONSIBILITIES CONTRIBUTE TO ITS SUCCESS AS A MARKET OPERATOR

1. We refer to the Business Time article, "SGX should set governance benchmark" by Mr Oh Boon Ping on 25 December 2008.

2. As both regulator and listed company, SGX is acutely conscious of the need to uphold the highest standards of corporate governance. We would like to take the opportunity to address the issue of conflict of interest, in our role as both "for-profit" company, and as a regulator, to assure the investing public that SGX's balance of both commercial objectives and regulatory responsibilities contribute to its success as a market operator.

Board Composition

3. Mr Oh suggests that the independent directors who hold concurrent board appointments at other listed companies or market players raises the issue of a potential conflict of interest as SGX also regulates listed companies.

4. Unlike most other listed companies, the rules to ensure SGX's director's independence are governed by law, rather than a code. The Monetary Authority of Singapore (MAS) governs and regulates SGX's board and board committee independence under the Securities and Futures Regulations 2005 (Corporate Governance of Approved Exchanges, Designated Clearing Houses and Approved Holding Companies) (SFR 2005). To be independent, a director must not only be free from business and management relationships. He or she must also be free from any relationships with SGX member firms or its related companies.

5. MAS stated, when introducing the SFR 2005, that :

"The Regulations are modelled on the Corporate Governance Regulations for banks, financial holding companies and direct insurers issued on 8 September 2005. MAS' objective is to apply a common and high standard of corporate governance across SGX, banks and direct insurers as these institutions play an important role in the financial system and the economy.

The main difference between this set of Regulations and the Regulations for banks, financial holding companies and direct insurers is the need to take into account SGX's distinctive regulatory role over its members. The definition of director independence has therefore been widened to include independence from members in addition to independence from business and management relationships."

6. Eight out of the eleven directors on SGX's board meet these stringent requirements for independence. There is therefore a strong element of independence on SGX's Board.

7. In our view, the SFR 2005 reflects a balanced approach adopted toward determining whether directors who are directors of listed companies can be considered independent. On the one hand, as the frontline market regulator, it is desirable to have representation from listed companies. On the other hand, it is acknowledged that this could lead to the appearance of a potential conflict of interest. The balance was drawn in favour of considering the directors of listed companies to be independent for the following reasons :

a. Considering that SGX has over 700 listed companies, to exclude the directors of listed companies from sitting on the SGX board (together with any person who was connected to a member firm or the related companies of our member firms) would be to drastically limit the size of the talent pool from which SGX can source for capable individuals who meet MAS's "fit and proper" criteria to serve as directors of SGX. b. There are adequate checks, balances and safeguards in SGX's governance arrangements to manage, mitigate or avoid any perceived or actual conflict of interests arising from SGX's regulation of listed companies. These checks and balances reside in our Self Regulatory Organisation (SRO) governance, details of which are provided in our website and our Annual Report. In brief, some of these checks and balances are :

- the SFR 2005 prescribing the formation of a board committee, the Conflicts Committee, to deal with perceived or actual conflict of interests.

- an annual report by the RCC to the MAS describing how it has discharged its duties to oversee the SRO

conflicts of interest.

8. Indeed, the SGX's own board performance targets include a measure to capture its regulatory responsibilities as an SRO. The Board is required to ensure that a proper balance is maintained between our commercial objectives and regulatory responsibilities, taking into account MAS' annual inspection reports.

Mr Robert Owen

9. We would like to correct an inaccuracy in the article concerning Mr Robert Owen, who is the chairman of our Regulatory Conflicts Committee. IB Daiwa Corp, of which he is chairman, is a company listed on JASDAQ, and totally unrelated to the Daiwa group of SGX member companies. Crosby Capital Partners (which has changed its name to Crosby Asset Management) is a company listed on AIM and has neither membership nor any other connection with SGX. He therefore has no connections with any SGX listed company, nor any SGX member.

CEO Compensation

10. Mr Oh states that SGX pegs the CEO bonus to financial benchmarks, which could lead to the temptation to relax regulatory effectiveness. We wish to correct his misapprehension.

11. A substantial portion of the CEO's remuneration is in the form of long term incentives, the achievement of which is tied to the realisation of SGX's vision as an enduring marketplace. To relax regulatory effectiveness in favour of short term gains is not in his, or SGX's, or the marketplace's interest.

12. Secondly, the CEO's bonus is not merely tied to the achievement of quantitative targets. It is also tied to the achievement of qualitative targets such as ensuring an appropriate balance between the commercial objectives of SGX and its regulatory responsibilities, with proper attention and resources being devoted to maintaining the effectiveness of all regulatory functions of SGX, including issuer regulation, member supervision, market surveillance and risk management. Yardsticks for measuring such effectiveness include:

- MAS' inspection reports on SGX;
- the efficiency and robustness of risk management systems including clearing, settlement and margining procedures;
- the quality of issuers and their supervision by SGX, including the effectiveness of SGX's responses to corporate governance or regulatory failures by issuers;
- the effectiveness of SGX's supervision of members, including its responses to regulatory failures and its systems for detecting and following up suspected misconduct by members, such as market manipulation, insider trading, front running, churning and other market abuses; and
- the handling of any conflicts of interest between SGX's commercial and regulatory objectives.

13. The level of achievement of qualitative targets is taken into account by the Board in the award of the CEO's compensation.

14. The CEO's targets and objectives are included in an appendix to this letter.

Supervisory functions hived off at ASX

15. Hiving the supervisory function to a supervisory subsidiary as in the case of the Australian Stock Exchange, is a development that the SGX Board and the Regulatory Conflicts Committee is keeping an active watch. The most recent review of our SRO governance framework by an external expert in May 2008 recommended no change.

16. The issue of governance and self-regulation is a constant consideration. There is no one optimal solution. As always, MAS and SGX will collaborate closely and adopt a model that is best suited for Singapore as changing circumstances may dictate.

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