



## **RESPONSE TO FEEDBACK RECEIVED – FACILITATING BOND OFFERINGS TO RETAIL INVESTORS**

### **1 INTRODUCTION**

1.1 On 1 September 2014, MAS issued a consultation paper proposing changes to the regulatory regime for bond offerings with the aim of facilitating greater access by retail investors to bonds. In tandem with MAS' public consultation, SGX separately released a consultation paper on initiatives to improve retail access to bonds.

1.2 The consultation period for MAS' and SGX's public consultation closed on 30 September 2014. MAS would like to thank all respondents for their feedback and contributions. The list of respondents is in Appendix A. MAS has carefully considered the feedback received, and will incorporate them into our regulatory regime where we agree with the feedback. Comments that are of wider interest, together with MAS' responses are set out below. SGX has separately released a response to feedback received on its consultation paper (the "**SGX Response Paper**"). The SGX Response Paper is available on the SGX website ([www.sgx.com](http://www.sgx.com)).

### **2 SCOPE OF BONDS**

2.1 MAS proposed that only plain vanilla bonds<sup>1</sup> will be allowed under SGX's proposed framework ("**Seasoning Framework**") and the prospectus exemption for issuers that satisfy eligibility criteria which are stricter than that under the Seasoning Framework ("**Exempt Bond Issuers**"). This would exclude convertible bonds, perpetual bonds, and other hybrid instruments.

2.2 Some respondents enquired whether bonds with call or put features, bonds with early redemption features, secured bonds and covered bonds fall within the scope of plain vanilla bonds. Some respondents also enquired whether there would be any restriction on the currency of denomination of the bonds.

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<sup>1</sup> MAS defined plain vanilla bonds under the proposals as those which:

- (i) have a fixed term not exceeding 10 years;
- (ii) provide for repayment of the principal sum at the end of the fixed term;
- (iii) have periodic interest payments which cannot be deferred;
- (iv) carry a fixed interest rate or floating rate of interest comprised of a reference rate plus a fixed margin which cannot be decreased;
- (v) are not convertible into or exchangeable for other securities;
- (vi) are not asset-backed securities or structured notes; and
- (vii) are unsubordinated.

## MAS' Response

2.3 The Seasoning Framework and prospectus exemption for Exempt Bond Issuers are aimed at facilitating retail access to simple fixed income investment products whose risk-return profiles can be more easily understood by retail investors. The market prices of bonds with embedded option features such as call and put options, or which allow the bonds to be converted to equity securities, may be affected by factors other than interest rate and creditworthiness considerations. These factors may not be easily understood by retail investors. Accordingly such bonds will be excluded from the scope of plain vanilla bonds.

2.4 While the bonds under the proposals must provide for repayment of the principal sum at the end of its fixed term, we have observed that issuers generally include an early redemption feature which enables the issuer to redeem the bonds at par before the end of the fixed term for taxation reasons, if it becomes obliged to pay additional amounts due to changes in a law or the application or interpretation of a law. We do not intend to restrict issuers from including this feature for plain vanilla bonds offered under the proposals.

2.5 There will not be any restriction on the currency of denomination of the plain vanilla bonds. This provides issuers with the flexibility of offering bonds in the currency of their funding needs. We will also allow secured bonds as long as these bonds are structured in accordance with the prescribed characteristics of plain vanilla bonds but offer additional security to investors by way of collateral. Covered bonds<sup>2</sup>, which are generally considered a form of secured bonds, will also be permitted under the proposals.

## **3 SEASONING FRAMEWORK**

### ***Rationale for the Seasoning Period***

3.1 Under the Seasoning Framework, bonds initially acquired by institutional and accredited investors or by investors in large denominations of at least S\$200,000 ("**Specified Investors**") in reliance on the prospectus exemptions under sections 274 or 275 of the Securities and Futures Act, Cap. 289 (the "**SFA**"), can be re-denominated into smaller lot sizes ("**Seasoned Bonds**") and made available to retail investors via secondary trading on the SGX Mainboard after a 6-month period (the "**Seasoning Period**").

3.2 Some respondents sought clarification on the rationale for the 6-month Seasoning Period, while others suggested that retail investors should be able to participate directly in bond offerings at issuance rather than only after the Seasoning Period as bonds generally become less liquid over time.

