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2016 Annual General Meeting

22 September 2016

Chief Executive Officer's Address

1. A very good morning to everyone, shareholders, board members, ladies & gentlemen. I am very pleased to welcome you today to our AGM.
2. This time last year I shared our key business priorities for FY2016, which revolve around our focus on being a multi-asset class exchange. We emphasised the need for diversification of our business, with the objective of delivering returns for you, our shareholders. This included efforts to, amongst others, improve our securities market infrastructure, extend our leadership in Asian equity indices and commodity derivatives and broaden our product portfolio in FX and Fixed Income.
3. To that end, we restructured our organisation in December last year, to enable us to better serve our customers and improve operational efficiency. We consolidated our sales and product teams to streamline into three key businesses, namely Equities & Fixed Income, Derivatives and Market Data & Connectivity.

FY 2016 Business Highlights

4. The integration of our listing, trading and post trade services into Equities & Fixed Income has better positioned us to improve market liquidity and attract listings.
5. Year to date, we have had 16 primary and 1 secondary listings, raising S\$2.3 billion, with total market capitalisation at listing of S\$6.43 billion, surpassing what was achieved in the whole of last year.
6. Against a weak global economy, trading volumes for securities worldwide, including in Singapore, were impacted. In FY16, we maintained our securities daily average value at the same level as the previous financial year, even as share prices and market cap of companies declined in line with most global markets.

7. Notwithstanding market sentiments, the newly listed companies on SGX saw an average of 20% increase in their share price since listing. More importantly, the diversity of the companies listed reinforces the position of SGX as Asia's most international exchange, as well as our unique sector strengths.
8. Of the 16 listings this past year, about 40% were non-local companies, including the first ever US pure play REIT, and the first ever Australian pure play industrial REIT.
9. As we reinforced efforts in the traditional sectors we are strong in, we are also focused on developing the new sectors of Consumer, Healthcare and Technology. While we were not spared from the global decline in IPOs, we continued reaching out to potential issuers overseas while supporting our home grown companies looking to raise funds.
10. Indeed, our Catalist board is home to many household names that form part of the Singapore growth story, such as restaurant chain Jumbo, security company Secura, and healthcare provider Singapore O&G. However, it is not only local names listed on Catalist. We celebrated the 100th new listing on Catalist with an Israeli company, Trendlines.
11. Our efforts extended to the whole industry. In the past year, we engaged with a wide range of institutional investment firms and fund managers to highlight the depth and quality of our listed companies. We partnered intermediaries to organise SGX Corporate Days for companies to communicate their business plans and strategies to existing and potential shareholders.
12. Our retail efforts saw us hold two My First Stock Carnival events, at UniSIM in October last year and at Ngee Ann City in May this year, attracting over 8,000 visitors. We partnered with the CFA Society, SPH and MAS on a 'Save & Invest Portfolio Series' – which you might have read in The Sunday Times, and launched a 2-minute TV vignette called the 'SGX Stock Market Beat' on Channel 8 for 6 weeks in November.
13. Collectively, our retail efforts in the last financial year, encompassing investor seminars, courses and events, enabled us to reach over 170,000 retail participants and we trained in excess of 1,300 trading representatives.
14. To widen the range of fixed income products for retail investors, we also established the Bond Seasoning Framework. On the institutional fixed income market, we launched SGX Bond Pro in December last year, to support secondary trading of Asian bonds. This reinforces our position as the preferred debt securities listing venue in Asia.

15. In our derivatives business, we continued to innovate with new products. We launched the SGX MSCI China Free Index contracts and the first offshore India Nifty sector futures, both of which provide international investors with access to the new industries driving growth in China and India.
16. We are building momentum in the FX futures market, with volumes increasing since the 2013 launch, reaching monthly turnover records in our key contracts, namely the Indian Rupee and the Chinese Yuan. You may have read about Singapore maintaining its role as the largest FX centre in Asia Pacific, and third-largest globally, so we are well-placed to both benefit from and contribute to, this credential.
17. We registered record commodity trading volumes, in particular for iron ore derivatives contracts. We added to our suite of commodity derivatives and price discovery tools with the launch of Sling, Asia's LNG price benchmark and other LNG derivatives.
18. All of these developments supported SGX being named Exchange of the Year at the global Energy Risk Awards in 2016, making us the first Asian exchange to receive this title.
19. Our diversification strategy saw us launch our new Index business, known as SGX Index Edge, in October last year. Since then, we have rolled out various thematic indices including SGX's Sustainability Indices, Healthcare and Real Estate, amongst others.
20. Most recently, we launched our first Asia REIT Index that is dividend weighted and are pleased to say it will be used as a benchmark index for an upcoming exchange-traded fund, or ETF. REITs, one of SGX's strongest sectors, continue to garner investors' demand in the current low-yield environment. The upcoming REITs ETF demonstrates how we are complementing our existing sector strengths with our diversification strategy. In doing so, we are expanding the suite of products available for our investors to take advantage of market opportunities.
21. As our Index business grows, we hope that will create more ETFs, leading to more awareness of our stock market and investment products for investors.

Key Material Factors

22. To maintain a sustainable business and generate long-term shareholder value, we engage with our diverse group of stakeholders, while balancing our role as a systemically important financial infrastructure of Singapore. It would therefore be remiss of me not to highlight some of the material factors we are taking into consideration.

