

SINGAPORE

SECURITIES

SUMMARY

Singapore has five equity sub-markets that operate under the umbrella of the Stock Exchange of Singapore (SES). These include: the Mainboard for major domestic and foreign stocks, a bond market tagged to the local equity securities markets, a secondary over-the-counter market (SESDAQ) for small and medium-sized corporations, an options market, and the Foreign Board for foreign companies not able to meet the listing requirements for the Mainboard. A sixth secondary over-the-counter market for primarily Malaysian offshore stocks was closed in September 1998 as a result of newly-imposed capital and currency controls in Malaysia. The Singapore International Monetary Exchange (SIMEX), established in 1984, was Asia's first financial futures market. The Monetary Authority of Singapore (MAS) regulates the overall financial sector, including the securities and futures industries, but has delegated much of the day-to-day regulation of the markets to the relevant exchanges. A recently-appointed government committee has proposed that SES regulatory powers be reduced – in conjunction with maximum company disclosure – to generate more vibrant markets.

Foreign securities firms generally have the same right to establish and offer financial products as domestic firms with respect to government securities, unit trusts, and financial futures. There are restrictions, however, on the extent to which foreign stockbroking firms can trade in the equity securities markets for Singapore resident clients. SES regulations restrict foreign equity ownership of SES member companies to 49 percent, with the exception of two joint ventures approved prior to 1990 and the special category of "international members" which are wholly foreign-owned stockbroking companies in the SES. While authorized to trade for nonresident clients, these SES international members are permitted to trade Singapore-dollar denominated securities for resident clients only if the transaction value per contract is S\$5 million (US\$3.1 million) or above. SES international members also may not vote in an election of members to the SES Committee (that is, the Board of Directors of the SES). In 1995, the SES created a category of "approved foreign brokers" who are permitted to trade only non-Singapore dollar denominated stocks on the exchange. All other foreign stockbroking firms licensed in Singapore (SES "non-member companies") must trade local securities through SES members.

The SES currently has 33 member and 57 "non-member" companies. Two U.S. companies have substantial equity stakes in two domestic members of the SES. Apart from these, one U.S. brokerage firm is an "international member" of the SES. An additional 11 U.S. securities firms are active in Singapore as non-members of the exchange, mostly trading offshore stocks for Singapore resident clients. Foreign financial institutions, including nine U.S. companies, are also active in the fund management industry, offering a total of 50 unit trusts and funds (similar to mutual funds). Foreign financial institutions, including U.S. firms, dominate activity in the futures market, with about 85 percent of the 24 million contracts traded on SIMEX in 1997 involving offshore clients. Two of the

eight primary dealers in Singapore government securities are foreign-owned, including one from the United States.

Residents of Singapore face no capital controls or restrictions in obtaining offshore financial instruments. Local companies, however, face restrictions when seeking to issue Singapore dollar-denominated securities or notes in overseas markets. Foreign companies can participate in underwriting foreign issues made by local companies.

DESCRIPTION OF THE MARKET

Singapore is a small but prosperous city-state with a population of 3.5 million residents (including 500,000 non-citizens) and a per capita GNP of about US\$26,000. The financial services sector, including banks and other financial institutions, accounted for nearly 11 percent of Singapore's S\$143 billion (US\$90 billion) in GDP in 1997. It has been a longstanding goal of the Singapore government to develop Singapore into a regional financial center, primarily by attracting foreign financial institutions to set up offshore operations in the city-state.

In 1986, the government revised the Securities Industry Act (SIA), and enacted the Futures Trading Act (FTA). Both of these acts give broad powers to the MAS to regulate the securities and futures industries. The MAS is a statutory board – a quasi-government body organized like a corporation – under the Ministry of Finance. Established in 1971, the MAS regulates the entire financial sector through the Banking Act, the Finance Companies Act, the Development Loans Act, the Local Treasury Bills Act, and the Insurance Act, as well as the two laws mentioned above. The MAS exercises stringent oversight over financial institutions in Singapore, and has broad discretion in licensing local and foreign financial institutions to operate in the republic. The MAS also serves as Singapore's *de facto* central bank, and is responsible for formulating and implementing Singapore's monetary policy.