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<sup>2</sup> Under MAS Notice 648 on issuance of covered bonds, only a bank incorporated in Singapore may issue covered bonds in Singapore. The liabilities to holders of covered bonds and any liabilities arising from the enforcement of the rights of the holders of the covered bonds are secured by a cover pool, and recoverable from the bank where the cover pool is insufficient to pay off such liabilities.

## MAS' Response

3.3 The 6-month Seasoning Period is aimed at protecting retail investors, given that the bonds are issued without a prospectus<sup>3</sup>. The Seasoning Period, during which the holders of the bonds are restricted to Specified Investors, allows issuers to demonstrate their acceptability to Specified Investors. As the bonds offered under the Seasoning Framework must be listed on SGX from issuance, issuers will be required under the SGX Listing Rules to disclose any information which may have a material effect on the price and value of the bonds or on an investor's decision whether to trade in such bonds<sup>4</sup>. In addition, SGX will be providing the daily calculated fair value of the bonds during the Seasoning Period. This will enhance price transparency and facilitate proper price discovery prior to the Seasoned Bonds being made available to retail investors in smaller lot sizes after 6 months. Taken together, these measures and requirements will help to safeguard retail investors' interests.

3.4 On concerns regarding liquidity of the bonds, investors should note that unlike equity securities, bonds are generally less liquid and there may not be an active secondary market for the trading of bonds. Thus, while bonds are considered less risky and volatile than equity securities of the same issuer, investors considering an investment in bonds should take into account their ability to hold the bonds to maturity. At the same time, investors need to be alert to any deterioration in issuers' credit standing which could have an adverse impact on their ability to fulfil their payment obligations.

### ***Eligibility Criteria and Conditions for the Seasoning Framework***

3.5 SGX's proposed eligibility criteria for entities that issue or guarantee bonds under the Seasoning Framework comprise a Size Test, Listing Test and Credit Test (collectively, the "**Seasoning Eligibility Criteria**"). Based on the feedback received, SGX has refined the Credit Test for issuers under the Seasoning Framework, with a view to allowing a greater diversity of bonds while maintaining appropriate safeguards, by:

- (a) Replacing the criterion that the issuer has not recorded a net loss over the previous 5 financial years (the "**No Net Loss Test**") with the criterion that the issuer has not recorded on average a net loss and has on average a positive net operating cash flow, for the 3 most recent audited annual financial statements; and
- (b) Reducing the threshold for previous bond issuance track record from S\$750 million to S\$500 million.

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<sup>3</sup> The Seasoning Period stems from a prospectus anti-avoidance statutory provision under section 276 of the SFA, which requires a prospectus for any resale of securities that were initially acquired by Specified Investors pursuant to an exempted offer under section 274 or 275 of the SFA if the resale (i) takes place within 6 months from the date of the initial acquisition, and (ii) is sold to investors other than Specified Investors.

<sup>4</sup> This is notwithstanding that such bonds would be traded over-the-counter during the Seasoning Period.

3.6 The SGX Response Paper also sets out changes to the conditions for the Seasoning Framework. SGX is lowering the minimum size of the initial offer to Specified Investors from S\$300 million to S\$150 million, to accord more flexibility to issuers. Given that retail investors will be able to access the Seasoned Bonds after the Seasoning Period, SGX will require a product highlights sheet (“**PHS**”) to be provided to investors at the time when the re-denominated Seasoned Bonds are made available for secondary trading on the SGX Mainboard.

3.7 Please refer to the SGX Response Paper for details of the changes to the eligibility criteria and conditions for the Seasoning Framework.

### ***Bonds Offered Under a Re-Tap***

3.8 MAS had proposed to grant a prospectus exemption for the re-tap (i.e. an offer of new bonds by the issuer to retail investors after the Seasoning Period) to facilitate retail investors’ access to bonds which have the same terms as the Seasoned Bonds. A few respondents sought clarification on MAS’ proposed requirement for the bonds offered under a re-tap to have the “same terms” as the Seasoned Bonds. They highlighted that terms such as price and remaining tenure of the new bonds would be different from that of the Seasoned Bonds at the time of their issuance. A respondent noted that limiting the size of the re-tap to 50% of the amount of the initial offer to Specified Investors would limit issuers in making further bond issuances.

