

ADDRESS BY MAGNUS BOCKER, CEO OF SGX AT THE SGX AGM HELD AT NTUC AUDITORIUM ON 6 OCTOBER 2011 AT 10:00 AM

Introduction

1. Good morning shareholders, board members, ladies and gentlemen, a warm welcome to our 12th AGM.

Highlights

2. Let me first start with a few highlights from last year. Then Ramu, our acting CFO, will later elaborate on our financials.
3. Last year, the global financial markets had a troubled year punctuated with uncertainty. And in this environment, I am proud to announce that we achieved a creditable performance. Revenue grew 3% to \$661m, of which 56% came from international products and international customers, up 51% from the year before. Our operating strength can be seen from an increase in EBITDA of 2% to \$411m. Reported profits however fell 8% to \$295m on the back of higher depreciation and transaction cost from the ASX-SGX deal.
4. The Board raised the quarterly base dividend to 4 cents and we are recommending a final dividend of 15 cents, bringing total dividend for the year to 27 cents, unchanged from the year before.
5. Looking at our share price performance, it is not the happiest picture. However, when we put it in context of the headwinds that the whole exchange industry has been facing, we are better off compared to most of our peers. From the peak about 6 months ago, our share price is down 26%. But at the same time DB is down 32% while both NYSE and HKEx are down 43%. Everything is relative.

Challenging Environment, But With Opportunities

6. Considering that it was a challenging year for the industry, we are encouraged by the increase in securities DAV growing 6% to \$1.6 billion and the increase in derivatives DAV growing 15% due to a greater use of derivatives for managing risk in a volatile market.
7. Challenges continue to persist. Most economists forecast significant downside risks to the global economy, ongoing debt problems in Europe and US, and lower growth forecast in China are the main worries for the financial markets.
8. The question is how do we as a company stay relevant in the midst of a challenging environment? What are the things we are doing to protect what we have and also to position ourselves for opportunities that might arise? I would like to share my thoughts with you on that topic.

SGX is well-positioned and Singapore is a trusted marketplace

9. First, Asia as a region and Singapore as a country present opportunities. In 2010, GDP in Asia grew nearly 10% while the 2011 forecast shows 7% - 8% growth following several downgradings. Singapore, sitting here in the heart of Asia, has one of the largest institutional investor base and a fast growing private banking, wealth management and proprietary trading industry. Singapore is also the third largest oil trading and the largest bunker fuel trading centre, and we are also the fourth biggest market for foreign exchange.
10. SGX being at the epicenter of all this, we facilitate an efficient market for companies, supporting their needs for capital which leads to more investments, creating more jobs, etc. This is a very critical job, the role we play here as all exchanges play in the economy, and by our performance last year, I would believe we did a decent job last year.
11. In the first half of 2011, SGX raised a record \$14 billion from the listing of 34 companies, including Global Logistics and Hutchison Port Holdings. We facilitated a record debt capital raising of \$170 billion from listing 287 bonds.
12. We also saw a growing international interest to SGX. And we now have 41% of our listed companies come from beyond the shores of Singapore, which makes us the most international stock exchange globally.
13. Recently, Lonza, headquartered in Switzerland and a world leading supplier to the pharmaceutical, healthcare and life science business, announced that they have chosen to list here in Singapore.
14. In spite of our success, we are in difficult times right now. Although we continue to see a growing pipeline of companies interested to list in Singapore and at SGX, many are hesitant to come to market at this moment due to volatile market conditions and also actually the threat of a double dip recession hanging over everyone's head.

S-Chips

15. And on this topic of listing, I would also like to touch on one other matter and that is our S-chips.
16. First and foremost, many of the so called S-chips listed on SGX are reputable and good companies and add a lot of breadth to our capital market. However, accounting irregularities or fraud have been discovered in 14 companies of these S-chips. Most of these cases came to light when the auditors were unable to confirm the companies' cash and account receivables.
17. In 2008, SGX took unprecedented steps to manage emerging risks affecting our companies. We alerted Boards, issue managers, and audit and legal professionals to be vigilant of risks. Directors, key management and auditors are critical components of the ecosystem in safeguarding the integrity of the marketplace. Auditors conducted additional validation checks on high risk areas such as the accuracy of cash balances.

