

RESPONSE TO FEEDBACK RECEIVED – MAS-SGX JOINT CONSULTATION ON THE REVIEW OF SECURITIES MARKET STRUCTURE AND PRACTICES

1 Introduction

1.1 On 7 February 2014, MAS and SGX issued a joint consultation paper inviting interested parties to comment on proposed improvements to various market functions and trading practices in the securities market in Singapore. The proposals are aimed at promoting fair, orderly and transparent trading in Singapore’s securities market. The consultation closed on 2 May 2014. The list of respondents can be found at **Annex 1**.

1.2 MAS and SGX would like to thank all respondents for their feedback. MAS and SGX have carefully considered the feedback received. Comments that are of wider interest, together with MAS and SGX’s responses, are set out below.

2 Minimum trading price (“MTP”)

(I) Concept of a minimum trading price as a continuous listing requirement for issuers listed on the SGX Mainboard (“MTP Proposal”)

2.1 A majority of the respondents were supportive of the MTP Proposal. Respondents agreed that low-priced securities may be more susceptible to excessive speculation and potential market manipulation. While the respondents acknowledged that the MTP Proposal could affect a significant number of issuers and investors, it was also noted that such a requirement could help to improve the quality of the securities market.

2.2 Respondents also raised the following concerns:

(i) *Whether MTP Proposal would fully address concerns on market manipulation or excessive speculation:* Certain respondents noted that speculative activity may occur due to a range of factors apart from share price (e.g. low market capitalisation, limited free float, poor disclosure or poor corporate governance practices). As such, they suggested the need to consider other factors to address the concerns on market manipulation or excessive speculation.

(ii) *Continued compliance with MTP Proposal:* Noting that issuers may choose not to comply with the MTP requirement and become delisted, some respondents expressed concerns that investors could be unduly prejudiced as a result. A few respondents also highlighted that the need to maintain a share price above the MTP could affect the issuers' ability to raise capital through the issuance of new shares since issuing further shares may lower the issuers' share price; and

(iii) *Practical considerations concerning share consolidation by issuer:* Comments by respondents generally acknowledged that it would not be difficult for issuers to undertake share consolidation to raise their share price to comply with the MTP requirement. However, some practical considerations were highlighted, such as (a) the potential costs involved; (b) possible impact on the liquidity of the affected shares from the reduced number of shares; (c) potential difficulties in maintaining an issuer's share price if there is negative market sentiment concerning the issuer's business fundamentals; and (d) possibility of investors holding odd-lots of shares following a share consolidation, which may affect investors' ability to exit from their investments.

2.3 Several respondents suggested that the MTP should be extended to Catalist issuers to be consistent with the objectives of the proposal.

MAS and SGX's Response

2.4 After carefully considering the feedback and the support from respondents, we have decided to proceed with the MTP Proposal. We believe that the introduction of the MTP requirement, in conjunction with the other proposals under this review of the market structure, will help to improve the overall quality and attractiveness of the securities market in Singapore to local

and global investors. MAS and SGX acknowledge that excessive speculation and market manipulation could be driven by other factors apart from share prices. While the introduction of the MTP requirement alone would not eliminate all the risks related to low-priced securities, we consider that it is an appropriate step as low-priced securities are generally more volatile, making them more susceptible to excessive speculation and manipulative activity.

2.5 Affected issuers will be given sufficient time to comply with the requirement. We will provide a long transition period of 12 months and a cure period of 36 months. This would provide sufficient time and flexibility for issuers to decide the most appropriate action to take in order to comply with the MTP requirement. Investors would also have sufficient notice to make investment decisions.

2.6 MAS and SGX expect that issuers will take pro-active steps to preserve the value of their listed status. As such, the number of issuers that will be delisted for failing to meet the MTP requirement is expected to be limited. Following the release of the consultation paper, SGX had engaged issuers on the MTP proposal through outreach programmes to seek feedback. More than 80%¹ of the issuers whose share prices fall below S\$0.20 responded and indicated that they were prepared to undertake some form of corporate action, including share consolidation, if their share price falls below the MTP requirement. SGX will monitor issuers' compliance with the MTP requirement and follow up closely on the steps affected issuers intend to take to meet the MTP.

2.7 In addition, to reduce cost impact on affected issuers, SGX will waive corporate action fees for share consolidation to meet the MTP from 1 August 2014, and will extend this waiver for a period of two years after the start of the transition period of the MTP Proposal. Issuers should consider holding extraordinary general meetings to seek shareholders' approval on such corporate actions concurrently with their annual general meeting to minimise the cost of compliance with the MTP requirement.

