Post-Event Perspectives

September 2017

2017 Dialogue Session with SGX Shareholders

Views from the Panel

SGX organised a dialogue session for its retail shareholders on 19 August 2017 as it continues its engagement of its various stakeholders. The management team gave a series of presentations on SGX's business model, and the ongoing efforts to strengthen the company in today's competitive environment. The presentations were followed by a question-and-answer session with a panel comprising CEO Loh Boon Chye, President Muthukrishnan Ramaswami, Head of Equities & Fixed Income Chew Sutat, Head of Derivatives Michael Syn, Head of Market Data & Connectivity Ng Kin Yee, and CEO of SGX RegCo Tan Boon Gin. Below is a snapshot of the panelists' perspectives post-event.

Loh Boon Chye, CEO

Balancing Act in Listening and Changing

"I am glad we set aside significant time to have an engaging question-and-answer session, and feedback received showed that shareholders liked that. Shareholders asked a wide range of questions, mostly centred on our securities marketplace and regulation. The questions indicated the need for SGX to continuously communicate with our shareholders to provide updates on what we are doing to improve the marketplace, and why. We are appreciative of the opportunity to listen to and analyse the feedback, and consider if anything needs to be changed or recalibrated. We hope everyone understands that what works for one group of stakeholders, may not work for another. We are constantly trying our best to balance the diverse interests of our stakeholders. "

Strategic Priorities for Long-Term Success

"A number of shareholders highlighted the challenges SGX faces in terms of size and regional competition, and wanted to understand where we see ourselves five to ten years down the road. We will do more for our shareholders to see that SGX has over the years grown beyond our cash equities market to have a multi-asset revenue base.

We will continue to focus on the securities market, which is important to us, while we build other businesses. To sustain delivery of financial performance through different market environments, our first priority is to continue to grow our asset classes across geographies. We can, for instance, further diversify our fixed income and foreign exchange portfolios, for which we already have existing products and infrastructure in place to enable growth.

Our second strategic priority is to advance our securities market and strengthen SGX's position as a key international venue for capital raising. We have a clear IPO strategy in place and have delivered on a number of initiatives to ensure we stay relevant to our stakeholders. But we cannot do this alone and will continue to seek collective effort from all stakeholders to improve, and also invest in, our home market.

Last but not least, our third priority is that as we grow our business, we will invest strategically, while continuing to optimise our resources and align our expenses with business growth. We are conscious of the need to continue investing for the future, although some investments will require a longer incubation period."

Partnerships and Collaborations

"Many shareholders correctly pointed out the need to look at strategic partnerships or mergers and acquisitions, in order to grow. SGX is always on the look out for complementary alliances or collaborations, though these may not take the form of a direct merger with another exchange. We will also consider acquisitions which can enhance shareholder value – as was the case with the Baltic Exchange."

Chew Sutat, Head of Equities & Fixed Income

Pursuit of new listings from SGX's key sectors and international markets

"There was a lot of interest from shareholders on SGX's IPO strategy. While we continue to focus on attracting local listings, we have also been working hard to pursue overseas companies to list on Singapore's shores. As a result, 40% of the nearly 760 companies listed on SGX today originate from overseas markets, and they make up 50% of the total market capitalisation.

Singapore's securities market is presently the most international in Asia. We are focused on attracting listings from sectors we are traditionally strong in. The REITs sector is a good example of this. Since we welcomed the first REIT listing in Singapore 2002, Singapore has evolved into the biggest REIT hub in Asia ex-Japan, underpinned by not just Singapore and Asian deals, but also European and U.S. assets, allowing us to transcend Singapore and develop into an emerging global REITs hub. As the Belt and Road Initiative continues to deepen connectivity between the growing economies of South and Southeast Asia with the rest of China through more infrastructure spending and development, we also look forward to more companies tapping on SGX to raise funds through equity and fixed income listings.

We are also making inroads in new sectors such as technology to remain relevant in the changing global economy. In today's marketplace, there are numerous fast-growing technology companies that have the potential to list, and investors are increasingly interested to ride on the growth of the technology sector. As Singapore forges ahead with its Smart Nation initiative, we are well-placed to attract companies from the emerging technology space. There is currently no technology listing hub in Asia, and we will work hard towards replicating the success we have achieved in the REITs sector by creating a technology listing hub."

More opportunities for retail investors to partake in IPOs

"Shareholders have given feedback that they wish to have more opportunities to participate in IPOs. We too want more retail investors to participate in our market. Hence we consulted the market quite extensively on this issue, and based on the feedback we received, we announced earlier this year that we are mandating all Mainboard IPO companies to allocate at least 5%, or S$50 million, whichever is lower, of their offer size, to retail investors.

This new rule is a first step. As a retail investor myself, I hope we can raise this further. But as an exchange, we need to balance the interests of all stakeholders in the entire ecosystem which is made up of issuers, investment banks, intermediaries, institutional and retail investors. As a market operator, we want to address these issues in gradual steps rather than taking a big leap to allow the marketplace and entire ecosystem to better assimilate the changes."