The MAS provides a variety of licenses for the securities and futures industries. Besides generally stipulating that the licensees must be of good character, knowledgeable, and have adequate financial resources, the SIA and the FTA give the MAS broad powers to "vary any condition or restriction or impose further conditions or restrictions" in granting the licenses. The MAS has delegated much of the day-to-day regulation of the markets to the relevant exchanges over the years. The government securities market is administered directly by the MAS.

The Securities Industry Council (SIC), created by the original SIA, still advises the Minister of Finance on all matters relating to the securities industry. The SIC is a bipartite body made up of government officials and representatives appointed from the private sector by the Minister of Finance. The SIC also has regulatory power to investigate transgressions of rules in the nonstatutory

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Code on Take-overs and Mergers and to summon any person to provide information accordingly. The SIC acts in close coordination with the MAS.

In December 1997, as part of a broad effort to liberalize the financial services sector, the government set up an SES Review Committee to consider and recommend changes in the operation of the SES in order to enable Singapore "to participate fully in the dynamic global network of capital markets." In May 1998, another government-appointed committee proposed the adoption of a U.S. system of regulation based on minimum exchange regulations and maximum disclosures by companies in order to generate greater vibrancy in the securities markets. Under this system, securities regulations would be centralized at the MAS, while the SES assumes primarily promotional responsibilities.

The Equity Markets: The Stock Exchange of Singapore

Presently, Singapore's equity market is comprised of five sub-markets organized under the umbrella of the SES. In descending order of size, the five are:

- the Mainboard, the primary market for major domestic and foreign companies;
- the Debentures, Bonds, Loans and Transferable Subscription Rights (DBL & TSR) market;
- SESDAQ, a secondary OTC market trading in shares of small and medium-sized corporations;
- the Stock Options market; and
- the Foreign Board, a market for foreign companies not qualified to list on the Mainboard.

The SES Mainboard is dominated by large Singapore government-linked corporations, such as the former government monopoly Singapore Telecom, but the exchange has encouraged more listings by locally incorporated subsidiaries of multinational corporations in recent years. As of the end of April 1998, the SES Mainboard listed a total of 302 companies, including 52 foreign companies, with a market capitalization of S\$304 billion (US\$190 billion). This represents approximately a 50 percent growth in the total number of SES-listed companies and a doubling of SES-listed foreign companies over the past four years. As a guard against the internationalization of the Singapore dollar, all foreign companies had been permitted only to issue non-Singapore dollar shares on the exchange. In October 1996, the government permitted those with substantial (30 percent) Singapore operations to list in Singapore dollars as well. Since the beginning of the regional financial crisis in mid-1997, average stock prices on the SES Mainboard have fallen by over 40 percent, while total market capitalization (especially in US dollar terms) has also declined despite new listings.

The DBL & TSR market is tagged to the Mainboard and SESDAQ. A total of 284 debentures, bonds, loans, and TSRs were listed at the end of April 1998, with market capitalization of S\$27 billion (US\$173 billion).

The government launched the SESDAQ – modeled after the U.S. Nasdaq Stock Market – in February 1987 to allow small and medium-sized firms that the market views as having a higher risk but good growth potential to raise capital. There are currently 62 stocks traded on the SESDAQ with market capitalization of S\$3.2 billion (US\$2 billion). Compared to four years ago, this represents nearly double the number of listed firms but slightly less in terms of total market capitalization. In December 1997, the government announced that foreign companies may begin to list in non-Singapore dollars on SESDAQ.

Finally, there were seven companies offering 102 call and put options on only four stocks in the fledgling options market (set up in March 1993), and one foreign company listed on the Foreign Board as of April 1998.