2.8 While some respondents have indicated that there could be possible impact on the liquidity of affected shares after share consolidation, there is no

¹ The remaining issuers did not indicate the possible action they would take to raise their share prices when approached by SGX. Some of the issuers explained that they would need to discuss the proposed course of action with their boards.

clear evidence suggesting a decline in trading liquidity of shares of issuers who have undertaken share consolidation. MAS and SGX also received feedback from market practitioners that as the enterprise value of the issuers and free float after share consolidation would remain unchanged, the trading activity of shares of issuers in general should not be materially affected by share consolidation.

2.9 There will also be various avenues to help investors address concerns with odd-lots which may arise as a result of share consolidation. SGX will reduce the standard board lot size for all listed shares from 1,000 to 100 shares in January 2015 and hence a 10 to 1 share consolidation would still enable shareholders to trade in standard lot size. Issuers could also explore (i) “cash-in-lieu alternative” to minimise odd lots; or (ii) temporary additional counters to quote shares with reduced lot size to allow investors to exit or consolidate their investments up to the standard board lot size. Alternatively, investors can continue to trade their odd-lot holdings in the existing odd-lot market.

2.10 We do not propose to extend the MTP requirement to Catalist issuers at this point. The Catalist board caters to growth companies which seek to tap the capital market regularly to fund business expansion. Currently, Catalist issuers are subject to a lower minimum initial public offering (“IPO”) price of \$0.20. Given the low minimum IPO price for these companies, a MTP requirement may not provide much buffer for Catalist issuers to trade post-IPO. A separate review will be conducted on whether the MTP requirement should be extended to the Catalist, taking into account the implementation experience of the MTP requirement on the Mainboard.

(II) Appropriate MTP threshold

2.11 Respondents supported the proposed initial range of S\$0.10 to S\$0.20 per share, with a large majority indicating that the MTP threshold of S\$0.20 per share would be appropriate. A few respondents suggested a lower threshold of S\$0.10 per share, to reduce the number of companies that would be affected by the MTP Proposal. A number of respondents have also sought clarification on the basis for determining the MTP threshold.

MAS and SGX's Response

2.12 Given the feedback, we consider a S\$0.20 threshold would be most appropriate to achieve our aims of reducing excessive speculation and potential manipulation, and overall, of improving the quality of the market.

2.13 Notwithstanding that the MTP threshold is proposed to be set at S\$0.20 per share, affected issuers taking corporate actions to raise their share prices should ensure that some buffer is provided for fluctuations in share prices after corporate actions are undertaken. In this regard, SGX has observed that stocks trading above S\$0.25 also tend to exhibit higher levels of liquidity². SGX will publish this review in August 2014.

(III) Proposed cure period for the minimum trading price

2.14 Most respondents agree with the proposed cure period of 36 months, as it will provide sufficient time to allow affected issuers to take remedial actions. However, a few respondents suggested reducing the cure period as they felt that 36 months was excessively long. A concern raised in this regard was that there might be rumours and speculation on the actions that an issuer might take to comply with the MTP requirement.

MAS and SGX's Response

2.15 In view of the strong support received from respondents, MAS and SGX will provide a cure period of 36 months for issuers to consider the most appropriate action for them and their investors. This would provide issuers with adequate time and flexibility to undertake more substantive actions (e.g. reverse take-overs, business acquisitions, restructuring) to raise their share prices, appropriate to their circumstances.

2.16 In addition to the obligations under the SGX Listing Rules to make timely disclosures of material information, issuers will also be required to provide periodic updates during the cure period. This would keep shareholders informed of the progress made by the issuer to comply with the MTP

² SGX has conducted a review of the liquidity measures for the various stock price groups based on 2013 trading statistics. The review shows that stocks above S\$0.25 are generally more liquid. The liquidity measures included in the review are: (i) bid-ask spreads (in terms of ticks and basis points); (ii) proportion of time when spreads are at two ticks or less; (iii) proportion of time the order book is one-sided; and (iv) best depth value.

requirement and exit from the watch-list, thereby addressing any concerns of rumours or speculations.

(IV) Proposed introduction of an alternative facility for trading of delisted shares

2.17 While several respondents were supportive of the proposal to introduce an alternative facility for the trading of delisted shares, some also expressed doubts as to whether the facility would provide sufficient liquidity for shareholders to exit their investments, as there are unlikely to be buyers for the delisted shares. Many respondents also sought clarification on the scope and mechanism under which the alternative facility would operate.

MAS and SGX's Response

2.18 MAS and SGX have carefully studied the various ways in which this can be implemented. We note the feedback that there could be limited demand for shares of mandatorily delisted issuers, and market liquidity on such trading facility, if any, would be low. Market practitioners which MAS and SGX consulted also highlighted that the proposed alternative facility might not be commercially viable. Concerns raised included practical post-trade settlement difficulties such as the transfers of delisted shares.

