SGX Twenty-First Annual General Meeting 2020

18 September 2020

Responses to Shareholders' Questions

Singapore Exchange Limited (SGX) would like to thank shareholders for submitting their questions in advance of our Twenty-First Annual General Meeting (AGM) to be convened and held by electronic means on Thursday, 24 September 2020 at 10.00 a.m. (Singapore time).

We have grouped the questions according to topics and set out our responses below.

A. Competitive strengths, growth prospects and business outlook

1. What are SGX's competitive moats?

SGX's growth and competitive edge mirrors Singapore's standing as a global financial centre. Singapore is well-regarded globally as a trusted, neutral and internationally-recognised jurisdiction. SGX benefits from Singapore's strengths in terms of location, connectivity, wealth management and technology infrastructure, among many others.

SGX's ability to offer investors exposure to macroeconomic trends and access to Asian markets, while providing opportunities for stable long-term returns, complements Singapore's reputation as a financial 'safe haven'. We were able to maintain a robust ecosystem and keep markets accessible – in the face of extraordinary volatility and activity levels amid the COVID-19 pandemic – demonstrating the resilience of our marketplace.

Even without a vast hinterland, SGX has become Asia's most international and connected multi-asset exchange, with 40% of listed companies and over 80% of listed bonds originating outside of Singapore. We are the world's most liquid international market for the benchmark equity indices of China, India and Japan and ASEAN – providing exposure to close to 100% of Asian GDP. We are also Asia's largest and fastest growing FX futures exchange.

Notwithstanding COVID-19, as Asian markets grow in size and become more diverse and complex, price formation and risk management in Asia will become increasingly important. Our strategic priorities are geared towards growing SGX to become a global multi-asset exchange that facilitates access to Asian markets – one that is horizontally and vertically integrated, covering all major asset classes.

Today, investors are able to trade all of Asia on SGX, across equities, fixed income, commodities and currencies. Our new organisation structure, set up at the start of FY2020, has positioned us well to scale further.

We have merged our cash equities and equity derivatives businesses to form an enlarged platform where retail and institutional clients can access a continuum of equities products, including all trading, clearing, post-trade and research services. By focusing on Equities as a single asset class, product and service innovation can span both cash and derivatives channels to address client needs holistically.

Besides our Equities business which continues to generate the bulk of our revenues, our newly formed business unit – Fixed Income, Currencies and Commodities (FICC) – as well as our Data, Connectivity and Indices (DCI) business unit are on healthy growth trajectories. Our newly acquired subsidiaries, Scientific Beta and BidFX, will enable us to provide a broader spectrum of products and services for our customers.

We believe we are now in an even stronger position to meet the needs of our clients in the current low interest rate and uncertain environment. Our multi-asset portfolio is of critical mass and we will continue to innovate to meet the market's evolving needs.

2. Can you explain the reason behind the growth of your derivatives business?

SGX pioneered the Asian derivatives market over 30 years ago. It is this pioneering spirit that drives our continuous growth as a highly relevant and important global marketplace today.

With support from partners like CME and Japan Exchange Group, we became Asia's first financial futures exchange in 1984. We launched the world's first futures contract based on the Japanese stock market (1986), followed by Taiwan (1997), India (2000) and China (2006). We pioneered the world's first iron ore swaps in 2009, even though Singapore is neither a producer nor consumer of the commodity. We are now the clear leader with over 95% seaborne market share. We started our FX Futures shelf in November 2013 and in a short span of six years have become the world's largest Asian FX futures marketplace.

Our derivatives business is anchored on providing access to Asia's biggest economies – China, Japan and India – across asset classes, through our flagship FTSE China A50, Nikkei 225, Nifty 50, and MSCI Singapore equity index derivatives.

More importantly, our successful track record as a flourishing ecosystem with robust infrastructure has spurred institutional investors to build deep liquidity pools with us and our products over the years. We are now increasingly being recognised as a venue to manage risks not only within specific product lines but also across multiple asset classes.

For instance, we are recognised globally as the one-stop venue to trade Chinese assets and manage risk comprehensively across equities (FTSE China A50 futures), currency (USD/CNH futures) and commodities (iron ore futures and options). On 18 September 2020, we announced the listing of the world's largest Chinese pure government bond ETF issued by CSOP Asset Management, starting with US$676 million in assets under management.

We have shared during our FY2020 results briefing the broad-based participation in our products. Overnight (T+1) volumes for our equity derivatives contracts grew by more than 25% against last year. T+1 volumes for foreign exchange was up 53% year-on-year.

