

MAS and SGX conclude proposals to enhance securities market structure and practices

On 7 February 2014, the Monetary Authority of Singapore (MAS) and Singapore Exchange Securities Trading Limited (SGX) issued a joint consultation paper (Consultation Paper) inviting interested parties to comment on their proposals to enhance fair, orderly and transparent trading in Singapore's securities market.

Following comments received by interested parties, the MAS and the SGX have on 1 August 2014 issued their joint response to feedback received on their proposals.

Promoting orderly trading and responsible investing

Minimum trading price for issuers listed on the SGX Mainboard

The MAS and SGX expressed their concerns, in the Consultation Paper, that low price securities may be susceptible to excessive speculation and potential market manipulation.

As such, the MAS and SGX proposed in the Consultation Paper, to introduce a minimum trading price (MTP) as a continuous listing requirement for issuers listed on the SGX Mainboard to address this risk.

The MAS and SGX sought views on the following:

1. their proposal to introduce a minimum trading price as a continuing listing requirement for issuers listed on the Mainboard;
2. the appropriate threshold for the minimum trading price; and
3. the proposed model for the introduction of the minimum trading price, including:
 - (a) whether a cure period of 36 months is sufficient to allow affected issuers to take remedial actions; and
 - (b) the proposed introduction of an alternative facility for the trading of delisted shares.

Highlights

Following the consultation with interested parties, the MAS and SGX will be implementing the following proposals:

- Imposing a minimum trading price of S\$0.20 for issuers listed on the SGX Mainboard as a continuing listing requirement.
- Imposing requirements on an investor to post collateral of 5% of the investor's open positions by the end of the trading day.
- Imposing requirements on short sellers to notify the MAS of their net short positions and the aggregated short positions to be published on a weekly basis.
- Securities Association of Singapore to develop industry guidelines for its members to address any information asymmetry due to differing practices of announcing trading restrictions.
- Establishing independent listings, listings appeals and listing disciplinary committees and expanding the range of regulatory sanctions for listing rule breaches.

As a majority of respondents were supportive of the MTP proposal, the MAS and SGX will be proceeding with the same. The MAS and SGX will not however be extending the MTP requirement to issuers listed on the SGX's sponsor-supervised board, Catalist.

An issuer must ensure its volume weighted average price over a 6-month period prior to a review date must not fall below the threshold of S\$0.20. Issuers who fail the criteria will be given a 36-month cure period to remedy the situation.

Issuers will also be required to provide periodic updates during the cure period to keep shareholders informed of the progress made by the issuers to comply with the MTP requirement.

If an affected issuer is still unable to comply with the MTP requirement at the end of the cure period, it will be delisted.

To avoid odd-lots from the consolidation exercises that will be expected from some Mainboard companies to meet the minimum \$0.20 requirement, the SGX will be reducing the board lot size from 1,000 to 100 shares from January 2015.

The MAS and SGX considered the possibility of establishing an alternative facility for trading of delisted shares but rejected the idea on the basis that there is a limited need and utility in having such a trading facility specifically for issuers that do not comply with the MTP requirement.

As such, the existing regulatory framework governing the delisting of companies will continue to apply with the institution of the MTP (i.e. the obligation under the SGX Listing

Rules for delisted issuers to provide a cash exit offer).

Please refer to the Annex to this briefing for a diagrammatic representation of how the MTP requirement will be implemented.

The MTP proposal is expected to be implemented from **March 2015** with a 12-month transition period.

Collateral requirement for securities trading

The MAS and SGX expressed their concerns, in the Consultation Paper, over the risk of substantial losses to investors from excessive trading on unsecured credit (e.g. contra trading).

As such, the MAS and SGX proposed in the Consultation Paper, to introduce a requirement for investors to post collateral for securities trading, based on a minimum of 5% of the investor's open positions to discourage contra trading.

The MAS and SGX sought views on the following:

1. the proposal for securities intermediaries (including banks) authorised to deal in securities under the SFA to impose collateral requirements for securities trading based on a minimum collateral requirement of 5% of customer's open positions;
2. the proposal for collateral to be collected from customers no later than the end of trade day;
3. the proposal for the collateral to be in the form of cash, marketable securities or a guarantee from a bank operating in Singapore;

4. whether any other types of investors should be excluded from the collateral requirements apart from institutional investors; and
5. the proposal for customer cash collateral to be held in trust accounts with licensed banks in Singapore at all times.

The MAS and SGX will be proceeding with proposals 1 to 4 above, in relation to both local as well as overseas stocks. The following will be exempt from the proposals:

1. trades using Central Provident Fund and Supplementary Retirement Scheme funds; and
2. institutional investors.