2.19 The existing regulatory framework governing the delisting of companies will continue to apply with the institution of the MTP. This includes the obligation under the SGX Listing Rules for delisted issuers to provide a cash exit offer. We are also providing for a transition period and a long cure period for companies to comply with the MTP requirement. Bearing in mind feedback on the commercial viability of the alternative facility, and considering that a large majority of the respondents have indicated their willingness to undertake actions to comply with the MTP requirement, it appears that there would be limited need and utility in having such a trading facility specifically for issuers that do not comply with the MTP requirement. Notwithstanding this, we intend to further study the feasibility of a trading facility to cater to a broader class of issuers.

(V) Mechanism of the minimum trading price

2.20 Many respondents sought clarification on the scope and operational details of the MTP requirement.

MAS and SGX's Response

2.21 MAS and SGX will introduce the MTP as a continuing listing requirement. To comply with this requirement, an issuer's 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 that fail to comply with the MTP requirement will be placed on the watch-list and be given a cure period to take remedial actions. If an affected issuer is still unable to comply with the MTP requirement at the end of the cure period, it will be delisted.

2.22 Please refer to **Annex 2** for a diagrammatic representation of the concept of the MTP requirement. The detailed mechanism of the MTP requirement and the obligations of issuers will be set out in the SGX Listing Rules. This will be subject to a separate public consultation in September 2014, with a target implementation date in March 2015. When the MTP requirement is implemented, sufficient time (including a 12-month transition period and a 36-month cure period) will be provided for issuers and investors to consider the implications of the requirement on them and to take appropriate actions.

3 Collateral requirement for securities trading

(I) Introduction of collateral requirement for securities trading

3.1 Substantive comments were received on the proposal to introduce collateral requirement for securities trading, based on a minimum of 5% of customers' net open positions. A group of respondents was supportive of the proposal while another group was concerned that the collateral requirement would adversely impact retail participation and market liquidity, due to the operational inconvenience and costs to retail investors of having to deposit cash collateral with the intermediaries. A few respondents also commented that the proposal failed to address the broader problem of contra trading, as the collateral requirement of 5% was too low to significantly reduce the credit

risks posed to remisiers and intermediaries, and would do little to curb excessive speculation and contra trades.

3.2 Respondents who suggested modifications to the proposal called for a *de minimis* threshold where trades below a certain amount are exempted from the collateral requirement. They were of the view that this will reduce the impact on retail investors who may trade in small amounts and infrequently, and such trades should not pose major credit risks to intermediaries. Respondents also sought clarification on details of SGX's plan to shorten the securities settlement cycle of The Central Depository (Pte) Limited ("CDP") from three days after trade day ("T+3") to T+2 days.

MAS and SGX's Response

3.3 The key policy objectives of the collateralised trading proposal are to: (i) mitigate the risk of substantial loss to investors from excessive trading on unsecured credit; (ii) strengthen credit risk management practices in the industry by reducing reliance on remisiers to bear the credit risks of investors³; and (iii) promote orderly trading and prudent investing among investors.

3.4 Introducing a *de minimis* threshold for collateralised trading will run counter to the intended policy objectives, particularly the objective of promoting prudent investment behaviour among investors. In addition, investors trading on unsecured credit are potentially more exposed to substantial losses in the event of adverse market movements, and a minimum collateral requirement covering all trades mitigates the risk of investors taking on unhealthy levels of leverage. Having a *de minimis* threshold will also not be meaningful as an investor can maintain multiple trading accounts with different intermediaries. In any event, we note that the threshold proposed by several respondents will potentially exclude a wide segment of investors from the collateral requirement⁴.

3.5 It is important to note that collateralised trading is not a new concept as collateral requirements have been implemented in the trading of futures,

³ Remisiers are liable for losses incurred by their customers. In the event customers default on their losses, the intermediary will call on remisiers' collateral to recover any losses. The collateral requirement will reduce remisiers' credit risk burden.

⁴ Based on a survey of retail intermediaries, more than 80% of the transactions handled by them in 2013 are for amounts less than S\$50,000.

marginised securities and derivatives. Collateralised trading is also practised in most other reputable jurisdictions, and no exception is given for small trades in these markets. Similarly, we have not introduced a *de minimis* threshold for collateralised trading in other financial instruments such as futures, marginised securities and derivatives (e.g. contracts-for-differences or “CFDs” and leveraged foreign exchange).

3.6 However, MAS and SGX acknowledge the concerns raised about the impact of the proposal on retail participation arising from the potential operational inconvenience of collateralised trading. It is not our intention to discourage retail investor participation in the securities market. We have hence considered how inconvenience to investors can be minimised.