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18. We have publicly disciplined listed companies which breached the listing rules. Where there are allegations of irregularities, we will direct the Boards to appoint Special Auditors to look into the matter. In the case of directors and CFOs, SGX will review whether they have discharged their duties and we will continue to take action where there have been lapses.
19. As with listing frameworks of leading markets, issue managers are responsible for conducting thorough due diligence to attest that listing applicants are able to comply with the requirements. This is a very important thing. We have sanctioned issue managers whose standards have been inadequate. If other professionals, such as auditors and financial advisers, have not discharged their duties with due care, we will refer them to the relevant regulatory body for necessary action.
20. Just last month, we announced amendments to our listing rules to strengthen corporate governance practices and foster greater corporate disclosure. These amendments are undertaken to keep abreast of the challenges and developments and are part of SGX's ongoing efforts to enhance the quality of our exchange.

The Future Lies in Higher Regulatory Standards

21. In today's environment, the trust in banks and sovereigns has been shaken to the core. Exchanges are perhaps one of the few remaining bastions of trusts left in the world's capital market. The threat that all financial institutions are facing today is a further erosion of that trust.
22. But at the same time, the opportunity for us as a company is to rise above the storm by continuing to pursue higher regulatory standards and corporate governance, so that we will continue to gain the trust of our stakeholders and customers. It is not a luxury but a necessity in order for Singapore and SGX to stay relevant as a financial centre.
23. I am pleased to say that we have done well in this regard. Our success in maintaining high regulatory standards has been widely acknowledged. Singapore has for several years been ranked at the top in corporate governance.
24. Rest assured we will continue to improve our standards. Latest examples are our proposal to raise Mainboard admission standards and to enhance corporate governance provisions. Our standards will remain at par with the highest international standards.

ASX-SGX Merger

25. Regulatory aside, the past year also saw a unique opportunity presenting itself in the form of a proposed merger between ASX and SGX. It was a precious opportunity to create a premier exchange in Asia Pacific.
26. From day one, both ASX and SGX were fully aware of the difficulties that lay ahead of us. But nevertheless we took a deliberated and considered decision to proceed because the

combined entity would without any doubt bring tremendous value to our shareholders, other stakeholders and to both countries.

27. Therefore, we were of course disappointed with the outcome. We have very clearly established our intent to participate in an increasingly competitive global landscape. By making this intent clear, we have had new opportunities opened up to us in the form of new members, new companies interested to list here in Singapore and other new partners to see if we can find partnerships.
28. In the past year, we had 24 new members joining our market, the highest number of new members ever. We also have the most diverse group of members in the history of SGX, with firms from Europe, Hong Kong, India, Japan, Taiwan, US and Singapore.
29. But it is also, from October last year after the ASX deal caught the attention of the media, that journalists have started to speculate a lot more about SGX and what we are doing, and NOT doing. SGX has become a staple in the rumor whenever someone is in talks with someone else about anything.
30. Allow me to be a little optimistic and say that as a company we feel a little flattered with all the attention about who we are, what we do, if we are talking to this company or talking to that exchange.
31. And rest assured, we are talking all the time. As a company which is serious about growing our shareholder value, we are always open to opportunities and commercial discussions, whether they are with new IPO candidates, or other exchanges, or like-minded partners.
32. But we can never comment on individual companies and we never comment on rumors or market speculation. But the minute a potential discussion becomes material, we would definitely announce and engage with you as shareholders. We will also engage with public and media, and be transparent on matters. That is our duty as a listed company and that is the way we have always done it, and that is the way we will continue to do it.

Dual-Class Shares

33. There are also times when we find opportunities to clarify confusions, particularly in the context of rules and regulations. You might have noticed a recent debate surrounding dual-class shares. There was a lot of noise and confusion in the media, and we therefore wrote a regulatory column to clarify the misunderstanding that some investors and journalists may have about our rules and regulations.
34. Investors should know that in Singapore we have a number of familiar companies, for example DBS, Hyflux, UOB and OCBC, which use both ordinary shares and preference shares in their capital structure. Singapore has for a long time allowed companies to issue both ordinary and preference shares. But this is not the same as to be confused with the term dual-class ordinary shares.

