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A high standard of editorial quality and excellence should undergird success in an industry that is built around serving the public interest. We believe the interest of the investing public will be served by fair, accurate and timely information.

— Statement of Editorial Quality

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We do not have such a culture in Singapore. We are trying to move in that direction and get employers more engaged in the training of the people, even in the institutions, and have internships and immersions when a person graduates.

— Prime Minister **Lee Hsien Loong** in an interview with *Süddeutsche Zeitung* on how Singapore could learn a thing or two from the Germans in the area of boosting the skills of the workforce



TheWeek

Remisiers petition Tharman for action on market

Some 1,225 individuals, many of them remisiers, have signed a letter to Deputy Prime Minister and Finance Minister Tharman Shanmugaratnam, highlighting what they believe are the reasons for weak stock-market trading volumes in recent years, along with suggestions on how to fix the problems. The letter, written by S Nallakuruppan, an investment specialist at a local broking house, was dated Jan 15 and made available to *The Edge Singapore* this past week.

On Feb 5, the Monetary Authority of Singapore provided *The Edge Singapore* with a statement in response to the letter. The letter and the statement from MAS are reproduced in full below.

Dear Deputy Prime Minister Sir,
Urgent measures needed to rebuild confidence in the Singapore stock market

The Singapore stock market has been in the doldrums for a prolonged period and this is adversely affecting the livelihood of many thousands of brokers and support staff as well as affecting their families.

Based on SGX's Annual Report for FY2014, the annual trading volumes have fallen by 26% over the past five years from FY2010 (\$387 billion) to FY2014 (\$286 billion) despite the market capitalisation by Singapore and international issuers increasing by about 30% from FY2010 (\$781 billion) to FY2014 (\$1,012 billion).

In our view, the main reason for this drastic drop in volume is a loss of confidence among the investing public after China stocks, or S-chips, crashed in 2008-2010 and the penny-stock sector collapsed in October 2013.

In the haste to rebuild the Singapore bourse after the delisting of more than 100 Malaysian CLOB [Central Limit Order Book] shares, listings from China were admitted with limited consideration given to important issues such as corporate governance and enforcement across borders. S-chips were brought in primarily to boost the quantity of listings at the expense of quality and we are now suffering the consequences. There are thousands of investors who have lost billions of dollars investing in these failed companies and this has gradually eroded confidence in the Singapore bourse among the investing public.

Granted, *caveat emptor* applies to all our listings, but by the same token, the SGX should have a responsibility to ensure that only good-quality companies are brought to market and only companies that maintain the required standards can remain listed. Being a listed company in the Singapore bourse

should be a mark of quality. We need to rebuild trust that we are a top-quality exchange, comparable with the best in the world and concerned with enforcing good corporate governance.

We would like to highlight some of the major issues affecting the Singapore market and our recommendations.

1. Rebuilding trust in our markets and ensuring a level playing field for all

A. Present situation

A number of companies have been listed, with few or no shares issued to the public, that is, via 100% private placement. What is supposed to be an initial public offering (IPO) looks more like an initial private offering and the limited number of shareholders creates an environment in which prices can be determined by a few players.

SGX recently introduced the market maker and liquidity provider programmes to enhance liquidity. The sheer size of these players means they are now able to influence prices and although they are supposed to provide short-term liquidity to the markets, we believe their presence is detrimental in the long run. These large institutional investors are armed with algorithmic trading and high-speed computers and their enormous ability to influence prices has left the investing public at a huge disadvantage.

In both the cases described above, confidence is hurt as retail investors perceive the playing field to be tilted against them.

B. Recommendation

For all new issues, the Listing Rules should require at least 25% of the shares to be issued to the public. This will then ensure a true market-price discovery system. More quality listings should be brought to market, especially those with decent dividend yields of at least 3%. For a start, we can consider listing our world-class government-linked companies such as PSA, PUB, PWD, JTC, Changi Airports International and Surbana. This will then create more depth and breadth in our markets.

Allow financing for new IPOs, with a cap of \$500,000 for Mainboard listings and \$200,000 for Catalyst listings. This would garner greater retail participation in IPOs.

According to an article in *The Economist* dated Nov 29, 2014, a new study has concluded that high-frequency trading may create inefficiencies that lead to lower liquidity instead of the perceived liquidity enhancement and efficiency of financial markets. So, we suggest that all forms of computerised trading systems be reassessed. As far as possible, let the market discover the true price of a stock arising from genuine demand and supply.

