Chee Hong Tat: Keynote speech - Securities Investors Association Singapore (SIAS) 25th Anniversary Corporate Governance Conference 2024

Keynote speech by Mr Chee Hong Tat, Minister for Transport and Second Minister for Finance, and Deputy Chairman of the Monetary Authority of Singapore, at the Securities Investors Association Singapore (SIAS) 25th Anniversary Corporate Governance Conference 2024, Singapore, 16 September 2024.

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Mr David Gerald, Founder, President, and CEO of the Securities Investors Association (Singapore),

Distinguished guests, ladies and gentlemen, good morning.

Introduction

I would like to thank SIAS for inviting me to the Corporate Governance Conference 2024.

a. Let me start by congratulating SIAS on its 25th anniversary and for successfully organising the 15th iteration of its Corporate Governance Week this year.

b. This has been an important platform for stakeholders to engage in meaningful discussions and share best practices to address emerging challenges in corporate governance.

Background

Over the years, SIAS has remained a strong advocate for investors. Under Mr David Gerald's leadership, SIAS has adopted a firm and constructive approach in pushing for fairer and more transparent financial markets. Beyond its advocacy role, SIAS has also guided companies to adopt good corporate governance practices, and spearheaded initiatives to enhance investors' financial literacy.

a. In recent privatisation exercises, we saw how such advocacy efforts on behalf of minority shareholders resulted in higher offers, and achieved fairer outcomes for all involved[1].

b. On the investor education front, SIAS' investor education programmes have benefited more than 300,000 retail investors. These programmes empower retail investors to make informed decisions.

As we celebrate these achievements over the past 25 years, we recognise that much work remains to be done. One area which I look forward to SIAS' continued contributions is how we can improve Singapore's equities market. This morning, I would like to provide everyone with an update on our on-going review.

Let me start by saying candidly that it is not an easy task to revitalise our equities market, given the global headwinds faced by other exchanges and the increasing competition in this space. Although we have identified some ideas from our engagements with industry stakeholders, it is not a given that all these measures will succeed. But we are prepared to make changes and try new ideas. Because if we don't try, our chances of success is zero. If we take some calculated risks and try, it is not a guarantee we will succeed, but we have a chance to turn things around.

Just as Pope Francis advised our young people during his recent visit to Singapore to have the courage to leave our comfort zones and take some risks, we shall do the same with our review, and be willing to try and take some calculated risks.

In assessing our options, we will focus on what are Singapore's strengths and what is our value proposition to investors and the companies who are seeking listing. For example, Singapore has established ourselves as a leading REITs hub by identifying a market need and creating a supportive regulatory framework and ecosystem to nurture its growth. Today, we are the largest REITs market in Asia ex-Japan[2]. I believe there can be other such opportunities for Singapore's equities market – not to go head-on against the larger exchanges, but to identify areas where we can add value by playing to our strengths.

a. For instance, could our market be a trusted venue to facilitate investor flows into mid-sized regional companies, who can enjoy better brand and investor familiarity within their own backyard compared to listing in a larger global market? Being a big fish in a smaller pond can be a more attractive value proposition compared to being an ikan bilis or ikan kuning in a big ocean. I thought of these two fishes because they are often found in nasi lemak, which is one of my favourite local dishes.

b. Singapore and our region have also seen a strong burst of entrepreneurship and produced many good quality growth companies. Singapore should aim to provide a platform for these Asian companies to raise funds and support their future growth.

A robust equities market provides a venue to facilitate successful IPO exits – which allows private equity and venture capitalist investors to recycle capital into other startups and early-stage growth companies. This completes a virtuous cycle of growth, innovation and a more vibrant financial market. This is why the Government is considering policy measures and incentives to improve Singapore's equities market and enterprise financing ecosystem. These are important elements of our business ecosystem to support a competitive economy.

a. The Equities Markets Review Group that MAS has set up will take a closer look at the challenges we face and recommend measures that can position Singapore's equities market for growth.

b. Our objectives are clear; to develop an equities market that provides an attractive venue for local and regional enterprises to access funding and support for their innovation and expansion plans.