35. Dual-class ordinary shares is a capital structure where a company has more than one class of ordinary shares and that one class has more voting rights than another class of ordinary shares.
36. Pros and cons aside of the dual-class ordinary shares, it is more important for investors to be clear that Singapore rules today does not allow the listing of dual-class shares regardless of whether the company is a small local start up or a big international name. The same standards and rules are applied consistently to all.
37. Having been in the exchange industry for 25 years, there is no doubt in my mind that to have a robust regulatory framework, sticking to it and articulating it clearly so that people can understand it is absolutely important for our long-term success.

REACH

38. As SGX becomes more and more an international marketplace for companies and investors, our investment in technology gives us the opportunity to offer all our customers a convenient and cost-effective way to access our exchange.
39. I am proud to say that we have successfully delivered our REACH technology project. I talked about it at last year's AGM, and we can now report that we have a state-of-the-art data centre and we have the world's fastest trading engine. This is our new platform for growth, equipped with new functionalities that make it possible for us to introduce new products but also to broaden the different order types we have.

Minimum Bid Size & Continuous All-Day Trading

40. Furthermore, to become a world leading exchange, we made on July 4th improvements in our securities market with the reduction in minimum bid sizes and on August 1st we introduced continuous all-day trading.
41. Time and time again, many investors have called for lower trading costs as one way to improve returns. A major cost of investing in stocks is the bid-ask spreads.
42. So on July 4th, we implemented changes to our securities minimum bid sizes by reducing the tick sizes for three ranges of stocks: stocks priced above \$10.00, stocks priced between \$1.00 and \$2.00, and stocks that are priced less than 20 cents. Two other price ranges were not affected.
43. Data from the past three months shows a stark contrast between the affected and unaffected stocks. For the unaffected stocks, we did not change the minimum bid size and the data shows that there was no real change to the bid-ask spreads as well. But for the affected stocks where we reduced the minimum bid sizes, bid-ask spreads for these stocks narrowed significantly, about 40%! Amongst these are the penny stocks where we find a lot of activity from retail investors – bid-ask spreads narrowed nearly 50%! This is of real benefit for retail investors.

44. We have also successfully introduced continuous all-day trading on August 1st. On average, 9% of total value traded every day now happens during lunch. On volatile days, we see as high as 17% of total value traded during lunch. We have seen an increase in interest from both retail and institutional investors to trade through lunch to manage risk when afternoon trading sessions in Japan, China and Hong Kong are taking turns to open.

High Frequency Trading

45. Looking back at what we did with REACH, minimum bid sizes and All-Day Trading, I am proud to report so far that the results are so far very good. It is also important to understand that such initiatives will also help international investors recognize that Singapore, not just attractive as a financial market but that we also offer one of the most competitive trading environments in Asia.
46. We are not near the end. There is still a long way to go and we need to get better. Our securities trading value is under 2% of Asia's total securities trading value. The market capitalization of our securities market is only 4% in Asia and 1% in the world. Our current securities turnover velocity, at less than 60%. It is very low compared to most international exchanges. North American markets have velocity over 400% and European markets are well above 200%.
47. To continue to grow our market, we also need to grow our distribution by expanding our membership base and attracting a greater variety of investment professionals, including high frequency traders – a group which is often discussed but highly misunderstood!
48. High frequency trading has brought significant benefits in the form of increased liquidity to the markets they operate in. Increased liquidity improves the market's price discovery, reduces the cost of trading, and makes it easier for investors to enter and exit the market.
49. This will in turn attract more investors to our market, and they will bring along investment capital and contribute to more liquidity. It therefore becomes a virtuous cycle, bringing more investment flows, more liquidity, better valuation and price discovery, and all market participants will stand to benefit. Singapore will benefit!
50. Our derivatives market is a good example. High frequency trading accounts for roughly 30% of our derivatives volume today, up from just a few % three four years ago. Over the course of this year with volatility spikes, on one hand our securities volume can range from \$700 million to over \$2 billion a day, while on the other hand, the daily volume in our derivatives market climbed steadily from 240,000 contracts a day a year ago to 350,000 contracts today.
51. At the same time, we are aware of the risks, sometimes new risks, which come along when more and new participants enter the market. We have therefore introduced or are preparing initiatives to enhance market safeguards before we open up for high frequency trading. These include our opening and closing routines, circuit breakers and pre-trade risk controls.
52. We also have a process in place to understand risks and institute safeguards for high frequency trading which are the same as that we used to assess the risks every new issuer,