3.7 Today, retail investors are already able to pledge their unencumbered shares in CDP as collateral with intermediaries (e.g. by holding shares in sub-accounts under a custodian operated by the broker). SGX is developing a new Post Trade System (“PTS”) which will enhance the management of collateralised trading by intermediaries. The PTS will introduce functionalities that will facilitate intermediaries’ visibility and monitoring of customers’ positions and securities held in CDP. These enhancements will make it easier for retail investors to meet the collateral requirement by using their securities holdings in their CDP accounts instead of having to deposit additional cash with their intermediaries. To this end, we will implement the collateral requirement in mid 2016, when the PTS is expected to be launched. Sufficient time and notice will be given to market participants to make the necessary systems changes to implement the collateral requirement.

3.8 For investors without unencumbered securities (i.e. first time investors⁵), the inconvenience of having to post collateral with intermediaries can be addressed via existing modes of payment which are able to facilitate prompt transfer of funds. The operational set-up of such payment modes for investors can be made through their trading representatives or remisers. This is elaborated in paragraphs 3.19 to 3.22.

3.9 Having carefully considered the consultation feedback, the policy objectives of the proposal, as well as how respondents’ concerns can be addressed, we will proceed with the proposal for securities intermediaries to

⁵ Some intermediaries in practice require customers to place a minimum deposit at account opening.

impose a minimum collateral requirement of 5% on their customers for trading of listed securities without a *de minimis* threshold. We will time the implementation of the collateral requirement with the launch of the PTS system in mid 2016.

3.10 On the comment that the minimum collateral requirement of 5% is too low, we consider the quantum of 5% to be appropriate, and consistent with existing collateral requirement for trading in margined financial instruments. As the 5% level is a specified regulatory minimum, securities intermediaries can obtain more collateral from their customers, appropriate to their risk profile⁶.

3.11 The consultation paper also stated SGX's intention to shorten the settlement cycle from T+3 to T+2 days to further enhance the robustness and resilience of the securities markets. SGX will separately issue a consultation paper on the implementation details of the proposed T+2 securities settlement cycle at a later stage.

(II) Exemptions from the proposed collateral requirements

3.12 Respondents suggested that the following types of investors and transactions should be exempted from the proposed collateral requirement:

- (i) Trades using eligible funds from the Central Provident Fund ("CPF") Investment Scheme and Supplementary Retirement Scheme ("SRS"), as these trades pose low settlement risks;
- (ii) Trades on foreign-listed securities, as the target of the securities market review is on securities listed on SGX;
- (iii) Trades of corporate customers, accredited investors ("AIs"), expert investors ("EIs") and high net worth individuals ("HNWIs"), as they are more sophisticated than retail investors and better able to protect themselves against over-leveraging; and
- (iv) Delivery-versus-Payment ("DVP") trades, as they pose low settlement risks.

⁶ As mentioned in the consultation paper, MAS will also have the powers to impose higher collateral requirements on an intermediary if we are not satisfied with the intermediary's risk management processes to manage exposures arising from its customers' trading activities.

MAS and SGX's Response

3.13 MAS and SGX agree that trades using CPF and SRS funds should be exempted from the collateral requirement as investors using CPF and SRS funds are not permitted to trade on a leveraged basis through contra trading⁷.

3.14 In our consultation paper, we proposed to exempt institutional investors⁸ ("IIs") from the collateral requirement, as they have well-established internal risk management frameworks and safeguards to manage their specific exposures and investment activities. In particular, we note that many IIs settle their trades via DVP. As trades settled via DVP pose low settlement risks, we agree that they can be exempted from the collateral requirement.

3.15 We will require trades on foreign-listed securities and trades of corporates, AIs, EIs and HNWIs – unless they are settled via DVP – to be subject to the collateral requirement, given that the objectives of promoting prudent investing and enhancing credit risk management practices in the industry are applicable for such trades and investors.

(III) Collection of collateral from customers by end of trade (T) day

3.16 Some respondents highlighted operational difficulties in ensuring that collateral is collected on T day. This is because SGX-member intermediaries currently rely on SGX's Client Accounting System ("CAS") to generate position reports at the end of each trading day, and are unable to obtain customers' positions until about 9pm. In this regard, the respondents suggested that the collateral be collected on T+1 day instead of by end of T day.

3.17 Respondents also provided feedback that it would be challenging for customers to post cash collateral by end of T day based on the current common modes of payment such as cheques, Electronic Payment for Shares⁹

⁷ An investor will need to have available funds in his CPF account to pay for his trades in full, or ensure there are securities in his CPF account before he can sell them.

⁸ These will include institutional investors defined under section 4A of the Securities and Futures Act, financial services institutions that are authorised, licensed or regulated in Singapore or a foreign jurisdiction, central governments and governmental agencies of foreign states, supranational governmental organisations, sovereign wealth funds and designated market makers approved by the SGX.

⁹ EPS is a banking service that facilitates funds transfer between designated bank accounts of the investor and their intermediaries.

("EPS") and GIRO. This is because intermediaries would not receive the money from such payment modes until at least T+1 day.

