

**COUNTRY NOTE: SINGAPORE**  
**Economic and Regulatory Situation**

5<sup>th</sup> OECD Roundtable on Capital Market Reform in Asia  
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Prepared by the Monetary Authority of Singapore

## **RECENT ECONOMIC SITUATION AND REGULATORY DEVELOPMENTS**

### **1 Economic Situation**

1.1 The Singapore economy saw volatile growth last year, as it grew by 2.2% in 2002 following a contraction of 2.4% the year before. The downturn in 2001 was mainly as a result of the global economic slowdown and a sharp drop in demand for electronic exports. With appropriate counter-cyclical macroeconomic policies, the economy recorded a modest recovery in 2002. However, economic growth declined sharply by 11% in the second quarter of 2003 due to the SARS outbreak and uncertainties associated with the war in Iraq.

1.2 In the third quarter, the Singapore economy rebounded at a robust 15%, quarter-on-quarter. This momentum is expected to continue into the final quarter and 2004, as the Singapore economy should benefit from the strengthening of the external environment, and in particular global electronics demand. The official forecast for Singapore's GDP growth for 2003 is at 0 – 1%<sup>1</sup>. Barring unexpected adverse developments, Singapore's economy is forecasted to grow between 3% and 5% in 2004.

1.3 The unemployment rate is expected to average 4.5 – 5% for the year as a whole. CPI inflation is likely to remain subdued for this year and the next, with the external inflationary environment and domestic cost pressures remaining benign. Against this backdrop, CPI index is likely to come in at 0.5% in 2003 before rising moderately to 0.5 – 1.5% in 2004, as the recovery in the domestic economy picks up pace next year.

1.4 The financial services sector is likely to show modest growth in the remaining months of 2003 following a general improvement in the economic and investment climate. The renewed confidence in the equity markets lifted segments of the financial services sectors, such as the stock broking and fund management industries. The latter is likely to expand at a robust pace this year,

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<sup>1</sup> Forecast as at August 2003.

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on the back of continued portfolio inflows in anticipation of an economic recovery in 2004. Net private capital inflow to the Asia-Pacific is projected to reach US\$84 billion this year compared with US\$66 billion in 2002.

1.5 In addition, the commercial banking segment has also picked up due to an improvement in business sentiments and the low interest rate environment. Meanwhile the private wealth management industry is expected to see increased activity, providing for an additional source of growth.

1.6 Key economic indicators for the years 1999 to 2002 are shown in ***Annex 1***, and data on the growth of Singapore's financial sector is shown in ***Annex 2***.

## **2 Regulatory Developments in Singapore's Capital Markets**

2.1 The Monetary Authority of Singapore ("MAS") has proactively implemented significant financial sector reforms since 1998. The reforms aimed at enhancing Singapore's position as a major international financial center include (i) opening the financial industry to greater foreign competition; (ii) bringing regulatory and supervisory practices in line with international best practice, gearing toward risk-based prudential regulation and supervision and disclosure-based regulation; (iii) developing deep and liquid fixed-income and equity markets; and (iv) promoting the asset management industry. In line with the agenda of the Roundtable, we have focused our discussion in this paper to regulatory developments in our capital markets. Key market statistics are shown in ***Annex 3***.

### **Building Investor Confidence with Sound Market and Business Conduct**

2.2 The Securities and Futures Act ("SFA") and Financial Advisers Act ("FAA") were fully implemented in October 2002. The key objectives of enacting the SFA include facilitating the development of a disclosure-based regime that maintains fair and efficient markets. The SFA sets out, in a single rulebook, the legislative framework governing the securities and futures industry by

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consolidating provisions that were in different pieces of legislation – the Securities Industry Act, Futures Trading Act and the capital-raising provisions in the Companies Act.