(Note: In September 1998, the SES was compelled to close a sixth equity market – a secondary over-the-counter market for primarily Malaysian offshore stocks called “CLOB International” – after the Malaysian government imposed general capital and currency controls in reaction to the regional financial crisis. In 1997, this market accounted for about 40 percent (in volume) and 12 percent (in value) of the monthly turnover on the SES. As of the end of April 1998, CLOB International quoted 129 stocks (including 12 Malaysian, nine Hong Kong, and eight other foreign countries) with a total market capitalization of S\$143 billion (US\$90.2 billion).)

The growth of offshore banking activities and the influx of foreign capital (mainly Japanese as the yen appreciated) spurred rapid growth in the Singapore equity markets beginning in the mid 1980s. Liberalized rules on the use of Central Provident Fund (CPF) savings – a national pension fund – which allowed individual Singaporean investors to use their savings to purchase “trustee” equities on the SES also fueled a bull market in 1993. Growth appears to have peaked in 1993, however, as competition from foreign financial centers increased while Singapore remained constrained by its relatively small domestic capital market. Although the number of SES listed companies continued to grow, total turnover value on the Mainboard, the CLOB International and SESDAQ markets declined from a peak of S\$134 billion (US\$83.9 billion) in 1993 to S\$114 billion (US\$71 billion) in 1997. This was reduced further by the closure of CLOB International in September 1998.

Foreigners are generally free to invest in local equity and debt instruments. Foreign shareholdings, however, are limited in local companies in the sectors of defense, banking and other financial services, mass media, and in the national carrier (Singapore Airline) in which the government is the principal shareholder. Such companies maintain dual listings on the exchange, with allowable foreign shareholding ranging from 40 to 49 percent. In 1997, the government began to reduce the number of such dual-listed companies.

SES Membership

The SES is owned by its 33 members, 17 of which are 100 percent Singapore-owned, nine are joint ventures with foreign partners, and seven are wholly foreign-owned "international members." Under the supervision of the MAS, the SES sets its own criteria for membership and listing, and regulates the activities of its members. The SES Committee, which runs the exchange, is made up of four stockbrokers elected from the membership and five individuals appointed by the four elected stockbrokers and approved by the Minister of Finance. One of the five appointed members is also appointed as SES's executive chairman.

Current SES policy limits foreign ownership of domestic member firms to 49 percent equity. In 1987, the SES announced that it would accept applications for joint ventures with up to 70 percent foreign ownership – with final SES action on the applications contingent on meeting certain criteria during three years of operation. Nine firms applied, two of which gained membership, three disbanded their partnerships, and four have not requested final SES approval. In 1990, when the SIBS instituted the "international member" category, it closed the 70 percent joint venture category, but grandfathered the two joint ventures that had gained membership. All new joint ventures have since been subject to the 49 percent limit.

The SES approved seven out of 10 applicants for "international member" status in 1992, with the price of each seat purchased at S\$8.2 million (US\$5.1 million). Although there is no ownership limitation on "international members," these foreign stockbroking firms are only permitted to trade in lots of S\$5 million (US\$3.1 million) or above when executing transactions of SES-listed Singapore dollar-denominated securities for Singapore resident clients. For transactions of non-Singapore dollar denominated SES-listed or quoted securities, international members may freely transact orders of any size with residents and nonresidents. International members are not eligible to vote in elections for, nor can they be elected to, the SES Committee.

In 1995, the SES created a new category of non-member "approved foreign brokers" who are permitted to deal in non-Singapore dollar denominated equity securities or bonds listed or quoted on the SES for resident and nonresident clients. For resident clients other than corporate accredited investors, however, it is required that the transaction value of non-Singapore dollar denominated equity securities per contract not be less than S\$5 million (US\$3.1 million) or its equivalent in foreign currency. There are presently five such approved foreign brokers.

There is no cap on the number of local or international members the SES can accept. However, the total number of SES memberships has remained constant since 1992. The SES has considerable discretion in approving or denying applications for membership, and it tends to focus on larger, better established firms.

In addition to SES member firms, 57 non-member securities firms – all of which are either wholly foreign-owned or joint venture firms – are licensed to operate in Singapore. These firms can trade SES-listed securities only through member firms. They are permitted to trade offshore stocks for Singapore residents.