3.18 Some respondents sought clarification on the penalties that would be imposed on intermediaries and their customers for non-compliance with the 5% collateral requirement. They also asked whether intermediaries would need to force-sell customers' positions in the event of a collateral shortfall. Instead of taking regulatory actions, some respondents requested that MAS allow risk-charging of their capital for any shortfall in the collateral received from customers.

MAS and SGX's Response

3.19 MAS and SGX have considered the feedback raised by the industry. As mentioned in paragraph 3.7, the implementation of the PTS should ease the operational challenges cited by the respondents. SGX will work with its member intermediaries to ensure that their systems are upgraded to cater for the PTS implementation.

3.20 On the requirement for customers to post collateral by end of T day, we would like to clarify 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 EPS payments (whether through internet banking or automated teller machines ("ATM")), 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 account¹⁰. Other acceptable modes of payment include the instantaneous inter-bank fund transfer services recently launched by the banks¹¹. Otherwise, intermediaries have the option to collect a deposit upfront from their customers, which is a common practice among intermediaries that offer collateralised trading (e.g. those that deal in futures).

3.21 Considering the various available modes of payment, and the planned enhancements under PTS, we will proceed with the proposal to require collateral from customers to be collected no later than T day. We will provide sufficient transition period for securities intermediaries to put in place the

¹⁰ However, cheques and standing GIRO instructions may not be acceptable since such transactions can fail if the customer does not have sufficient funds in his bank account.

¹¹ Fast and Secure Transfers or "FAST".

necessary operational systems to enhance their collateral management processes and minimise inconvenience to customers.

3.22 In relation to penalties for collateral shortfall, MAS would like to clarify that it is not our intent to mandate securities intermediaries to force-sell their customers' 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.

(IV) Types of acceptable collateral

3.23 Most respondents supported the proposed list of acceptable collateral, as set out in the Notice on Risk Based Capital Adequacy Requirements for Holders of Capital Markets Services Licences [SFA 04-N13]. A group of respondents suggested expanding the list of acceptable collateral to include certificates of deposit and letters of credit which are currently accepted for futures contracts traded on the Singapore Exchange Derivatives Trading Limited ("SGX-DT"), life insurance policies and properties. A few respondents suggested that banks be accorded the discretion to determine the appropriate forms of acceptable collateral.

MAS and SGX's Response

3.24 MAS and SGX are of the view that the list of acceptable collateral as set out in Notice SFA 04-N13, which intermediaries can use to reduce counterparty exposure, is sufficiently broad to meet the collateralised trading requirement. As such, we do not propose to deviate from the list of acceptable collateral set out in the Notice. This will ensure a level playing field for all securities intermediaries and avoid confusion for market participants.

3.25 The list of acceptable collateral will be consistently applied across all securities intermediaries (including banks) in respect of the collateralised trading proposal. Otherwise, the objective and effectiveness of the proposal would be undermined.

(V) Proposed enhancements to trust account requirements

3.26 Several respondents disagreed with the proposal to require securities intermediaries to hold cash collateral deposited by customers for securities trading in trust accounts with licensed banks in Singapore at all times. They cited operational constraints for trades by their customers in overseas exchanges, where they may be required to hold foreign currency-denominated collateral with overseas custodians. Particularly, in foreign markets where investors are required to put up cash collateral for their purchase of securities, it is operationally difficult and costly for the collateral to be placed in Singapore at all times.

MAS and SGX's Response

3.27 MAS and SGX acknowledge respondents' feedback on the potential operational impediments to maintain foreign currency-denominated cash collateral with licensed banks in Singapore. It is not our intent to hinder the payment and settlement of cross-border transactions, as this may introduce risks to the clearing and settlement system. In overseas markets where investors are required to put up cash collateral for their purchase of securities, we acknowledge that it will be operationally difficult and costly for the Singapore intermediary, if it is not able to maintain its customers' collateral in an overseas trust account for settlement of their securities transactions. Given that trades in foreign listed securities generally require some form of pre-funding or collateral, we will allow intermediaries to maintain customers' cash collateral in overseas trust accounts for customers' trades in overseas securities exchanges. In addition, MAS intends to review the trust account regime under the Securities and Futures Act with a view to enhancing the disclosure requirements. This will include requiring intermediaries to disclose to customers the specific trust account arrangement with the overseas custodian and the associated risks of such an arrangement.

4 Short position reporting requirements

(I) Introduction of short position reporting regime

4.1 Most respondents welcomed the idea of increased transparency of short selling by way of publication of short positions. A common concern raised was

the additional administrative burden that short position reporting entails and how it could discourage short selling. A few respondents were also of the view that the current regime of short sell order marking was sufficient.