Accredited investors, expert investors and high net worth individuals will be subject to the collateral requirement.

In relation to the MAS and SGX's proposal to post collateral by the end of trade day, the MAS and SGX clarified that as long as the customer can show reasonable proof that the transfer of funds to the intermediary is successful, the funds would be deemed as collected by the intermediary.

In this respect, intermediaries can accept Electronic Payment of Shares (whether through internet banking or automated teller machines), GIRO credit transfers by customers or cashier's order, as such payments can only be effected if there are sufficient funds in the customer's bank account. Other acceptable modes of payment include the instantaneous inter-bank fund transfer services recently launched by the banks. Additionally, intermediaries have the option to collect a deposit upfront from their customers.

The MAS has clarified that it is not its intent to mandate securities

intermediaries to force-sell their customer's securities when there is a collateral shortfall, although intermediaries have the flexibility to do so if they deem this to be appropriate.

Nevertheless, intermediaries should not allow the customer to increase his positions in the event of a collateral shortfall. Pending the customer's top-up of his collateral or settlement of the transaction, intermediaries will have to risk-charge their capital against any collateral shortfall.

The MAS and SGX have dropped their proposal for customer cash collateral to be held in trust accounts with licensed banks in Singapore at all times given the operational impediments to maintaining foreign currency-denominated cash collateral with licensed banks in Singapore. Furthermore, the MAS and SGX noted that trades in foreign listed securities generally require some form of pre-funding or collateral. Accordingly, the MAS and SGX will allow intermediaries to maintain their customer's cash collateral in overseas trust accounts for customers' trades in overseas securities exchanges.

The collateral requirements for securities trading will be implemented from **mid 2016**.

Short position reporting requirements

The MAS and SGX proposed in the Consultation Paper to introduce a short position reporting regime to mitigate the potential disruptive effects of short selling and to improve transparency of short selling activities in Singapore.

In order to improve transparency in short selling activity, SGX introduced a marking regime in March 2013,

where participants are required to mark short sell orders before submitting them to the SGX.

The MAS and SGX proposed to complement the marking regime with a short position reporting regime based on the two short position reporting options:

1. **Aggregate position reporting:** net short positions of at least 0.05% or S\$100,000 of issued shares of a listed entity must be reported weekly. Aggregated positions would be published without revealing investor identity; or
2. **Public disclosure of short positions:** net short positions of at least 0.5% of issued shares must be reported, as well as every subsequent change in position of 0.1% or more. The identity of short position holders and their net short positions would be published on an ongoing basis.

Given the positive feedback received, the MAS and SGX will introduce an aggregate short position reporting for all securities listed on the SGX Mainboard and Catalist.

Short sellers will be required to notify the MAS of their net short positions (excluding derivatives) based on the lower of 0.05% or S\$1,000,000 of issued shares of a listed entity. The aggregated short positions will be published on a weekly basis without revealing the identity of the short sellers.

The short position reporting regime is expected to come into effect from **mid 2016**.

Improving transparency of intervention measures

In order to address any potential information asymmetry for investors arising from the differing practices of

financial intermediaries in announcing trading restrictions, the MAS and SGX proposed in the Consultation Paper to require trading restrictions imposed by securities intermediaries (including banks) on all customers for any security listed on the SGX to be announced through the SGX website, and sought views on the same.

In light of the industry's concerns that announcing the trading restrictions might have an adverse impact on the market due to the high potential for misinterpretation of the information if the reasons are not clearly disclosed, the MAS and SGX have decided to adopt a market solution in lieu of regulations to enhance the transparency of trading restrictions imposed by intermediaries.

In this regard, the Securities Association of Singapore (SAS) will take the lead to develop industry guidelines and an appropriate template for the announcement of such trading restrictions. This will promote consistent practice amongst SAS members given the differing practices in the market currently.

The industry guidelines are expected to be introduced by **end 2014**.

Strengthening the process for admitting new listings and enforcing against listing rule breaches

There have been concerns over perceived conflict of interests between SGX's dual role as both a commercial for-profit entity and a regulator of issuers seeking a listing on the SGX.

Whilst there are safeguards to manage potential conflicts of interests (e.g. the supervision of the MAS over the SGX's regulatory functions and

the establishment of a Regulatory Conflicts Committee to decide on any situation in which a potential conflict of interest is identified), the MAS and SGX propose to further strengthen the SGX's current listings and enforcement framework through (i) the introduction of additional checks and balances via independent committees; and (ii) the expansion of existing enforcement powers for breaches of the listing rules.