Our international footprint has enabled us to connect a wider group of investors globally to growth opportunities in Asia. US and Europe customers make up 20% of total number of derivatives customers and we believe that there is further room to grow as we intensify our overseas outreach and continue to introduce innovative products.

3. What is the business outlook for SGX in view of new competition as well as disruptions due to geopolitical tensions and the global recession?

The COVID-19 pandemic has had a major impact on economic growth. Countries globally have been focused on economic recovery, including leveraging expansive monetary and fiscal policies. We expect the challenging, low-interest rate environment to persist for some time.

A prolonged low interest rate environment may prompt investors to turn to capital markets for alternative returns. Risk management activities could grow due to continued uncertainty in geopolitical tensions between US and China, and uneven pace of recovery from COVID-19 pandemic across global economies.

We have identified several trends, and we are positioning ourselves to address them:

- Against a low-interest rate environment, it is generally harder to find incremental returns. This is driving investors to look for growth across multiple asset classes.
- Passive investing will continue to grow, and with it the demand for equity index products on exchanges.
- The impact of global regulatory changes has led to greater centralised clearing of over-the-counter (OTC) derivatives and market participants seeking more capital efficiencies.
- In the longer term, we remain confident that Asia will continue to lead global growth.

With global investors increasingly investing and managing risks in this region, the need for easy cross-border access to Asian investment and risk management tools will continue to grow. These tools and solutions will have to cut across asset classes from equities to FX to commodities.

Hence, we acquired Scientific Beta this year because we want to move beyond market capitalisation indices to provide investors with investment solutions in smart beta, climate and thematic investing. Scientific Beta brings a highly regarded research pedigree and strong suite of high profile clients in the US and Europe that will enable us to grow in these areas.

Our acquisition of BidFX in July 2020 supports our ambition to develop an end-to-end FX platform and solutions. BidFX expands SGX's reach beyond FX futures into the global FX OTC market, allowing us to bring together the two growing and mutually-reinforcing pools of liquidity. We will be serving a wider FX community with more comprehensive solutions and enhanced distribution capabilities.

The pandemic should not deter the internationalisation of Asian markets. China, for example, would continue to open up. Internationalisation of China's financial and commodity markets will accelerate the rebalancing of global markets toward Emerging Asia.

Companies will continue to have fundraising needs. As a neutral capital hub, SGX will actively provide a gateway for international capital into Asia and help facilitate global funding and connectivity in the region.

We have focused on maintaining the robustness of our ecosystem and accessibility of markets amid the COVID-19 pandemic, while accelerating our growth plans. We believe we are in a strong position to meet the needs of our clients in this current environment.

4. What is your long term roadmap to improve collaborations with institutions such as Nasdaq?

We believe we can achieve greater success through partnerships and collaborations. Besides strategic acquisitions, we are constantly working closely with the ecosystem and our customers, and identifying opportunities that complement our strategies.

Our collaborations centre around enhancing our products/services and connectivity. For example:

- Enhancing listing opportunities: We strengthened our listing collaboration with Nasdaq and the Tel Aviv Stock Exchange with further regulatory cooperation.

- Growing product range: We have entered into a long-term strategic partnership with FTSE Russell across asset classes.

- Expanding access to capital and products: We are partnering with leading Chinese financial intermediaries to avail more efficient access for onshore Chinese investors to the global marketplace and support their internationalisation efforts.

- Strengthening the ecosystem: We engage with our intermediaries, including issue managers, Catalist sponsors, listing aspirants and government agencies to foster a conducive ecosystem that can support companies in all stages of growth. We also collaborate with private fundraising platforms and engage with private markets participants.

As a financial hub, we need to strive for sustainable growth through mutually beneficial collaboration, so as to better compete and add value.

B. Licence agreement with MSCI

5. What is the potential business impact arising from the reduction of SGX's licence agreement with MSCI?

6. What initiatives has SGX embarked on to make up for the potential loss of revenue from the reduction of MSCI licence agreement?

There was a feedback from a shareholder on the timeliness and business impact guidance when we announced the reduction of our licence agreement with MSCI in May 2020.

With regards to how the announcement was handled, we would like to share several points:

a. SGX shares were halted prior to the release of the news release on the MSCI licence agreement. That announcement was made on SGXNet as soon as practicable, taking into consideration that confidential negotiations were ongoing. Our news release was timed together with MSCI's announcement.

b. About 3 hours later and while shares remained halted, we issued an analyst presentation deck on SGXNet. In the presentation slides, we indicated a potential proforma 10% to 15% impact to FY2021 NPAT, assuming full 12 months' impact and before any mitigating actions.

c. The shares resumed trading 2.75 hours after the issuance of the analyst presentation deck containing the potential proforma impact of the reduction of the licence agreement.