23. In the near to medium term, the single most critical factor influencing our business performance is volatility in the Asian financial markets, which is affected by the macro economy. Ongoing changes in the global regulatory landscape requires SGX to continuously navigate increased complexities, as players in the financial industry adapt to changes around balance sheet management, risk appetites and business strategies.
24. This past year, our businesses were significantly influenced by the manner in which market participants adjusted to changes in benchmark interest rates, slower growth in the global economy and volatile commodity prices. Market volatility sometimes worked in our favour, highlighting the unique role SGX plays as a multi-market jurisdiction as well as an offshore hub for risk management in Asia. At a time when some onshore markets experienced uncertainty and trading restrictions, SGX was able to provide a reliable venue for market participants.
25. We also cannot ignore the increasing competition we face across our equities, fixed income and derivatives markets, from both regional and global exchanges. While we remain confident in the near to medium term of our competitive strength, we are preparing for the long-term, against a rapidly evolving landscape in the exchange industry.

Looking Ahead: Opportunities & Priorities

26. This brings me to the opportunities we see in the near to mid-term for SGX. In the Equities & Fixed Income space, we will continue to further our position as a vibrant ecosystem for capital raising and innovation, and as Asia's fixed income hub. We will expand the scope of our securities market to transcend local limitations, attract more regional and international companies to raise capital on SGX, while remaining committed to supporting local corporates and SMEs.
27. We will continue to engage with retail and institutional investors and market makers and liquidity providers to improve market liquidity and create a vibrant secondary market. We will do this while maintaining the highest standards of trust, reliability and investor protection, which will be reinforced in the next year following the announcement of our regulatory function which will be established as a subsidiary company.
28. The new Regulatory Company, headed by Chief Regulatory Officer Tan Boon Gin, will have its own Board of Directors, separate from and independent of SGX's Board, and will build upon the many regulatory efforts Boon Gin and the team have undertaken this year.

29. In the Derivatives space, we will enhance our position as a hub to invest, trade and hedge all major Asian markets. We will build on our development of pan-Asian products and services, including Asian currency futures, RMB clearing services, our steel product suite, and power and gas derivatives.
30. SGX is the world's most liquid offshore market for the benchmark equity indices of China, India, Japan and Taiwan, with market leadership in offshore FX futures. We are also a leader in seaborne iron ore and dry bulk freight derivatives.
31. In the past financial year, our freight derivatives business saw volumes increasing five-fold to almost half a million contracts, and SGX dry bulk freight open interest grew correspondingly. As you will be aware, this year we made a bid for the Baltic Exchange, which is the world's only authoritative source of maritime market information. When combined with SGX's leading position in the dry bulk and freight markets globally, our acquisition of the Baltic Exchange will allow SGX to facilitate the entire value chain, from provision of market data to the trading and clearing of freight derivative contracts.
32. With Singapore as an international maritime hub and Asia's growth in the global shipping market, we see significant benefits in combining the strengths of the Baltic Exchange and SGX, including the possible introduction of Asian Baltic Indices to capture the intra-regional trade. I am pleased to inform you that our Baltic transaction is progressing well and look forward to providing you with further updates soon.
33. On our Market Data & Connectivity business, our priority is to drive continued growth to become an integrated regional data hub, while growing our colocation services. There is a gap for a focused Asian market data and index provider such as SGX, versus domestic national exchanges and global players such as S&P, FTSE or MSCI, and our Index Edge business is well placed to meet the growing demand for bespoke index calculation services in Asia.
34. As we look towards addressing all of these opportunities, we will, as always, maintain cost discipline and pace our operating expenses with business growth.

Industry Working Group & Sustainability

35. This brings me to the final two points I wish to address. The first is the disruption of our securities market on 14 July this year. The disruption was caused by a disk failure and an application that did not detect the problem, and prolonged due to challenges in the orders and trade reconciliation process.

36. We have reviewed and replaced the elements that caused the disruption and implemented the necessary changes to the application. As we recently announced, we have also set up an Industry Working Group comprising of senior industry members to review and improve on processes around market operational resilience for SGX and the overall securities market. Our operational resilience and responsiveness remain a key priority for us.
37. I also want to highlight our focus and developments on the topic of Sustainability. There has been a growing demand among investors for enhanced transparency on listed companies' Environmental, Social and Governance, or ESG, practices. This was why we launched SGX's Sustainability Indices in May this year, comprising SGX listed companies that are considered to be forerunners in ESG standards.
38. We have also announced the "comply or explain" sustainability reporting rule and guide, which seeks listed companies to issue a sustainability report, effective from FY2017. To assist companies in their Sustainability Reporting requirements, we organised briefings and training sessions for listed companies, and will continue to monitor and provide guidance.
39. We also recently announced our participation in the United Nation's Sustainable Stock Exchanges initiative. As a Partner Exchange, SGX will commit to promoting sustainability in our markets and long term sustainable investment through dialogues with investors, companies and regulators.
40. Let me now conclude with thanks, on behalf of SGX, for your support in the past year and more. We are in a challenging and competitive environment that will require us to constantly review and assess our priorities and strategies. It is only with your support, and that of market participants and members of the financial ecosystem, that we can achieve our common aim of keeping SGX, and indeed Singapore, ahead of the increasingly global game. Thank you.