The MAS and SGX sought views in the Consultation Paper on the following proposals:

1. to establish an independent Listings Advisory Committee to consider listing policy issues and listing applications that meet certain referral criteria (i.e. cases that present novel or unprecedented issues, require specialised expertise or involve matters of public interest);
2. to establish an independent Listings Disciplinary Committee (LDC) to improve transparency of SGX's disciplinary process and ensure fair and independent administration of sanction. The LDC will hear formal charges brought by SGX against parties who are alleged to have breached listing rules and be empowered to impose regulatory sanctions for breaches of the listing rules;
3. to establish an independent Listings Appeals Committee to provide an avenue of appeal for (i) parties against whom the LDC has imposed sanctions; and (ii) issuers against certain regulatory decisions by the SGX (e.g. SGX's decision to delist issuers or SGX's rejection of an issuer's application to exit the watch list); and

4. widening the SGX's range of disciplinary actions to include offers of compositions for minor and technical listing rule breaches, and widening the range of remedial actions for non-compliance.

The MAS and SGX have indicated that they will adopt the proposals. The proposals will be implemented from **early 2015**.

The listings advisory framework as well as the procedures for taking disciplinary actions and processing appeals will be set out in the SGX Listing Rules. SGX will separately issue a consultation on proposed amendments to the SGX Listing Rules in September 2014.

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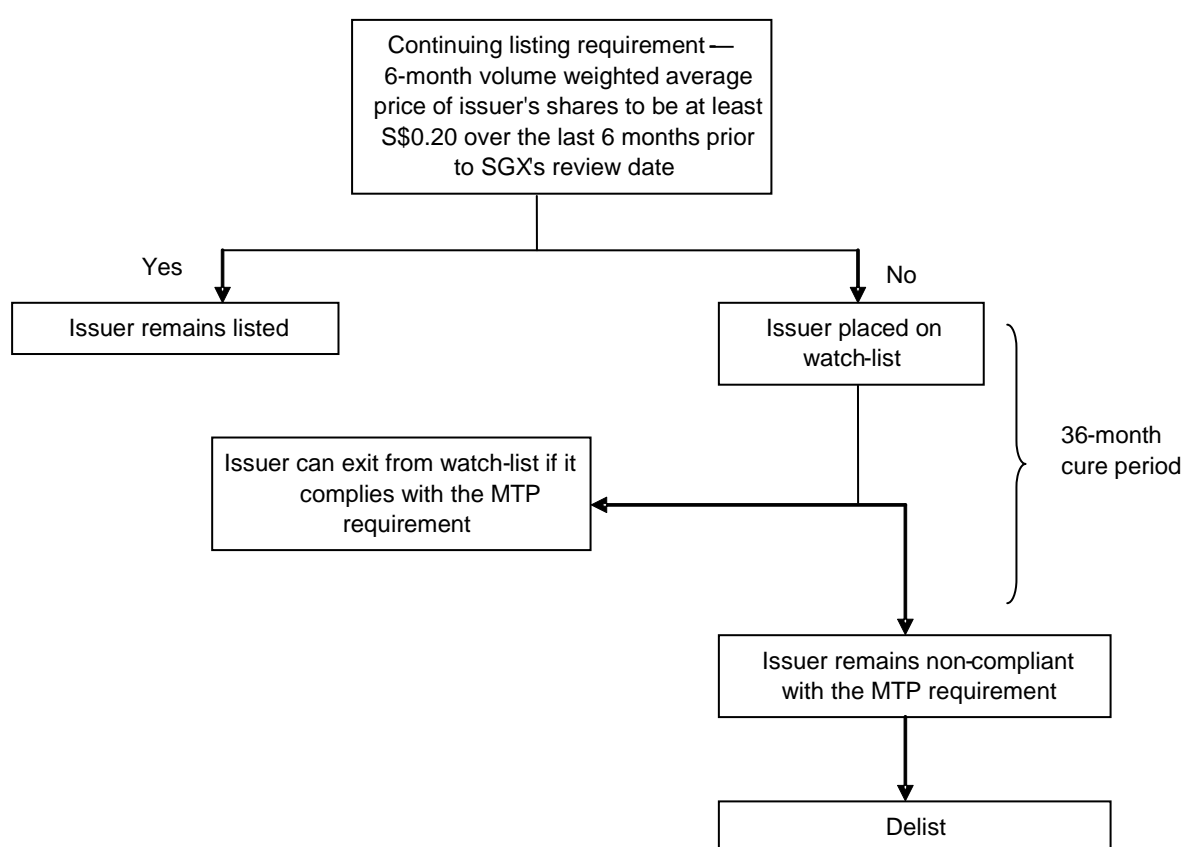


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Annex

Diagrammatic representation of the minimum trading price mechanism



This publication does not necessarily deal with every important topic or cover every aspect of the topics with which it deals. It is not designed to provide legal or other advice.

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