member or trader may bring when they join us. Our assessment has to be thorough. And our approach with every market participant must be equal and very professional.

Retail Investors

53. Growing Singapore and SGX as a financial centre isn't only about mega investments in technology or international participants. We should never forget that we also have a duty to serve the interest of our retail investors. Sometimes I read about concerns that retail investors will be on the losing side if we bring more technology or new international participants. Nothing could be more wrong.
54. It is interesting therefore to know this: our retail brokers indicated that the largest overseas market that they are trading into is the US and this trend is on the rise for their retail customers. You will see in public reports that high frequency trading accounts for 60% of volumes in the US and as I said, we are at zero in our securities market. So if that fear of computers is true, we should be seeing Singaporeans putting all their investments here rather than in the US. But that is not the case.
55. On the contrary, I believe that the depths of liquidity and ease of accessibility are the real reasons that attract Singapore retail investors to the US. And these are brought about by a greater use of technology, which is ultimately beneficial to all investors, including retail investors.
56. When we implemented continuous all-day trading, several of our brokers took the opportunity to train their remisiers and clients how to execute trades on mobile phones and iPads, so that they can have access to the market and manage their positions throughout the day from wherever they are. That is an example of using technology to make the market more accessible to retail investors.
57. Retail investors need capital markets and exchanges that are friendly. And nothing can be friendlier than to help retail investors get access to information in an easy and friendly manner.
58. Until a couple of months ago, we used to have customers and investors coming to us to say that finding information on our website is sometimes a little bit like looking for the proverbial pot of gold at the end of the rainbow! I see some of you smiling so perhaps we have some of you among us today. But we launched our new SGX.com two months ago, I have not heard those comments, so I assume many of you have found on our website the gold you were looking for.
59. We have also introduced two online initiatives, the "Customer Account Review Module" and "SGX Online Education", programmes to enhance investors' understanding of what we refer to as "Specified Investment Products" or SIPs listed on SGX. I strongly encourage all of you to visit our website and our e-learning portal and familiarize yourself with the modules on SIPs. You will find a lot of educational information and knowledge for your investment needs.

Conclusion & Acknowledgement

60. When we consider where we are today, SGX is pushing the growth frontier. We are breaking new ground in the areas of technology, connectivity, membership and improving the attractiveness of our markets to more international traders, issuers and issue managers. At the same time, we are sticking to our regulatory imperative and pursuing higher standards to make us the most trusted marketplace in the world.
61. Yes, market conditions may be bad and we suffer as a result. But several initiatives that we rolled out last year, such as our Reach project, continuous all-day trading, minimum bid size, foreign listings, and a record number of new members have helped us weather the storm. Our investments in technology and new businesses have also started paying dividends and that helped us stay the course in a year where exchanges all over the world have taken a beating.
62. I am optimistic and excited about the year ahead. It is a journey that I am most honoured and glad to be a part of. The future is promising, largely due to the fantastic support from you as shareholders, customers, investors, banks, brokers and other stakeholders. For that, I am very thankful and I thank you.
63. I would also take this opportunity to let you know that on November 26th will be our Investor Relation Day. Please pen it down in your calendar. More details will follow and will be made available on our website.
64. Finally, it leaves me to thank another two groups of stakeholders. I would like to commend my colleagues at SGX for their high level of professionalism and commitment to the company – you are a fantastic team. And of course, to our Board, for their wise counsel and earnest stewardship in a tough year for global markets.
65. Thank you very much!

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