### MAS’ Response

3.9 As to the requirement for the bonds offered under the re-tap to have the “same terms” as the Seasoned Bonds, the maturity date, coupon rate, currency, denomination and seniority in ranking of the bonds offered under a re-tap should be same as those of the Seasoned Bonds. However, the issue date and term to maturity of the bonds under the re-tap offer will differ from that of the Seasoned Bonds. The issuance price and size of the bonds under the re-tap offer may also be different from the issuance price and size of the Seasoned Bonds as the issuer may decide to offer a different amount of the new bonds at the prevailing market price.

3.10 The limit on the size of the re-tap offer addresses the risk of prospectus avoidance whereby issuers offer a small amount of bonds to Specified Investors followed by a larger amount to retail investors. We would also like to clarify that where issuers decide to offer additional bonds to Specified Investors as part of the re-tap, the 50% limit on the amount of bonds issued to retail investors under the re-tap will be based on the amount issued to Specified Investors in the primary issuance and does not include the additional bonds offered to Specified Investors under the re-tap.

## 4 PROSPECTUS EXEMPTION FOR EXEMPT BOND ISSUERS

### *Eligibility Criteria for Exempt Bond Issuers*

4.1 MAS proposed that Exempt Bond Issuers should meet a set of eligibility criteria that comprise the Seasoning Eligibility Criteria but with higher thresholds for the Credit Test. In general, respondents commented that the eligibility criteria might limit the pool of potential issuers. As such, there were suggestions to lower the eligibility criteria thresholds such as shortening the minimum listing period of 5 years to 3 years under the Listing Test. Conversely, some respondents proposed further tightening the eligibility criteria, such as making it mandatory for issuers to satisfy the No Net Loss Test.

### MAS' Response

4.2 We do not intend to reduce the minimum listing period of 5 years under the Listing Test. This is intended to ensure that eligible issuers would have been subject to continuous disclosure requirements for a reasonable period of time. This will provide investors with more information to aid their investment decisions.

4.3 We have refined the eligibility criteria for Exempt Bond Issuers with a view to widening the eligible pool. In this regard, we have provided for a third alternative under the Credit Test to allow an issuer which has recorded yearly net profits of at least S\$100 million and positive net operating cash flows in each of the 3 most recent audited annual financial statements to qualify as an Exempt Bond Issuer. As with the other alternatives under the Credit Test, this criterion is set at a higher threshold than its comparable criterion (i.e. the No Net Loss Test) under the Seasoning Framework.

4.4 Based on the revised eligibility criteria, there are currently approximately 120 issuers in Singapore who can potentially tap on the Seasoning Framework, of which about 60 are potential Exempt Bond Issuers (i.e. those based in Singapore or have equities or bonds listed on SGX).

4.5 The refinements (underlined and in **bold**) made to the consulted eligibility criteria for Exempt Bond Issuers (and compared against the Seasoning Eligibility Criteria) are illustrated in the table in Appendix B.

### *Conditions for the Prospectus Exemption*

4.6 As a safeguard for retail investors, MAS proposed various conditions to be imposed under the prospectus exemption. One of these conditions is that the exempted offer must comprise tranches to both institutional investors and accredited investors<sup>5</sup> (“IIs/AIs”) and retail investors.

4.7 A few respondents suggested prescribing minimum issuance amounts for either the retail tranche or II/AI tranche. One respondent suggested

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<sup>5</sup> Accredited investors refers to all relevant persons as defined in section 275 of the SFA.

prescribing a minimum size on the tranche offered to retail investors which will ensure that a significant amount of the exempted offer can be made available to these investors. Another respondent provided the view that requiring a minimum amount to be subscribed by IIs/AIs would ensure that the bonds are properly priced for sale to retail investors. Some respondents also sought clarification on whether Exempt Bond Issuers could conduct re-taps under the exemption.

### MAS' Response

4.8 Having considered the feedback received, we have decided to require a minimum subscription by IIs/AIs of 20% of the size of the aggregate offer (comprising retail and II/AI tranches). A minimum subscription by IIs/AIs demonstrates confidence in the issuer and the bonds offered. IIs/AIs would also help ensure pricing discipline by issuers.