c. As Mr Koh Boon Hwee, Chairman of SGX, said during our first Review Group meeting, the review is not about SGX as a company. I fully agree with Boon Hwee, and this is aligned with our strategic approach for the review. The focus is not about SGX, but about growing Singapore's equities market.

d. To be clear, SGX has been performing well, including in Equities Derivatives and Fixed Income, Currency and Commodity (or FICC) business segments[3]. And if we succeed in growing our equities market, SGX as a company will certainly also benefit from the growth because a rising tide will lift all boats. However, the Review Group's scope extends beyond SGX; we are considering the broader capital market and enterprise financing landscape.

e. At the core of our strategy, we are focusing on strengthening the supply of good companies and creating a strong financial ecosystem to support their growth. We have to complement this with a broader range of products to draw in demand from a larger pool of investors, both institutional and retail investors.

Besides the members of the Review Group and its two workstreams, we are actively engaging stakeholders from across the enterprise financing and market ecosystems – including start-ups, enterprises, banks, fund managers, market intermediaries, and investors such as those that SIAS represents.

I am heartened by the strong interest from industry stakeholders and the public since the launch of our review last month. I would like to thank everyone for your views and suggestions, including some members in the audience who have written to my colleagues and I to share your feedback and ideas. We hope to continue to engage with you as we study the different ideas and initiatives.

We can group the ideas into three main areas:

a. Encouraging pipeline of quality listings;

b. Enhancing investor participation and broadening market liquidity; and

c. Re-evaluating our regulatory structures and approach.

Please allow me to briefly elaborate on each one.

Encouraging pipeline of quality listings

Singapore is globally recognised as a leading startup hub in Asia, with a vibrant startup and innovation ecosystem supporting the growth of promising startups. Today, we have over 4,500 tech startups, 400 venture capital firms as well as 240 incubators and accelerators. Through the StartupSG initiative, Enterprise Singapore has supported many entrepreneurs and startups, enabling them to access crucial resources and networks such as market opportunities, talent and capital.

Singapore has also consistently retained our position as the country with one of the best business environments. This is driven by many factors such as a progressive regulatory environment, which we will continue to improve through rules and process reviews, stable and efficient infrastructure, and access to top quality financial intermediation and services. This is also why many companies, both local and foreign, choose to set up their regional and global headquarters in Singapore.

The Review Group will build on this strong foundation to enhance our value proposition to growth companies from Singapore and the region, by providing them with a strong equities market to raise capital for their growth and expansion.

a. A key target segment of companies that we hope can consider a listing in Singapore are those which are already based here. We will look at the incentives to encourage listing, and to reduce the costs of listing to lower entry barriers.

b. There is also scope to explore attracting growth companies from emerging markets, in certain niches such as in fintech & innovation and sustainability. Such companies could benefit from raising capital in a trusted and open market venue like Singapore.

At the same time, due to the current venture capital funding winter, we have observed that more start-ups are listing before they are ready for the scrutiny of public markets. These companies are looking for alternative markets to maximise the valuation for their investors who are seeking exits.

a. In this regard, we are reviewing how we can work with investors and fund managers to catalyse the secondary private fund sector to better support and nurture such late-stage start-ups in our ecosystem, as they grow and consider an IPO in the future.

Other areas the Review Group will explore include enhancing research coverage of targeted sectors, before and after they go public.

a. Research provides visibility and bridges information asymmetry, helping companies attract investors and capital. It also generates investor interest and supports their decision-making when these companies are ready to transit from being privately-held to publicly-listed.

b. We will collaborate closely with the industry, including SIAS, to explore initiatives to strengthen research capabilities and expand coverage of our companies.

Enhancing investor participation and broadening market liquidity

Next, to complement our efforts to strengthen and broaden the pipeline of growth companies, we recognise the need to further deepen market liquidity through demand initiatives. Market liquidity is necessary to promote efficient price discovery and fair valuations, and to attract new listings.

a. Market data suggests that liquidity in our equities market is currently concentrated in a limited number of well-known counters.

b. Around 85% of securities daily average value traded on the SGX is attributable to the 30 large-caps that make up the Straits Times Index.

