

RESPONSES TO RECOMMENDATIONS FROM THE SIBA EQUITY DERIVATIVES AND STRUCTURED PRODUCTS TASKFORCE

1 INTRODUCTION

1.1 The Singapore Investment Banking Association (“SIBA”) together with the Monetary Authority of Singapore (“MAS”) set up a taskforce in October 2005 to undertake a study of issues and impediments relating to the development of the equity derivatives and structured products market in Singapore (“the Taskforce”). The Taskforce comprised of three sub-committees that were responsible for reviewing the following market segments:

- a) Investment products (“IP”): products that are sponsored, issued, marketed or supported by a specific financial institution and sold to the retail and high net worth (“HNW”) market;
- b) Exchange traded products (“ETP”): products that are listed and traded on the Singapore Exchange Limited (“SGX”) excluding Structured Warrants as these have been addressed by the IP sub-committee; and
- c) Over-the-counter products (“OTC”): unlisted deals between financial institutions and intermediaries.

1.2 The Taskforce consulted widely with financial institutions and the investment community on their views and recommendations. The recommendations, together with the responses and feedback, culminated in a comprehensive report which was publicly disseminated at the SIBA Equity Derivatives and Structured Products Seminar held on 27th June 2006.

1.3 Given the recommendations are of wider interest, MAS together with the other industry associations, financial institutions and government authorities have been consulted on their responses which are set out as below.

2 INVESTMENT PRODUCTS

2.1 REGULATIONS

2.1.1 Clear and Transparent Definitions and Guidelines

Recommendation 1: The Taskforce recommends that guidance be issued on the marketing and promotion of warrants; that broader classes of products be permitted to be listed and guidance issued to assist issuers understand which products are permitted to be listed; and that a streamlined and transparent process be adopted for approving the listing of new product types.

MAS' Response

a) Guidance on the marketing and promotion of warrants.

MAS welcomes the SIBA taskforce's interest in ensuring proper marketing and promotion of structured warrants. The taskforce has suggested guidelines to establish “good business practices”. MAS considers it would be more effective for the industry to develop these best practice guidelines and would be happy to work with SIBA on developing a set of industry best practice and marketing and promotion guidelines for structured warrants.

b) Products that are permitted to be listed on a securities exchange.

MAS welcomes the listing of broader classes of products on the SGX-ST. The SIBA taskforce has noted that currently, there are practical difficulties listing structured warrants on asset classes such as interest rates, commodities and foreign exchange on SGX-ST, as SGX-ST is not prepared to list products that are not “securities” within the regulatory ambit of the SFA. MAS agrees that this issue should be addressed, and will be taking the necessary steps so that such structured warrants may be regulated under the SFA and listed on the SGX-ST.

c) Streamlined and transparent process for approving the listing of new product types. MAS agrees that the process for approvals could be streamlined to improve clarity for issuers, and have agreed with SGX on the following process for listing new products: Issuers should first approach SGX for their views on the listing potential. SGX has provided a mailbox at NewProducts@sgx.com as a contact point for this purpose. If SGX supports the product from a business standpoint, SGX will provide a statement of support to the issuer, who could then approach MAS. This would provide MAS with the information necessary to positively consider the request, and establishes a clearer process for product approvals.

2.1.2 Revised Listings Rules

Recommendation 2: The Taskforce recommends that the removal or extension of the three-year limit on the tenure of warrants under section 508(6) of the Listing Rules as well as revisions of the Listing Rules to allow different types of investment products such as capital guaranteed products.

SGX's Response

SGX welcomes the industry's recommendation to remove or extend the 3-year tenure limit on warrants as well as revisions to the Rules that will allow different types of investment products. Together with market participants, SGX advocates further extension of the Rules to allow for the listing of warrants on underlying securities beyond those listed on SGX or other acceptable exchanges. SGX will work with MAS to address the tenure limits and permissible warrants products.

2.1.3 Consistent Regulations and Treatments

Recommendation 3: The Taskforce recommends that the regulatory regime should treat investment products consistently and based on underlying risks rather than legal form.