MAS and SGX's Response

4.2 MAS and SGX believe that the introduction of short position reporting will further improve transparency of short selling activities in Singapore. SGX has implemented a short sell order marking regime in March 2013, which has provided more transparency on the level of short selling activities in each trading day. Information on the outstanding short position will complement the existing marking regime as it would give participants an indication of the extent of outstanding short interests in a given stock. We note that both short sell order marking and short position reporting are in place in jurisdictions such as Australia, Europe, Hong Kong and Japan.

4.3 Given the positive feedback received, MAS will introduce a short position reporting regime for all securities listed on the SGX Mainboard and Catalist. Investors will be required to report their short positions to a system administered by MAS. We acknowledge the concerns raised by respondents regarding additional administrative burden, and will seek further feedback from industry participants on the specific reporting requirements, including how short positions should be calculated and the reporting format, before implementing the regime. The short position reporting regime is expected to come into effect only in mid 2016 to provide adequate time for systems to be in put in place and industry participants to prepare for the new requirement.

(II) Proposed short reporting options

4.4 Of the two proposed reporting options, the majority of respondents were in favour of aggregate position reporting over the public disclosure of individual short positions. They agreed that information on aggregate short positions would be a helpful metric for overall market sentiment on shares of an issuer. They also felt that the anonymity of aggregated information posed lower risks of short squeezes and disorderly trading, which could otherwise discourage short selling and affect price discovery. While most acknowledged that weekly reporting under this option would be less burdensome, two respondents suggested that the proposed reporting threshold of the lower of 0.05% or S\$100,000 of issued shares of a listed entity was too low, and

aggregated information based on such small positions might not be useful to the market.

4.5 A few respondents preferred public disclosure of individual short positions as they were of the view that the added transparency on the existence and identity of substantial short interest would be more beneficial, and that the timeliness of publication would increase the effectiveness of the regime. However, they noted that this option would be significantly more burdensome, and suggested that the reporting thresholds for such an option should be raised.

MAS and SGX's Response

4.6 We acknowledge the need to balance increased transparency with the potential negative effects on orderliness and price discovery. As short position reporting is a new regime, we will commence first with the aggregate position reporting option. Participants will report their short positions, which will be aggregated and published on a weekly basis without revealing the identity of the short sellers. The short position data collected from the implementation of aggregate positions reporting would enable MAS to study whether there is a case to introduce public disclosure of individual short positions in future.

4.7 To provide accurate aggregate short position data, all short positions should ideally be reported, regardless of their sizes. Recognising that this could be operationally burdensome on market participants, we had proposed a reporting threshold of the lower of 0.05% (a "percentage threshold") and S\$100,000 (a "value threshold"). We note that S\$100,000 is around or less than 0.001% of the market capitalisation of the largest 20 stocks listed on SGX, and we acknowledge that information on such small positions may not have a meaningful impact on the aggregate figure.

4.8 Based on market participants' feedback, we have reconsidered the value threshold, and will increase it to S\$1million. We are of the view that a S\$1million threshold would capture short positions that have a more meaningful impact on the aggregate figure, without adversely affecting the accuracy of aggregate short positions. For the percentage threshold, we are of the view that 0.05% will have a meaningful impact on the aggregate figure, and will hence maintain this proposed threshold.

(III) Inclusion of derivatives

4.9 Four respondents sought clarifications on the inclusion of derivatives in the calculation of net short position. Two of these respondents raised concerns that the inclusion of derivatives could result in excessive confusion and compliance costs to industry. On the other hand, one respondent felt that all derivatives, whether physically settled or not, should be included as they reflected investors' views on a stock.

MAS and SGX's Response

4.10 We had proposed to include in the calculation of net short position, all positions arising from derivatives that could require physical delivery of the underlying securities. However, we note that other jurisdictions that have implemented aggregate short position reporting have excluded all derivatives from the calculation of short positions. To avoid confusion in the industry over the different treatment of derivatives, we will exclude all derivatives from the scope of reporting. This will be reviewed when market participants have achieved a level of familiarity with the new short position reporting requirements.

5 Transparency of trading restrictions imposed by securities intermediaries

5.1 Respondents from the industry generally agreed with the principle of greater transparency to address any potential information asymmetry for investors arising from the imposition of trading restrictions by securities intermediaries. However, they cautioned that the proposal has to be carefully considered as the announcement of trading restrictions could be detrimental to the market should the information be misinterpreted by market participants.

5.2 Securities intermediaries usually impose trading restrictions for various reasons, including for internal credit risk management. Most respondents commented that the reasons for imposing trading restrictions should be disclosed so that investors would not speculate unnecessarily and excessively. Some respondents were also concerned about the proposed centralised announcement of trading restrictions on SGX as this could add to the price-

sensitivity of the information and accentuate market reaction. Some respondents were of the view that the market impact of trading restrictions can be compared to that of third party analyst reports, which are not required to be disclosed on SGX.