Unit Trusts and Funds

Unit trusts and funds are similar to mutual funds in the United States. Their importance has grown over the last decade as their increasing variety has attracted a growing number of local investors, particularly risk-averse small investors. Unit trusts and funds are regulated under the Singapore Companies Act by the Ministry of Finance's Registry of Companies and Businesses. Trustees are screened and approved by the Minister under the Companies Act.

As of the end of 1997, there were 161 local and foreign financial institutions in Singapore offering 101 unit trusts and managing a total of S\$125 billion (US\$78.1 billion) in local and foreign funds, nearly double the value in 1994. Fifty of the unit trusts were managed by foreign firms. This strong growth was attributable primarily to fund management companies transferring funds invested in Asian markets previously managed by their offices in the region to Singapore for management. Over 90 percent of the funds managed from Singapore were sourced from foreign investors, including about 50 percent from Europe and the United States. Nearly 70 percent of these funds were invested in equities, with about 10 percent of the total invested in Singapore. In 1998, as part of its broad financial sector liberalization efforts, the government announced that it will allocate S\$35 billion (US\$21.9 billion), up from S\$10 billion (US\$6.3 billion), in public sector funds to private fund managers over the next three years.

U.S.-based mutual fund companies may market their funds to Singapore residents, provided the necessary prospectuses are registered with the Singapore Registrar of Companies. There are also no barriers to foreign-owned financial institutions offering Singapore-based unit trusts and funds. There are currently nine U.S. asset management companies operating in Singapore.

The Financial Futures Market: SIMEX

The government, looking for niches in the financial services industry, established SIMEX as Asia's first financial futures market in 1984. Developed out of the former Gold Exchange of Singapore, SIMEX continues to provide commodity futures contracts in gold and energy products. SIMEX modeled its open outcry trading system, its regulations, and other aspects of its market operations after the Chicago Mercantile Exchange (CME). To ensure a sufficient volume of transactions and liquidity, SIMEX has also joined in a "mutual offset system" (MOS) with the CME, which enables a position opened in one exchange to be offset or closed in the other without having to pay an additional margin to the other exchange. MOS allows for around-the-clock trading. Given its international outreach, SIMEX remains open even on local public holidays.

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As of 1998, there was a total of 12 futures contracts and six options contracts available on SIMEX. Trading interest was dominated by the three-month Eurodollar and Euroyen interest rate futures, and the Nikkei-225 stock index futures and options contracts. In January 1997, SIMEX launched the Taiwanese Stock Index futures and options contracts based on the index compiled by Morgan Stanley Capital International (MSCI), which comprised 77 component stocks representing 67 percent of the Taiwan stock market. In April 1998, the exchange announced that it will start trading Singapore, as well as Malaysian and Thai, stock index futures and options contracts in the second half of the year.

SIMEX is governed by the Futures Trading Act of 1986 and is supervised by the MAS, but it exercises its own strict financial requirements and screening processes in admitting new traders and regulating their activities. The requirements are transparent and do not discriminate in any way between local and foreign traders. U.S. and other foreign traders and intermediaries dominate the futures market, with about 85 percent of the 24 million contracts traded on the exchange in 1997 taken by overseas clients. Floating rate instruments, derivatives, and other new financial products are readily offered in Singapore by both foreign and domestic traders without restriction. The MAS encourages development of greater financial product and technological sophistication. Both foreign and domestic banks must obtain approval from the MAS, however, before introducing any new type of financial product.

Singapore Government Securities

The Singapore government, with regular budget surpluses and official foreign reserves of S\$119 billion (US\$74 billion), does not currently need to issue securities to finance expenditures – although the government has recently announced again its intention to make the government and government-linked companies more reliant on the securities market for future borrowings. The MAS issues securities under the Government Securities Act and the Development Loans Act as debt instruments to regulate liquidity in the money market and to provide financial institutions with liquid assets to meet reserve requirements. The government restructured its debt market in 1987 to develop a more active and liquid secondary market, which would also serve as a benchmark for developing a corporate debt securities market. Government-set interest rates were abolished and a weekly auction system modeled after the U.S. Treasury auctions was adopted.