However, we would like to highlight that this estimated financial impact was based on conservative estimates and the assumption that all non-MSCI Singapore contracts would have no volumes from 1 July onwards. The estimates also did not take into account mitigating factors.

Since then, we have rolled out the first series of our new and expanded product shelf. On 20 July, we launched our new SGX FTSE Taiwan Index Futures, which is one of our most successful product launches. Since launch, liquidity in the SGX FTSE Taiwan Index Futures has grown significantly with more than 816,000 contracts or US$36 billion traded.

In August and September, we have expanded our pan-Asia shelf of benchmark equity derivatives with a series of 13 Asia Ex-Japan and Emerging Markets (EM) Asia regional and single country futures, based on Net Total Return and Price Return indices calculated by FTSE Russell.

To meets investor demand for greater exposure to the liquid and fast-growing Asia ex-Japan REIT market, we launched Asia's first international REIT futures in August.

With the signing of a long-term strategic partnership, SGX and FTSE will jointly develop multi-asset products anchored around FTSE Russell's global benchmark indices for Fixed Income, Listed Real Estate, Global Equities and Currencies, catering for expansion to meet institutional investors' demand for SGX solutions in multi-asset, dividend, sector and duration strategies.

Both SGX and FTSE Russell will jointly drive global marketing, product research and customer adoption and will be devoting resources towards this goal. Together, we will also collaborate in product and platform development between their information services businesses.

In the coming months, we will help our customers extract more benefits from our multi-asset approach, as they seek diverse solutions that provide higher returns, yield, cost efficiencies as well as an ESG focus. Our track record in derivatives positions us well to refresh and grow our suite of pan-Asian access products in a new direction.

7. Will SGX be negotiating the renewal of licence with key principals such as MSCI and FTSE over the next two years?

SGX adopts an open architecture approach and works with different partners to provide the best solutions for our customers. As with most commercial agreements, we are unable to disclose our negotiation terms as they are confidential and commercially sensitive.

With FTSE Russell, we have entered into a long-term strategic partnership across asset classes, bringing our relationship to a new level.

Given that Singapore is our home market, SGX and MSCI have retained our partnership on MSCI Singapore Index products.

C. Singapore stock market

8. Many US broking firms have zero commission charges. Will SGX also implement the same in future?

SGX does not determine the commission fees that brokerages charge. Brokerage commission fees are managed by the brokerages and are usually influenced by the competitive landscape in the brokerage industry.

9. Are there any plans to refresh the Straits Times Index (STI) such as adding more varieties of categories to the STI?

The STI is a rule-based index that serves as the benchmark of the Singapore market and has no sector biasness.

There have been two major changes in the STI. The first was in 1998 when it was expanded into a value-weighted, broader-based STI with 55 constituents.

The second major revamp occurred in 2008, with FTSE Russell, Singapore Press Holdings and SGX revamping the STI to 30 constituents. This revamp also saw the launch of the FTSE ST Index Series to provide investors with a comprehensive series of indices for accessing segments the Singapore market. In 2015, parameters of the STI were enhanced to double the liquidity requirement for stocks to enter and stay in the STI.

While no major revamps of the STI methodology have occurred since then, regular quarterly rebalances have seen multiple stocks added to and removed from the STI.

We are always striving for continuous improvements and this includes improving the STI. Even with a highly relevant index, there is always room to evolve and improve. There is a STI and FTSE ST Index Advisory Committee that provides a forum for FTSE Russell to interact with index users and other stakeholders with a view to enhancing the underlying methodologies of the indices.

More information on the rules for STI can be found on FTSE Russell's website: https://research.ftserussell.com/products/downloads/Straits_Times_Index_Ground_Rules.pdf

10. Would SGX allow the trading of options in shares or indices like in the US?

11. Would SGX consider new measures to improve trading liquidity, such as creating a standardised and smaller trading principles, fractional trading and smaller board lots?

Since the integration of our cash and derivatives businesses last year, we have launched a series of Singapore-linked equities products such as single stock futures on Index names, as well as futures on REITs indices of which Singapore REITs are main index constituents. We are continually looking to bring more innovative products and solutions to the market, including options, to our participants.

SGX is always reviewing the structure of the market and will make adjustments to facilitate the growth of the marketplace. For example, we reduced our board lot size from 1,000 to 100 shares in January 2015 to make blue-chip stocks more accessible and allow investors more flexibility in their portfolio allocation. We have to balance the diverse objectives and interests of the different segments of our market participants in making such changes.

While there are advocates for further lowering of board lot size to unit shares, there are considerations such as overall minimum commission that may make small trades uneconomical, especially if stocks have low absolute prices or if partial fills occur.