4.9 We would also like to clarify that Exempt Bond Issuers can rely on the prospectus exemption (subject to the specified conditions) to make offers of new bonds to retail investors, unlike the Seasoning Framework where eligible issuers can only offer the Seasoned Bonds to Specified Investors at the start of an offer. Thus, a provision for re-tap would not be necessary under the prospectus exemption for Exempt Bond Issuers.

4.10 The refinements (underlined and in **bold**) made to the consulted conditions to the prospectus exemption for Exempt Bond Issuers (and compared against the Seasoning Framework) are illustrated in the table in Appendix C.

## **5 GENERAL COMMENTS**

### ***Disclosures to Investors***

5.1 MAS proposed certain conditions to the prospectus exemption for Exempt Bond Issuers, including the requirement that a simplified disclosure document ("**SDD**") and PHS must be provided to investors. Similarly, for the Seasoning Framework, MAS proposed that issuers provide a PHS to investors at re-taps to ensure that they have relevant up-to-date information. MAS proposed the form and content requirements of the SDD and PHS, and also specified that the SDD and PHS must be lodged with SGX and made available to investors on SGX's website.

5.2 Respondents sought clarification on the process for lodging the SDD and PHS with SGX. One respondent suggested that the SDD need not be titled as a "simplified disclosure document", provided that issuers provide a statement that the document constitutes the simplified disclosure document as defined in the exemption regulations. Some respondents suggested doing away with disclosure requirements relating to credit ratings in the SDD. A reason cited was that investors have access to publicly available information on credit ratings.

5.3 A respondent suggested that the PHS in respect of the re-tap should include disclosure of updates to key financial information. Another respondent

sought clarification on requirements in respect of font size and paper size of the PHS. One respondent suggested that the page limit of the PHS be increased from 8 pages to 12 pages.

#### MAS' Response

5.4 MAS will clarify that the expectation is for the SDD and PHS (and any other disclosure that the issuer is required to provide to investors) to be disseminated to the public on SGX's website via SGXNET. This will be made clear in the conditions to the prospectus exemptions. We do not intend to prescribe a mode of information dissemination that is different from disclosures made by issuers in respect of their existing continuing obligations under the SGX Listing Manual.

5.5 We agree with the suggestion that the SDD need not be titled as a "simplified disclosure document", as long as issuers provide a statement on the front cover of the SDD that the document constitutes the simplified disclosure document as defined in the exemption regulations. We do not intend to remove disclosure requirements relating to credit ratings in the SDD, as such information could be relevant for investors. Nonetheless, where information relating to credit ratings is publicly available, we will allow issuers to refer investors to where such information can be obtained.

5.6 MAS agrees with the comment that the PHS should contain updated key financial information. MAS expects the PHS to set out information that is current and this will be set out in the exemption regulations. Information in the PHS should be in a font size of at least 10-points Times New Roman, or equivalent. MAS does not intend to increase the 8-page limit. If a PHS is printed on both sides of a sheet, each sheet of the PHS will count as 2 pages. Each sheet should be no larger than 297 millimetres in length and 210 millimetres in breadth (A4 paper size).

5.7 MAS' proposed revisions to the form and content requirements of the SDD and PHS (taking into consideration the feedback received) will be set out as part of a separate consultation on the exemption regulations to implement the proposals.

#### ***Advertising Restrictions***

5.8 Some respondents sought clarification on whether advertisements will be allowed under the proposals.

#### MAS' Response

5.9 Advertisements can only be made after (i) the SDD and PHS are announced/disseminated to the public on SGX's website for bonds offered by Exempt Bond Issuers, or (ii) the offer documents (such as offering circulars given to Specified Investors) and PHS are announced/disseminated to the public on SGX's website for a re-tap of Seasoned Bonds. In the case where there is no re-tap and the Seasoned Bonds are only re-denominated into smaller lot sizes and made available for trading on SGX Mainboard, issuers

may advertise the availability of the bonds from the secondary market after the issuer disseminates the PHS to the public on SGX's website.