Statement by MAS in response

MAS consulted extensively with the public on measures to enhance the structure of the securities market over the past year. Some of the proposals include suggestions that have been put forth in the letter. For example, in our Securities Market Structure and Practices review, MAS and SGX had sought views from the public and stakeholders on the implementation of a new short-position reporting regime, as well as the establishment of independent Listings Advisory, Disciplinary and Appeals Committees to enhance SGX's regulatory role.

MAS considers the interests of all stakeholders fairly and objectively in our policy considerations. We will continue to engage all relevant parties, including the remisier community, to better understand the challenges they face. We will work closely with all stakeholders to strengthen the Singapore securities market and increase investor confidence.

Market participants must be subjected to greater rules regarding transparency, especially for short-selling positions. We should follow the example of the major exchanges in requiring prompt updating of total outstanding shorts for every stock. This would prevent bear raids in which short positions are built up without being declared. Similarly, we should uphold the uptick rule in shorting, as in major exchanges, so that there is no indiscriminate shorting and wealth destruction.

2. Creating a conducive environment for investing and trading

A. Present situation

After the corporate failure of Lehman Brothers and the global financial crisis in 2008, MAS instituted new rules such as classifying perceived higher-risk products as Specified Investment Products (SIP) and Excluded Investment Products (EIP). Trading representatives are required to pass the Capital Markets and Financial Advisory Services Module 6A and Modules 8 and 8A to deal in SIP and Unit Trusts (Collective Investment Scheme) respectively. Clients are even required to sit for a short examination and pass it before they can purchase SIPs.

Singapore could probably be the only country in the world to have such rules. This has created a lot of confusion, resulting in many members of the investing public staying out altogether.

B. Recommendation

All these classifications should be removed and a simple one- or two-page Risk Disclosure Statement should be signed by the investing public before they are allowed to buy sophisticated products such as derivatives, foreign shares, unit trusts and exchange-traded funds.

We should assume that the investing public know what they are investing in so long as they have signed the Risk Disclosure Statement, with full disclosure of the risks explained to them. At the end of the day, risk is inherent in any investment. We can educate the investing public about the various risks, but we cannot regulate risk.

The removal of Teletext has adversely affected many senior citizens. They are actually quite savvy investors who have the time and money on their side. It also keeps them mentally alert and contributes to active ageing. Although StarHub is providing similar facilities, it is on a subscription basis and many senior citizens do not have cable subscriptions. As part of SG50, we should reinstate Teletext facilities for our Pioneer Generation Singaporeans to lead a mentally active lifestyle.

3. Maintaining the quality of our listings

A. Present situation

Quite a number of our Mainboard listings are trading at less than 10 cents, with many even below one cent. In order to maintain the quality of Mainboard listings, SGX has proposed that companies consolidate their shares and bring their market prices to at least 20 cents. This has caused the prices of many small-cap companies to be depressed further even though some have decent fundamentals. Normally, when companies go through a share consolidation, the market values get squeezed further, owing to the higher absolute prices which investors might not be accustomed to. As a result, interest among the investing public in small-cap companies has diminished.

Quite a number of troubled S-chip companies have had their trading suspended for years and minority shareholders are hugely disadvantaged, as their capital is tied up with no exit options. This creates a negative and unfair spillover effect on other, possibly fundamentally sound, S-chip companies.

B. Recommendation

A certain standard needs to be set for companies to remain on the Mainboard. The companies must have a profitable track record of at least one year within a three-year time frame and must maintain a dividend track record. Those that do not meet the criteria should be downgraded to Catalyst.

Small-cap companies trading at less than 20 cents on the Main-

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board should be transferred to Catalyst instead of being required to undergo share consolidation. Many small-cap companies can ill afford the legal and administrative fees involved in a mammoth share consolidation exercise that adds little value to their businesses and is really only a cosmetic exercise.

Troubled S-chip and other similar companies could be transferred to a third board that is only for high-risk investments and, as such, all purchases should be on a cash-upfront basis. With all relevant information disclosed, the price-discovery process should be allowed to take place, that is, on a willing-buyer-and-willing-seller basis.

4. Due consultation with various market participants

A. Present situation

Many of the products and measures introduced by SGX such as Extended Settlement Contracts, American Depository Receipts, Government Bond Listings, Stiff Penalties for Mistakes, Short-Sell Reporting and Reduction of Bid Spreads have not succeeded due to lack of due consultation with market participants that really matter, namely the investing public and brokers. Several articles written to the press on the weak state of our market have not elicited responses from SGX or MAS.

B. Recommendation

A truly independent committee comprising members of the public, the broking community and academics as well as the management of MAS and SGX need to be formed to vet all pertinent policies before implementation. As far as possible, officers in

MAS and SGX should have had a few years' experience in the industry so that they can understand the true issues involved. SGX and MAS, as part of good corporate governance, owe a duty of care to respond to all relevant issues raised either through the press or other means.