MAS and SGX's Response

5.3 We have carefully considered all the feedback, and acknowledge that there are merits in the comments put forth by the respondents. In particular, we note the industry's concerns that announcing the trading restrictions may have adverse impact on the market due to the high potential for misinterpretation of the information if the reasons are not clearly disclosed.

5.4 In principle, greater transparency of information and equal access by investors are desirable. However, the benefits of disclosure must be balanced against the potential of the information being misinterpreted by investors, arising from a misunderstanding of the appropriate context and significance of the information.

5.5 Strict disclosure requirements on listed companies provide assurance that material information on corporate developments is disclosed fairly to all market participants. Information from third parties acting outside the remit of the issuer, however, may also incorporate elements such as the third parties' own investment objectives or risk appetite. If the disclosed information is not understood in its proper context, such disclosure can prove detrimental to the market due to the potential for misinterpretation. We also acknowledge that no other jurisdiction or regulator has prescribed laws to require intermediaries to announce their trading restrictions.

5.6 As prescriptive regulations may not be the most effective means of achieving the desired regulatory outcome, there is merit to adopt a market solution in lieu of regulations to enhance the transparency of trading restrictions imposed by intermediaries. A market solution will accord industry participants the flexibility to develop practicable solutions to achieve the same outcome and at the same time, address any market concerns. 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 among SAS members

given the differing practices in the market currently. The industry guidelines are expected to be introduced by end 2014.

6 Reinforcing the SGX listings and enforcement framework

(I) Establishment of the Listings Advisory Committee (“LAC”), Listings Disciplinary Committee (“LDC”) and the Listings Appeals Committee (“LApC”)

6.1 Respondents indicated strong support for the proposed establishment of the LAC, LDC and LApC, commenting that the proposed committees would serve to address perceived and actual conflicts of interest inherent in SGX’s dual role as both a commercial for-profit entity and regulator of issuers. These proposals will bolster market confidence in the listing process.

6.2 A few respondents suggested that SGX ensure the transparency of the LAC’s advice, including cases where SGX departs from the LAC’s advice, as this would enhance accountability of SGX on listing matters. Some respondents also sought clarification on implementation details of the three committees, in respect of the nomination and appointment process of members, as well as their tenure and remuneration.

(II) Proposed expansion of SGX’s range of sanctions for listing rule breaches

6.3 Most respondents expressed support for the proposal, commenting that the expansion would complement the other proposals to enhance the independence and transparency of SGX’s disciplinary process.

MAS and SGX’s Response

6.4 Given the strong support received, MAS and SGX will proceed to implement the proposals in early 2015. Listing applications submitted to SGX before the specified implementation date will not be subject to changes to the listing process involving the LAC under the proposals.

6.5 On suggestions to enhance transparency of matters discussed by the LAC, annual and semi-annual reports will be published by the LAC. These

reports will provide an overview of the issues considered and the advice given by the LAC and will be made available on the SGX website.

6.6 MAS and SGX are currently working on the implementation details for the three committees, including their terms of reference. 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, which will provide more information on these proposals.

7 Implementation of the proposals

7.1 MAS and SGX will work with the industry to implement the proposals in phases. Where appropriate, MAS and SGX will conduct further consultation on regulatory requirements or operational rules prior to the implementation of the proposals. A sufficient transition period will be provided where appropriate to ensure industry and investor readiness before implementing the proposals. Please refer to **Annex 3** for a summary of the expected implementation timeline of the proposals.

MONETARY AUTHORITY OF SINGAPORE & SINGAPORE EXCHANGE LIMITED

1 August 2014

List of Respondents to the Consultation Paper on Review of Securities Market Structure and Practices