**MONETARY AUTHORITY OF SINGAPORE**

23 December 2014



**List of Respondents to the Consultation Paper on Facilitating Bond Offerings to Retail Investors**

1. Allen & Gledhill LLP
2. CFA Society Singapore Advocacy Committee
3. Central Provident Fund Board
4. DBS Bank
5. iFAST Financial Pte Ltd
6. Moody's Investors Service
7. Oversea-Chinese Banking Corporation Limited
8. Stamford Law Corporation
9. Standard Chartered Bank (Singapore) Limited
10. Temasek Holdings Private Limited
11. The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch
12. United Overseas Bank Limited
13. WongPartnership LLP

\*This list includes only the names of respondents who did not request that their submissions be kept confidential.

**Comparison between the Refined Eligibility Criteria for Exempt Bond Issuers and Refined Seasoning Eligibility Criteria**

	Refined Eligibility Criteria for:	
	Seasoning Framework	Exempt Bond Issuers
<b>Size Test</b>	(i) Market capitalisation of at least S\$1 billion over the past 180 market days; or (ii) Net asset of at least S\$500 million in the most recent audited annual financial statements as well as an annual average net asset of at least S\$500 million over the 3 most recent audited annual financial statements.	
<b>Listing Test</b>	(i) Has equity securities listed on SGX or a recognised securities exchange for at least 5 years; or (ii) Has listed, or guaranteed the issuance of, bonds listed on SGX for at least 5 years.	
<b>Credit Test</b>	(i) Has not recorded <u>on average</u> a net loss <b>and has on average a positive net operating cash flow for the over the previous 5 years 3 most recent audited annual financial statements;</b> (ii) Has a credit rating of BBB or higher, or the bonds to be offered are rated BBB or higher, where the rating is done by an international credit rating agency; or (iii) Has listed, or guaranteed the issuance of, bonds listed on SGX of at least <del>S\$750</del> <b>S\$500</b> million (or its equivalent in foreign currency) over the previous 5 years.	(i) <b><u>Has recorded a net profit of at least S\$100 million and has positive net operating cash flows in each of the 3 most recent audited annual financial statements;</u></b> (ii) Has a credit rating of AA- or higher, or the bonds to be offered is rated AA- or higher, where the rating is done by an international credit rating agency; or (iii) Has listed, or guaranteed the issuance of, bonds listed on SGX of at least S\$1 billion (or its equivalent in foreign currency) over the previous 5 years.

**Refined Conditions under the Prospectus Exemption for Exempt Bond Issuer and Refined Conditions under the Seasoning Framework**

Refined conditions to prospectus exemption for:	
Seasoning Framework	Exempt Bond Issuers
<p>(i) The Seasoned Bonds and bonds offered to retail investors via a re-tap must be listed and traded on SGX;</p> <p>(ii) Minimum initial offer size of <del>S\$300</del> <b>S\$150</b> million to Specified Investors;</p> <p>(iii) The aggregate amount of bonds offered through re-taps cannot exceed 50% of the size of the initial offer of bonds to Specified Investors;</p> <p>(iv) <del>At the time of re-tap,</del> Provide investors with a PHS <b><u>when the bonds are re-denominated and made available for secondary trading on the Mainboard and, when the issuer conducts a re-tap, at the time of the re-tap;</u></b> and</p> <p>(v) The offer documents given to Specified Investors when the bonds were first offered, as well as the PHS, must be <del>lodged with SGX</del> <b><u>announced or otherwise disseminated</u></b> and made available to investors on SGX's website.</p>	<p>(i) The bonds offered pursuant to the exemption must be listed and traded on SGX;</p> <p>(ii) The exempted offer must comprise tranches to both institutional/accredited investors and retail investors;</p> <p>(iii) <b><u>The amount of bonds issued under the institutional / accredited investor tranche must be at least 20% of the aggregate issuance size;</u></b></p> <p>(iv) Provide to investors a SDD in lieu of a prospectus. The SDD should be given to both IIs/AIs and retail investors;</p> <p>(v) Provide a PHS to retail investors; and</p> <p>(vi) Both the SDD and PHS must be <del>lodged with SGX</del> <b><u>announced or otherwise disseminated</u></b> and made available to investors on SGX's website.</p>