5. More effective surveillance and appropriate policy measures

A. Present situation

The sudden collapse in October 2013 of three penny stocks (Blumont, Asiasons and LionGold), which actually turned "blue chip" within a short span of one year, wiping out a staggering \$9 billion over a couple of days, shattering the market's confidence. So much froth was building up in these stocks for almost a year that did not correlate with the fundamentals of these companies. Just a few months before the collapse of Blumont, a heavily discounted one-for-two rights issue at five cents per share was approved. Many market participants were puzzled by the whopping 96% discount to Blumont's volume-weighted average price of \$1.327. After the sudden collapse of these three shares and the collateral damage to the market as a whole, investigations by the authorities commenced and they are still ongoing after almost 16 months, with no updates in the intervening time.

B. Recommendation

Markets dislike uncertainty. Even if investigations have not been concluded, at least regular updates should be given. Also, investigations must be concluded within a reasonable period of time.

Effective administering by SGX

involves using the appropriate tools. Many on the credit side of business expressed the view that the Blumont, Asiasons and LionGold saga and its collateral damage could have been mitigated had the SGX worked closely with the broking houses. The stock-broking houses would have tightened credit and trading limits on the above-mentioned stocks, which would have led to a gradual and orderly deflation of prices.

This also brings in the larger issue of independence. The roles of SGX as a market operator and regulator should be distinct, as in the case of most developed markets. In audit the standards parlance, not only must the regulator be independent, it must also be seen to be independent.

6. Developing our fixed-income market

A. Present situation

The bulk of our Singapore dollar and US dollar corporate bonds issued are in denominations of \$250,000 and US\$200,000 respectively. Most of the investing public are excluded as they need to be qualified as an accredited investor, that is, have net personal assets exceeding \$2 million or an annual income of not less than \$300,000. Also, most of the secondary market transactions of corporate bonds are traded over-the-counter (OTC), with limited price-discovery owing to low liquidity.

B. Recommendation

Corporate bond offerings should be reduced to sizes of \$1,000 each and the investing public should be allowed to participate, just like for any equity offering, without any pre-qualification. For any sound invest-

ment strategy, a balanced portfolio of equity and bonds would be ideal. SGX should undertake regular public education sessions on bonds, just like those on equities, so that investors can make informed decisions.

7. Investing CPF funds to provide adequate retirement funding

A. Present situation

Only 35% of CPF Ordinary Account funds, after setting aside \$20,000, can be utilised to invest in equities. Many investors who have utilised their CPF funds in the earlier years are unable to continue investing their CPF funds, owing to the reduced limits, although funds are sitting idle in their CPF Ordinary Accounts earning a low interest of 2.5%. In the earlier years, 80% of the CPF Ordinary Account funds were allowed to be utilised for investments, and the amount was then reduced to 50% and now to an even smaller amount of 35%.

B. Recommendation

CPF Investment limits should be reinstated to 80% of the CPF Ordinary Account. The criteria for CPF Trustee inclusion should include a profit track record of at least three years and dividends of at least 3% a year for the past three years. With such a criteria and a well-diversified portfolio, equities can yield a 5% return over the long term. This will then help greatly in retirement planning.

8. Reinstatement of lunch breaks

A. Present situation

When continuous all-day trading was introduced in 2011, it was claimed that it would improve trading volumes and the livelihood of brokers

despite strong opposition from the broking community. This has clearly not been the case; in fact, volumes have fallen further. The lifestyles of brokers have further deteriorated, with lunches eaten in a hurry instead of spending time with clients during lunchtime to further enhance business relationships.

B. Recommendation

Reinstate lunch breaks and the trading hours to as follows: First session: 9am to noon, and second session: 1pm to 4.30pm. At the end of the day, it is not the number of trading hours that matters but the quality of listings and the vibrancy of markets.

There are many other issues not mentioned here that need to be discussed and ironed out. We need to form a working committee to address thoroughly all the issues. Many issues can be resolved if MAS, SGX, the broking community and the investing public work together in a collaborative arrangement with due regard given to all the views expressed. If we do so, we are confident of elevating our market to its proper position as a top Asian gateway.

Thank you very much for taking the time to read this letter.

Looking forward to your response as billions of dollars are at stake and the livelihood of several thousand Singaporeans and their families hang in the balance!

Yours sincerely,

S Nallakaruppan

For and on behalf of the 1,225 individuals mentioned below. This is our honest feedback and something urgent needs to be done.



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