Reduction of board lot size
"Shareholders also raised a concern on brokerage costs remaining the same even though SGX reduced the board lot size from 1000 shares to 100 shares. It is important to understand that the rationale behind the reduction in board lot size is to address feedback from many investors on how they found investment in blue-chips prohibitive due to the large board lot size and hence the consequent large investment outlay.

To remain globally competitive and relevant, and also to provide wider access to higher-priced stocks, we reduced the board lot size. As a result, the number of investors that invested in the relatively higher priced stocks increased three-folds, contributing to a higher market turnover which in turn increased revenue for SGX.

However, we are also aware that some investors incurred relatively higher brokerage fees due to the minimum commission structures that continue to be in place. As with all marketplaces, some investors experienced partial fills, resulting in 'uneconomical transactions'. Brokerage fees and commissions are determined and charged by the broking firms. Today, brokers are providing different types of pricing services and arrangements, and some are beginning to reduce fees. Investors caught in such instances may want to get in touch with their trading representatives, and fee waiver requests may be considered by their firms on a case-by-case basis.

The SGX trading engine also does accept "fill-or-kill" order types and there are broking firms that offer customers the use of this order type on their trading platforms. We encourage investors to consult their brokers on the availability of the "fill-or-kill" order type as well as other alternatives offered, to more actively manage orders and avoid similar experiences."

Michael Syn, Head of Derivatives

Derivatives is a key growth driver
"Retail shareholders are understandably more familiar with the securities market, than derivatives. The dialogue session was a good opportunity to acquaint our retail shareholders on the importance of our derivatives business as a growth driver in SGX, covering asset classes such as equities, currencies and commodities.

China naturally came up as a topic of interest for shareholders, for both our securities and derivatives businesses. Tracing back our roots to more than 33 years ago, when Singapore International Monetary Exchange (SIMEX), the first financial futures exchange in Asia, was established, it is clear that the SGX we see today has come a long way to be well-placed as the price discovery and risk management centre for multiple asset classes.

SGX is presently the world's most liquid offshore market for Asian derivatives. Our equity derivatives are mapped to Asia's capital structure, and while volumes declined in FY2017 in a period of reduced volatility, we increased our market share in China, India and Taiwan. At the same time, our growth in foreign exchange is driven by equities users, with ample room to cross-sell and diversify further. We also have an extensive suite of commodities products covering the 'virtual steel mill' and will continue to strengthen our leadership position in iron ore, coking coal and dry bulk freight derivatives. This is complemented by our acquisition of the Baltic Exchange, which will lead to development of new freight products and shipping benchmarks."

Tan Boon Gin, CEO of SGX RegCo

MAS regulates SGX as a listed company
"Some shareholders have asked us how SGX can regulate ourselves. The short answer to this is that SGX has oversight of all companies listed on SGX save one – SGX itself.

As a company listed on its own securities exchange, SGX must comply with the Listing Rules. Just as SGX regulates companies that are listed on the exchange, the Monetary Authority of Singapore (MAS) regulates SGX in all matters related to our status as a listed company. So if there is unusual trading activity in SGX shares, MAS will pose a public query to SGX.

Public queries to all listed companies are announced via SGXNet and available at www.sgx.com. Likewise, MAS will post its public query to SGX on SGXNet. This may convey the impression that SGX is posing a public query to itself. In actuality, the query is coming from our regulator MAS."

Safeguarding Investor Interest in Takeover Situations

"Takeovers of listed companies are conducted based on the Singapore Code on Take-overs and Mergers (Takeover Code) which the Securities Industry Council administers. The law, namely the Singapore Companies Act (Chapter 50), also has some bearing on certain aspects of takeovers of Singapore-incorporated companies. The Takeover Code is found here while the Singapore Companies Act is available here.

Consequently, SGX **does not** regulate how the takeover offer is conducted including cases where the offer price is below the net asset value (NAV) or other takeover-related matters.

What SGX Listing Rules require is that listed companies continue to disclose material information accurately and on a timely basis.

SGX Listing Rules are also applicable to a delisting that follows a takeover. The SGX Listing Rules provide the following shareholder protection when companies delist:

i. The listed company must seek shareholders' approval for the delisting unless exempted under the listing rules. For a delisting to occur, the resolution must be supported by at least 75% of the total number of issued shares held by the shareholders present and voting including where relevant, controlling shareholders and company directors. In addition, the resolution must not be voted against by 10% or more of the total number of issued shares held by the shareholders present and voting at the meeting.
ii. In the case of a delisting, shareholders must be provided a reasonable exit alternative which is normally in cash. In the case of a delisting following a takeover, the exit offer may be the same as the takeover price.
iii. The company must obtain an Independent Financial Adviser's (IFA) opinion of such an exit offer. For a delisting immediately after a takeover, the IFA's opinion on the takeover offer will apply in place of an opinion on an exit offer."