The MAS regularly issues its securities in the form of book-entry bonds with maturities of two, five, and seven years, and Treasury bills of three, six or twelve months maturity, to the public through eight primary dealers who act as market makers and provide two-way quotes. One of the two foreign primary dealers is U.S.-owned. There are no discriminatory barriers for foreign participation in this market. The Singapore government also issues nonmarketable government debt to the CPF board. At end 1997, outstanding Singapore government book-entry bonds issued stood at S\$15 billion (US\$9 billion). Average daily turnover in Singapore government securities in 1997 reached S\$534 million (US\$334 million), while daily repurchase agreements averaged S\$267 million (US\$167 mil).

To create greater depth in the market, the government is expected to issue 10-year bonds in the near future.

U.S. PRESENCE IN THE MARKET

U.S. stockbroking firms account for 11 out of the 57 SES non member brokerages. U.S. companies also currently own substantial equity in two domestic SES members, namely: BT Brokerage (49 percent owned by Bankers Trust); and Vickers Ballas (20 percent owned by Citicorp). Merrill Lynch Singapore became an SES international member in 1995, after acquiring one of the seven originally-approved international members (Smith New Court Securities).

There is also a strong U.S. and foreign presence in Singapore's financial futures market. Nine of the 35 corporate clearing members are U.S.-based. Additionally, one is a joint venture with a local firm. There are also five U.S. firms among the 25 non-clearing members of SIMEX. Two of SIMEX's 11 commercial associate members are U.S. firms. The U.S. presence, however, is not strong in the individual member and trading permit holder categories. Only five of the 471 individual members and trading permit holders are U.S. residents. Most U.S. customers trade through U.S.-based members of the SIMEX. Presence in this market is limited only by the availability of seats. Prospective traders must seek seats through the open market.

TREATMENT OF U.S. FINANCIAL INSTITUTIONS

Foreign securities firms, including U.S. companies, have the same right to establish and offer financial products as do domestic firms with respect to government securities, unit trusts, investment banking, and financial futures. Introducing new financial products generally requires government approval.

Current regulations, however, restrict foreign equity ownership of SES regular members to 49 percent, with the exception of two joint ventures approved prior to 1990 which were permitted up to 70 percent foreign ownership. The Financial Sector Review Committee – formed in 1997 and headed by Deputy Prime Minister and MAS Chairman Lee Hsien Loong – is known to be studying the possibility of liberalizing the SES membership structure.

One U.S. securities firm (Merrill Lynch Singapore) became an international member of the SES in 1995. Although SES international members are 100 percent foreign owned, they are restricted in their trading in equity securities on behalf of Singapore resident clients and cannot vote in elections for the SES Committee. SES international members are subject to a restriction on the size of lots they must trade when executing transactions for residents of SES-quoted securities denominated in Singapore dollars. (Note: Investment managers, however, are exempt from several prudential

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requirements relating to exposure to a single client and exposure to a single security, which the MAS argues puts them in a better competitive position vis-à-vis SES members.)

Foreign securities firms may freely offer to Singapore residents domestically managed unit trusts and funds. They may also offer foreign mutual funds to residents if the necessary prospectuses are registered with the Singapore Registrar of Companies.

Residents face no capital controls or restrictions in obtaining offshore financial instruments for investments. Foreign companies can participate in underwriting foreign issues of local companies without restriction. There are restrictions, however, on the issuance of offshore Singapore dollar-denominated securities.

Generally, current levels of openness are bound in Singapore's GATS offer. However, Singapore has not bound itself to approving new memberships in the SES (e.g., international members) or new primary and registered dealers of Singapore government securities. The MAS is undertaking a comprehensive review of the financial services sector with a view to further liberalization. A "stockbroking committee" set up by the government recently submitted a number of recommendations to the MAS for consideration. Chief among these is a change in regulations to allow foreigners to own up to 70 percent of a local stockbroking firm, thereby raising the ownership limit from the current 49 percent.