MAS' Response

We agree that greater consistency across the regulatory framework for investment products with similar underlying risks is conceptually desirable. There has already been a major alignment of the requirements for investment-linked insurance policies with collective investment schemes in April 2004. While greater alignment can be more easily achieved for new product classes, full harmonisation for existing product classes needs to be carefully considered as the benefits of full consistency have to be balanced against the costs to the industry of changes to existing regimes. To address the recommendation, we are studying the possibility of amending the SFA to enable the regulatory framework to be more flexibly fine tuned, where appropriate and necessary, to achieve alignment and accommodate product evolution.

2.1.4 Lower Marketing Limits

Recommendation 4: The Taskforce recommends that the minimum investment under the “accredited investors” exemption for prospectus requirements be lowered from \$200,000 for each transaction to \$50,000.

MAS’ Response

a) In arguing for a lowering of the minimum investment threshold to \$50,000, SIBA has suggested that priority banking customers should be able to access products exempted from the prospectus requirement. As the prospectus exemption was intended for high net worth investors with the necessary financial sophistication or the ability to hire professional advisors, MAS does not agree that it would be appropriate to lower the minimum investment threshold to \$50,000 to include priority banking customers. MAS also notes that while the threshold for the EU is lower at €50,000 (S\$100 000), there are countries such as Australia where the threshold is significantly higher, at A\$500,000 (S\$570,000).

b) MAS recognises that SIBA has an interest in broadening the clientele to whom an offer may be made without a prospectus. MAS is studying whether to introduce a prospectus exemption based on a “knowledge test” where prospectus exemption is given on account of the investor having a prerequisite level of financial expertise. In addition, for retail offers of structured notes, MAS is studying refinements to enhance the flexibility and ease of use of the structured notes regime.

2.2 TRAINING OF INTERMEDIARIES

Recommendation 5: The Taskforce recommends that the coverage of Capital Markets and Financial Advisory Services (“CMFAS”) examinations be enhanced to include structured products and equity derivatives for new Trading Representatives (“TR”). For existing TRs, structured products and equity derivatives education should be incorporated as part of their continuing education.

MAS’ Response

We agree that it would be useful to cover structured products (including equity derivatives) in the CMFAS exams and for existing representatives to undergo training on structured products as part of their continuing education requirements. We are working with SIBA and the Institute of Banking

and Finance on the enhancement of the CMFAS exams, and look forward to continued co-operation with the industry to ensure that the CMFAS exams remain relevant to the industry.

SGX's Response

a) The topics on structured products and equity derivatives are considered as relevant product knowledge that TRs should possess. As such, SGX is supportive of including it in the CMFAS coverage. Similarly, the current training providers of continuing education programmes (“CEPs”) are conducting courses that cover both structured products and equity derivatives.

b) SGX accredits CEPs based on a set of guidelines and therefore welcomes third party training providers to apply for accreditation of their courses. Both IBF and SOR are currently the training providers that publicly provide course brochures to the SGX-ST broking member firms. There are also some SGX-ST broking member firms who conduct in-house CEP on courses accredited by SGX.

2.3 MARKET STRUCTURES

2.3.1 Flexible and Competitive Fees

Recommendation 6: The Taskforce recommends that all fees associated with listing and trading warrants be brought in line with other international exchanges to encourage market development and better reflect the value proposition of listing

SGX's Response

While we respect the wishes of the Taskforce members for lower fees, SGX seeks to balance the multiple interests of our various stakeholders. We implemented the revised listing fee structure with effective from 1 March 2006 as part of our effort to achieve the flexibility espoused by the members. This reflects our desire to remain competitive among our peer exchanges. However, SGX does not intend to duplicate the Deutsche Börse model, but will instead work to develop our unique enduring marketplace.

2.3.2 Accelerated Timing

Recommendation 7: The Taskforce recommends that timing for approving and setting up a new warrants program should be accelerated to allow issuers to take advantage of event-driven liquidity.

SGX's Response

Currently SGX is able to issue eligibility to list (ETL) approvals within 24 hours. We will work closely with issuers and market participants to reduce the setup time for each listing. This will at the same time require for issuer collaboration in expeditiously delivering a complete set of required documentation.

2.3.3 Structural and Technological Refinements

Recommendation 8: The Taskforce recommends that refinements to the trading system and technology be implemented on SGX-ST along with clarifications and guidelines on how to 'bust' error trades (such as those already in effect on SGX-DT) in order to promote a fair, transparent and orderly market.