Nevertheless, there are industry investment services such as Regular Savings Plan or Robo-advisory services for retail investors to invest a fixed amount on a recurring basis, starting with small notional amounts and the flexibility to alter or scale depending on the investor's preference. More information is available on SGX Academy https://www.sgxacademy.com/rssp/

We appreciate the feedback and will continue to deliberate over the structure of our market and make improvements as it develops and matures.

D. Equity listings

12. How will SGX seek to attract more IPOs and listings?

In FY2020, we recorded 10 new equity listings which raised $2.3 billion, compared to 20 new equity listings raising $1.7 billion a year earlier. Secondary equity funds raised were $16.5 billion, compared to $4.7 billion a year ago. Our platform has been successful in helping companies raise secondary funds via rights issues, placements and more recently recapitalisation.

Despite the impact of COVID-19, we have seen an increase in interest from potential IPO aspirants, especially following the reopening of various markets and economies. We expect some companies to uphold their plans to seek access to capital, if market conditions permit. We see some bright spots in more resilient sectors, such as healthcare, technology and sustainability.

A coordinated response from the Singapore ecosystem is needed to reinvigorate listing and secondary trading. SGX is working closely with various participants on multiple fronts. We are actively engaging our intermediaries to foster a conducive ecosystem that can generate and support more primary and secondary listings. We also collaborate with private fundraising platforms and engage with participants in the private markets space.

We are working hard to generate more international deal flow and greater institutional interest, leveraging on our value proposition as Asia's most international exchange. Other initiatives include developing cross-border partnerships, expanding SGX's global footprint and stepping up investor outreach efforts to generate investment ideas and interest.

SGX has been very successful in REITs, largely because of the coordinated efforts to build depth and breadth of the sector. Over the past 18 years since the first REIT listing on SGX, we have established a strong ecosystem and entered into a virtuous cycle driven by increasing investor interest, deep liquidity and issuer participation. Singapore's REIT market is now ranked fourth globally and is the largest in Asia ex-Japan with 44 REITs and property trusts, and a combined market capitalisation of close to S$100 billion. We are developing more products to cater to different investors.

Global investors today expect much more of an exchange than just a listings platform. We have built a trusted and efficient international marketplace that connects the world to Asia, enabling both capital raising, investing and risk management. We continue to build deep, quality, round-the-clock liquidity and focus on developing solutions for customers across asset classes.

Singapore's cash equities market has not grown as fast as its other markets like derivatives and REITs. Being a financial centre is more than having the highest number of IPOs, but how we are able to help companies raise funds in every stage of their growth cycle. Investors also benefit from Singapore's role as an international FX, commodities, derivatives and risk management hub, underpinned by the country's stable political and regulatory environment.

Beyond IPOs, it is important to look at SGX as a platform for on-going fund-raising, including our debt capital market. Besides offering liquidity with sustainable and growing valuations, our platform has helped listed companies raise four times more funds through the secondary market than at IPO, over the last five years.

Issuers can also raise funds via debt on SGX which is Asia's largest and most international debt securities platform. We have had over 6,600 listed securities by 1,600+ issuers from 66 countries, with amounts issued of over US$2.2 trillion in 26 currencies.

E. Environmental, Social and Governance (ESG)

13. With rising global interest in renewable energies and climate-related products, is SGX exploring the feasibility of such products? Can SGX share more on your current and future initiatives?

SGX is building a foundation in the sustainable capital and finance space, in close engagement with the ecosystem. SGX is one of the first exchanges in Asia to implement sustainability reporting for our listed companies.

SGX is one of the top five listing venues globally for sustainability bonds. To date, SGX has listed more than 130 international sustainability bonds from global issuers, with amounts issued of about US$56 billion. Among all the Asia Pacific issuers of international sustainability bonds, more than half of these bonds are currently listed on SGX. We see continued interest in listing of sustainability bonds led by issuers from South Korea, China, Japan and India.

With the commodities sector increasingly seeking to produce essential materials in a more sustainable manner, we are supporting the ecosystem by developing more environmentally friendly solutions such as higher grade iron ore, low sulphur fuel oil and the brokering of renewable energy certificates via the PowerSelect platform operated by our wholly-owned subsidiary, EMC.

As global investors develop both active and passive investment strategies that integrate ESG considerations, we will work with market participants to develop relevant risk management and trading solutions covering ESG-related derivatives, ETFs and structured products.

On the index front, our iEdge Sustainability Indices provide a transparent way for investors to assess the sustainability practices of our listed companies. Through Scientific Beta, we are developing more sustainability benchmarks and associated products to help investors as they shift towards sustainable investing. These include ESG compliant indices as well as low carbon and climate change risk solutions.