Corporates/Associations

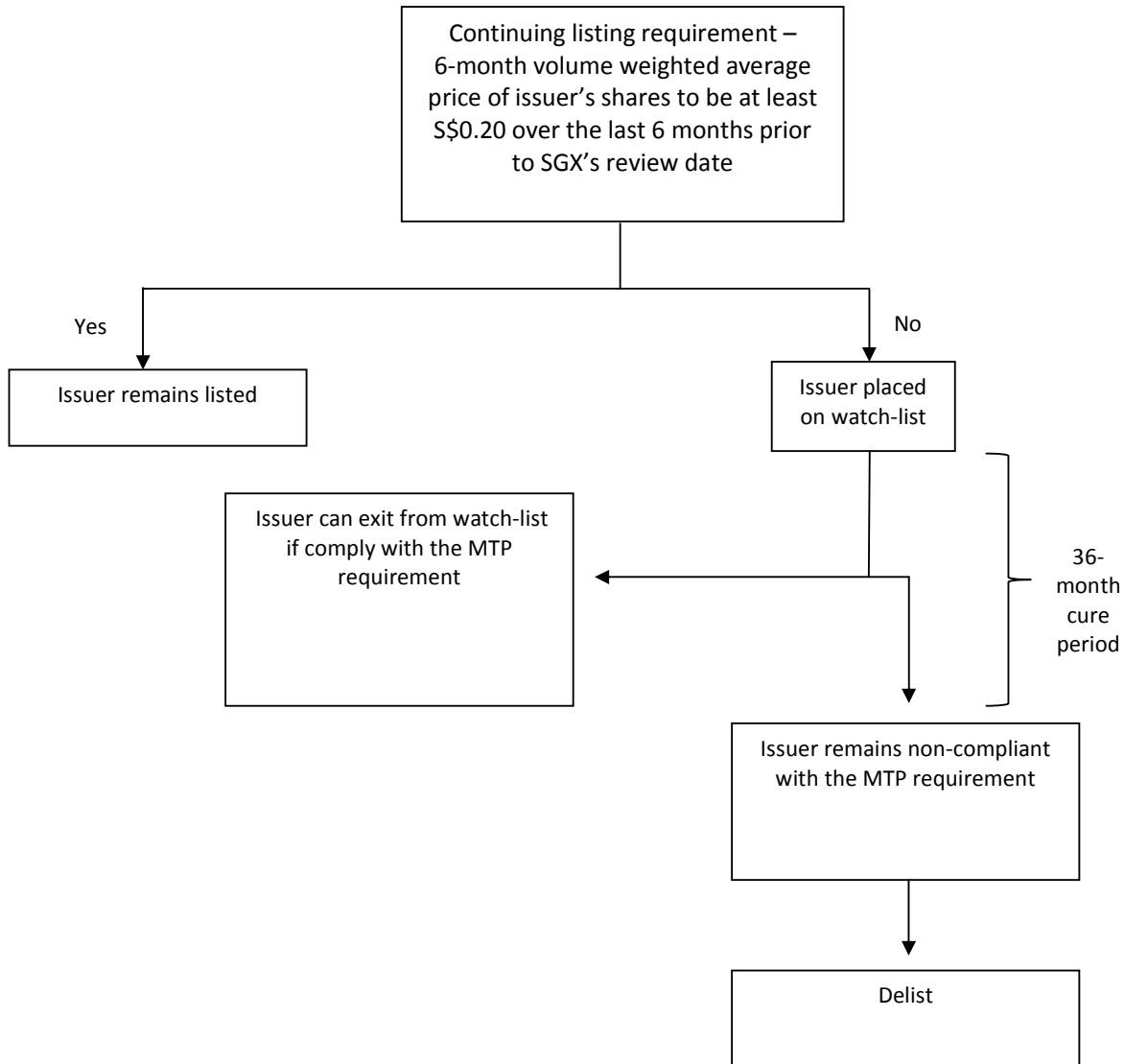
1. Alternative Investment Management Association Limited (AIMA)
2. Boardroom Limited
3. *Joint Submission by:* CFA Society Singapore and CFA Institute
4. *Joint Submission by:* Citibank, N.A., Singapore Branch, Citibank Singapore Limited and Citigroup Global Markets Singapore Securities Pte Ltd
5. CitySpring Infrastructure Management Pte Ltd
6. CNP Compliance Pte Ltd
7. DBS Vickers Securities (Singapore) Pte Ltd
8. Hotung Investment Holding Ltd
9. Investment Management Association of Singapore
10. KPMG Services Pte Ltd
11. Macquarie Capital Securities (Singapore) Pte. Limited
12. Nexia TS Public Accounting Corporation
13. OCBC Securities Pte Ltd
14. optionsXpress Singapore Pte Ltd
15. Phillip Securities Pte Ltd
16. PrimePartners Corporate Finance Pte. Ltd.
17. RHTLaw Taylor Wessing LLP
18. Securities Association of Singapore
19. Securities Investors Association (Singapore)
20. SGX Securities Advisory Committee
21. Stamford Law Corporation
22. The Society of Remisiers

Individuals

1. Abraham Saw
2. Albert Fong
3. Chua Chin Leng
4. Darren
5. Jess Cai
6. Jimmy Lim
7. Lee Ann Goh
8. Leslie Leow
9. Lim Hua Min
10. Martin Lee
11. Orson Lee
12. Richard Neo
13. Seah Kwee Lim
14. Yee Chia Hsing

6 other respondents requested confidentiality.

Diagrammatic representation of the minimum trading price mechanism



Expected implementation timeline

Proposal	Expected implementation
Transparency of trading restrictions imposed by securities intermediaries	End 2014
Reinforcing the SGX listings and enforcement framework	Early 2015
Minimum trading price for issuers listed on the SGX Mainboard	Mar 2015 (with a 12-month transition period)
Collateral requirements for securities trading	Mid 2016
Short position reporting requirements	Mid 2016