SGX's Response

a) *Trading system and technology*

As acknowledged by the Taskforce, SGX will be implementing a trading engine that meets international best practice standards. However, SGX does not intend to be the sole provider of trading screens used by professional traders. In other markets, participants can use screens developed by independent software vendors (ISVs) which incorporate many of the features the Taskforce has listed. We intend to promote a vibrant community of ISVs in this marketplace.

b) *Error Trade Policy*

SGX has a clear error trade policy in place and it is continuously reviewed for its relevance in addressing systemic risk. As a market operator, SGX will endeavour to promote a fair, transparent and orderly market in the interests of all the market participants.

Nonetheless, we would also like to refer to a recent report by the International Organisation of Securities Commissions (IOSCO) where it has been recognised that the adoption of a good error trade policy does not necessarily mean that error trades should be cancelled in every case.

2.4 RETAIL INVESTOR EDUCATION

2.4.1 Structured Education Funding

Recommendation 9: The Taskforce recommends that the industry, MAS, SGX and other organisations establish and co-finance a structured fund for retail investor education.

SGX's Response

SGX has long been an advocate of investor education. With investor education as one of its goals, an SGX-MAS market development fund was established in 2003. We will support the efforts by MAS to study the possibility of setting up a fund for education initiatives.

2.4.2 Expanded Distribution Platforms

Recommendation 10: The Taskforce recommends that the combined platforms of SGX, SIAS, 'MoneySENSE', SIBA and other appropriate channels be collectively utilised for derivatives and structured product content delivery including electronic, audio-visual and print dissemination to investors.

MAS' Response

MAS welcomes the industry's initiative to enhance the reach of educational materials. The industry can work with MoneySENSE on this front, provided the materials present a fair and balanced view of product risks and characteristics. The information should enable consumers to build up competences in basic money management, financial planning and/or investment know-how, and should not promote or endorse any specific financial institution, association, product or service.

2.4.3 Independent Information Source

Recommendation 11: The Taskforce recommends that an independent source of information should be established in order to assist investors to make an informed investment decision.

MAS' Response

MAS welcomes and supports an industry-led initiative to establish an independent information source to encourage informed investment decisions by investors. SIBA has established a Standing

Committee to further explore a co-ordinated approach to implement such an information source with SGX, MAS, various issuers and intermediaries as well as other relevant industry associations.

2.4.4 Targeted Conferences and Speakers

Recommendation 12: The Taskforce recommends that Singapore should position itself to host seminars and lectures from leading international speakers as well as regional conferences and roundtables.

SIBA's Response

SIBA will co-work with government and industry bodies to tap into the global network of its members and other renowned industry practitioners and academia to host seminars and lectures from leading international speakers, regional conferences and roundtables.

3 EXCHANGE TRADED PRODUCTS

3.1 Institutional Education

Recommendation 13: The Taskforce recommends that institutional education programs should be designed and conducted by industry bodies to introduce and educate fund managers, insurance companies, private banks, independent financial advisers ("IFAs") and securities houses on equity derivatives and structured products.

SIBA's Response

SIBA will be launching the first of such programs by hosting a seminar on Equity Derivatives and Structured Products on June 27 2006 for an audience of senior professionals comprising fund managers, insurance companies, corporates, statutory boards and government ministries.

3.2 Expanded Central Provident Fund (“CPF”) Investments

Recommendation 14: The Taskforce recommends that CPF members should be allowed to invest in index and single stock futures and options to better hedge their portfolio.

CPF Board’s Response

CPF Board has carefully considered the taskforce’s recommendation for CPF members to invest their CPF savings in equity derivatives and structured products. As these products are relatively complex and new, they are not expected to be easily understood by CPF members, and hence not appropriate investments for retirement monies like CPF savings.

3.3 Effective Incentives

Recommendation 15: The Taskforce recommends that a concessionary tax incentive be introduced for income derived on single stock derivatives as well as additional benefits to attract market makers to Singapore which should be promoted and implemented effectively.

MAS’ Response

MAS believes the current tax incentives make Singapore an attractive market for futures trading and OTC derivatives. However, should industry wish to attract additional trading activity via a separate new tax incentive, we propose that a detailed study be initiated with SGX to explore the viability, scope, risks and value added of such an incentive further.

3.4 Linkages with Regional Stock Exchanges

Recommendation 16: The Taskforce recommends that the continued linkages between SGX with the bourses around ASEAN be continued to ensure mutual development of each other’s markets.