Scientific Beta provides a strong platform for us to grow our ESG offerings. It has ESG research capabilities, having incorporated custom ESG objectives into smart beta since 2010 and launched low carbon multifactor indices in 2015. Scientific Beta also offers ESG option for all of its flagship multi-factor indices. More than 30% of Scientific Beta's assets replicate ESG versions of its indices.

SGX will continue to strengthen our value proposition in sustainability, as ESG investing becomes increasingly important in Asia.

F. Contribution of subsidiaries

14. What is the revenue contribution of EMC to SGX's revenue? Is EMC expected to increase its revenue contribution over the next three years?

EMC's revenue grew 6% year-on-year in FY2020, contributing to 3% of total SGX's revenue. While we are not able to share projections on its revenue growth, it is important to note that EMC is an important part of SGX's broader multi-asset strategy in developing an electricity futures market together with our suite of commodity derivatives products.

EMC is the independent market operator of Singapore's wholesale electricity market, which is Asia's first liberalised electricity market. EMC completes the connection between those who generate electricity in Singapore and those who use it – like a stock exchange for electricity, all of Singapore's wholesale electricity is bought and sold through EMC.

In the lead-up to the Open Electricity Market rollout in 2018, many new electricity retailers joined the market, leading to increased competition in the electricity retail sector. EMC leveraged on this opportunity to launch PowerSelect in late 2018, which is an online platform that helps large electricity consumers to procure electricity through a transparent and competitive bidding process. The platform has grown from strength to strength, and has helped several large customers achieve significant savings in their electricity bills in recent times. EMC is continually looking to expand PowerSelect's service offerings, including the brokering of Renewable Energy Certificates for these large consumers.

Together with EMC, SGX is working towards becoming Asia's price discovery centre for power. SGX launched electricity futures back in 2015. A fully liberalised electricity market will in turn create a more vibrant electricity futures market, as retailers will actively use the electricity futures market to manage their commercial and operational risks. In FY2020, SGX's electricity futures volume more than doubled year-on-year to over 36,000 GWh, amid growing participation in the electricity futures market, including from retailers. The total volume in FY2020 represents over 70% of the underlying National Electricity Market of Singapore.

G. COVID-19 measures

15. What cost cutting measures has SGX implemented in view of the pandemic?

Our business has not experienced a downward swing due to the pandemic. However, as there will be some financial impact arising from the reduction of our MSCI licence, we have taken steps to manage our costs and are reallocating resources to grow revenue.

We are cognisant that the global economic landscape continues to evolve, and will continue to be prudent in managing our cost. We will also continue to invest strategically in areas where we see long-term growth opportunities, such as in FX and indices.

16. With AGMs/EGMs held virtually due to the pandemic, I have observed that some companies only post up responses to selective shareholder questions and responses can sometimes be generic. Shareholders are unable to seek further clarity face-to-face. Can companies be required to post the videos of their AGMs/EGMs online for shareholders who are unable to attend?

The Accounting and Corporate Regulatory Authority (ACRA), Monetary Authority of Singapore (MAS) and SGX RegCo have jointly issued a checklist to guide issuers on the conduct of their general meetings amid COVID-19, due to the need to minimise physical interactions ("Guidance"). Under the Guidance, issuers must provide shareholders with the opportunity to ask questions prior to general meetings. Issuers are also required to address all substantial and relevant questions posed by shareholders, including any subsequent clarifications sought in respect of substantial and relevant matters, prior to, or at, the general meetings. Shareholders are also encouraged to reach out directly to the issuer to continue their engagement with the issuer after the general meeting.

Aside from the measures put in place for shareholders to pose questions to the Board of Directors and/or management, issuers are also required to provide arrangements for shareholders to participate in the meeting by electronic means, such as, allowing shareholders to view the "live" webcast proceeding of the general meeting.

The Guidance also requires issuers to publish the minutes of the general meeting on public platforms (i.e. SGXNET or issuer's corporate website) within one month after the date of the meeting. The minutes are to record substantial and relevant comments or queries from shareholders relating to the agenda of the general meeting, and responses from the Board of Directors and management. Shareholders who wish to find out more about the proceedings of the meetings may also refer to the published minutes.

H. Others

17. Will SGX provide hard copies of annual reports moving forward?

In line with SGX's sustainability efforts, we have moved away from mailing hard copies of our annual report to shareholders. All AGM-related documents are available on our website. This year, we have also emailed soft copies to shareholders upon their request. We hope our shareholders will support our sustainability efforts and embrace e-communications as normal practice.

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