To improve liquidity, industry players have shared ideas on possible measures to catalyse broader investor participation, from both institutional and retail investors.

a. Such measures include incentivising market makers to facilitate price discovery, broadening stock indices and expanding the pool of equity market derivatives.

b. We will study these ideas and others, with the aim of boosting market liquidity in Singapore.

Re-evaluating our regulatory structures and approach

Lastly, re-evaluating our regulatory structures and approach. Over time, additional rules and safeguards have been introduced to protect investors, mitigate risks and uplift market practices. The moves were made with good intentions, but with the passage of time and with new technological and industry developments, we need to ask ourselves if all of these rules and regulations are still relevant and required. And if we need to change, we must have the courage to take some risks and make the changes.

The Review Group will take a careful look at our regulatory regime, and where necessary, "prune" regulations that may no longer be necessary or pose disproportionate regulatory burden.

We will be guided by the principles of a disclosure-based regime that facilitates dynamism while having in place proper safeguards and avenues for investor recourse. There may be areas where the risk appetite in the system has fallen in response to market failures, and it is useful to relook and recalibrate our approach. There are important trade-offs which the Review Group and workstreams would need to discuss and assess – we are prepared to make bold changes but we want to do so after we carefully assess the trade-offs.

One area we are exploring is to streamline the prospectus disclosure requirements to lighten compliance burden for IPO issuers, while sharpening the focus on material disclosures and disclosure quality. The streamlining will also apply to disclosure requirements for secondary listings.

Another example, while not as directly linked to the equities market, is our complex products regime which imposes distribution safeguards to ensure that consumers are aware of the complexity and risk profile of the products they invest in.

a. More than a decade from when the rules were introduced, there has been improved access to investment knowledge and product information. Standards for licensed financial advisors have also been enhanced.

b. MAS will explore how our requirements can be more risk targeted, including removing some of the checks that are currently required for all retail customers.

As we lift the regulatory burden to enable more investment options in the market, the industry and investors will need to do their due diligence checks, and exercise caution and judgment based on their risk appetites and investment preferences. It will not be a one-size fits all approach, and one has to go in with open eyes and be mentally prepared for negative outcomes, which can happen with any investment. Unlike buying durians, there is no "bao jiak" or guarantee when it comes to investments.

a. Investors therefore need to understand their own risk tolerance for potential losses and the risk profile of the products before they invest.

b. SIAS can continue to play a key role here. Through its investment seminars and programs, SIAS equips retail investors with knowledge and tools to know what to look out for when investing in a company. For example, the Three Questions Initiative by SIAS, encourages investors to be discerning about information and events impacting their investments.

c. We will also look into ways to strengthen our investor recourse framework, to better enable investors to seek redress in cases of market misconduct. The Review Group and workstreams will be happy to discuss possible options in greater detail with industry stakeholders, including SIAS.

Conclusion

Ladies and gentlemen, I have spoken about some areas that the Review Group is exploring to better position the Singapore equities market for growth – (i) Encourage pipeline of quality listings, (ii) Enhance investor participation and broaden market liquidity, and (iii) Re-evaluate our regulatory structures and approach.

We will be consulting closely with market participants and relevant stakeholders. As we study the different ideas and consider their feasibility, there will be those that we decide to implement first while others may need more time to further review. We do not intend to wait till the end of 12 months before we start to implement the proposals. That will take too long. It is better for us to stage the review and implement the measures in phases.

I would like to conclude my speech by thanking SIAS for serving as a bridge between investors, regulators and industry players in our ecosystem over the past 25 years. May you continue to play this important role and more, as we grow our equities market and financial sector in Singapore.

I wish everyone a fruitful conference ahead. Thank you.

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[1] For Lian Beng, the offer was revised from 62 cents to 68 cents (10%), while for Boustead Projects, the revision was from 90 cents to 95 cents (5.6%).

[2] Singapore's REITs market capitalisation stood at US$75bn and 41 REITs/Property Trusts as of December 2023.

[3] For 1HFY24, SGX's revenue increased 3.6% to S$592 million. Following a strategic shift towards a multi-asset class model similar to LSEG, Cash Equities now only

accounted for 27% of total revenue, with other business lines collectively contributing a larger share of 73% – Equity Derivatives (27%), FICC (26%), and Platforms & Others (20%).