SGX’s Response

SGX agrees with the observations about the opportunity to develop Singapore as a regional derivatives hub and will continue to seek ways to enhance its role to facilitate cross-border trading.

4 OVER-THE-COUNTER PRODUCTS

4.1 OTC Clearing and Settlement

Recommendation 17: The Taskforce recommends continued support for the SGX initiative to assess the development of an OTC clearing and settlement capability for financial derivatives.

SGX's Response

SGX welcomes the Taskforce's deliberations and recommendation, and is continuing its assessment of clearing and settlement for OTC financial derivatives.

5 GENERAL RECOMMENDATIONS

5.1 Improved Free Float and Share Ownership

Recommendation 18: The Taskforce recommends that the 'free float' of the underlying equity markets should be increased along with the level of share ownership amongst the investing public.

Temasek Holdings (Private) Limited's Response

Temasek Holdings (Private) Limited is of the view that the free float issue should be best left to the shareholders and the markets to decide.

5.2 Deregulated Local Market

Recommendation 19: The Taskforce recommends the deregulation of the legal market to allow foreign law firms to provide legal services in relation to Singapore law.

Ministry of Law's Response

a) In order to increase competition, bring more overseas expertise and resources into Singapore, and improve the overall knowledge base of our supporting industries, the Taskforce has recommended that we "adopt legal market regime to our competing overseas jurisdictions". Reply:

b) There are 65 foreign law firms in Singapore, which includes the major international legal practices. They may be consulted on the various investment and financial products that are available globally. These firms may be consulted on such matters even if they are not in any form of association with a local firm. In this regard, there is no shortage of foreign legal expertise in Singapore.

c) In 1999, the Ministry of Law (“MinLaw”) launched schemes to allow local law firms to enter into Joint Law Ventures (“JLVs”) or Formal Law Alliances (“FLAs”) with foreign law firms. A Review Committee, headed by the Attorney-General, recently completed a detailed review of the Scheme and found that the range of legal services in foreign laws and in Singapore law available in Singapore is satisfactory and meets the current legal needs of the strategic service sectors of the economy. In addition, the Review Committee found the Schemes to be structurally sound and appropriate to their objectives. They have achieved the objective of providing an adequate 'one-stop shop' service in foreign laws and Singapore law in cross-border financial transactions in the region.

d) With this legal framework for collaboration between local and foreign firms firmly established, the Review Committee has proposed that we can now expand the scope of practice of JLVs and FLAs. Looking ahead, this will enable JLVs and FLAs to provide the necessary legal support for the emerging strategic service sectors of the economy. The new areas proposed are arbitration, intellectual property law and maritime law.

e) The Government has accepted the recommendations of the Review Committee and MinLaw is working to implement them as soon as possible. The Government has also agreed that the Attorney-General be given the discretion to grant a JLV or FLA licence for any other area of law practice either as a complementary or principal practice of a JLV or FLA if it enhances the quality of legal services in Singapore or supports the development of Singapore. We intend to implement the recommendations this year.

f) In view of the above, there are no immediate plans to reform the regulatory regime as recommended by the Taskforce. Government, however, will keep monitoring the provision of legal services.

5.3 Manpower Resources and Location

Recommendation 20: The Taskforce recommends raising the awareness of the industry in order to attract the required manpower resources.

MAS' Response

MAS will continue to work closely with The Institute of Banking and Finance (“IBF”) and industry to promote a better understanding of the full spectrum of financial services and opportunities available in the industry, via suitable outreach platforms. For instance, the Financial Sector Seminar Series commenced in 2005 at the local universities to profile career opportunities in the financial services industry including fund management with Investment Management Association of Singapore (“IMAS”), wealth management with Wealth Management Institute (“WMI”) and wholesale middle and back office operations with ACI Singapore (The Financial Markets Association).

5.4 On-going Dialogue

Recommendation 21: The Taskforce recommends SIBA establish a standing committee focusing on equity derivatives and structured products to continue dialogue between the industry, SGX and MAS.

SIBA's Response

The Standing Committee was established on March 16 2006 comprising SIBA members that are active equity derivatives and structured products and representatives from the MAS, SGX, Securities Investors Association (Singapore) (“SIAS”) and IMAS.