2.3 Consistent with our shift in regulatory philosophy towards a disclosure-based regime, MAS fine-tuned our capital-raising regulatory framework with a view to enhancing market accountability and raising the standard of prospectus disclosure. Among the changes is a requirement for issuers to lodge their prospectuses with MAS for a two-week period during which they will be exposed to the public for comment before they are registered. MAS may refuse to register a prospectus if it does not comply with the statutory disclosure requirements of the SFA, and is empowered to stop an offer if a registered prospectus is subsequently found to be misleading or deficient. To enhance corporate disclosure, the SFA also made the continuous disclosure of material information by listed companies a statutory requirement (previously a listing requirement of the securities exchange).

2.4 MAS' market enforcement of Singapore's securities and futures market was enhanced. MAS extended its civil fine/civil remedy regime to all forms of market misconduct (e.g. market rigging, market manipulation and deceit in dealing) <sup>2</sup> and revised our approach towards insider trading from a person-connected approach to an information-connected approach <sup>3</sup>. These reforms provide for an effective yet nuanced approach for MAS to punish wrongdoers, and enhances MAS' position as the statutory regulator.

2.5 The FAA seeks to set high standards of business conduct by financial institutions so as to promote investors confidence in the financial markets. It introduces business conduct requirements in respect of intermediaries providing financial advice on investment products and distributing unit trusts and life

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<sup>2</sup> This was previously available to insider trading offences only.

<sup>3</sup> A person-connected approach pegs liability for insider trading based on a person's connection (eg as a director or a tippee) with the company. Under an information-connected approach, it would only be necessary to prove that someone has traded while in possession of undisclosed market sensitive information, regardless of his connection with company.

insurance products, product information disclosure as well as training and competence requirements. These requirements will raise the standards of business conduct and level of professional advice given, so that investors would be in a better position to make informed decisions.

2.6 MAS is currently conducting a two-phased legislative reform exercise to the SFA and FAA. The first phase of amendments, which were completed in September 2003, were made mainly to implement the recommendations of the Company Legislation and Regulatory Framework Committee (“CLRFC”) <sup>4</sup> aimed at reducing the cost of raising capital in Singapore. The second phase of amendments, targeted for the second half of 2004, will implement the remaining CLRFC recommendations and introduce more substantive policy changes to the regulatory framework for the securities and futures industry to keep the framework responsive to industry developments.

### **Strengthening the MAS-Singapore Exchange Regulatory Relationship**

2.7 Since the demutualisation and listing of the Singapore Exchange (“SGX”) in 1999, MAS and SGX have continually reviewed their respective roles in the regulatory environment to ensure effective oversight of the local capital market. MAS, as the statutory regulator, administers the corpus of capital markets legislation, maintains oversight of SGX’s regulatory responsibilities and seeks to ensure that there are no gaps in the overall regulatory framework. SGX generally has direct and frontline regulatory responsibilities of the securities and futures markets. This regulatory relationship applies to all major areas of regulation <sup>5</sup>.

2.8 As SGX was listed on its own exchange, MAS assumed the role of the frontline regulator for the listing and trading of SGX’s shares. Processes were

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<sup>4</sup> The CLRFC is a private-sector led committee set up by the Ministry of Finance and MAS to conduct a comprehensive review of the company law and regulatory framework in Singapore.

<sup>5</sup> For example, SGX defines and enforces rules that apply to companies seeking to raise capital on the exchange through primary or secondary issues. MAS’ approval must be sought for any changes to SGX’s listing and trading rules.

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put in place to address issues of potential conflicts of interest - MAS has legal powers to issue directives to SGX relating to such issues, and Deed of Undertaking was also executed by SGX to MAS. In keeping with the Deed, SGX has appointed a Conflicts Committee to deal with conflict of interest issues, and MAS is the approving authority for the composition of the Conflicts Committee.

2.9 In July 2003, MAS took over from SGX the responsibility for on-site inspection of brokers to provide greater clarity and reduce duplication in regulatory responsibilities<sup>6</sup>. This is part of our continuing efforts to re-calibrate the roles of MAS and SGX where necessary to improve the efficiency of securities regulation in Singapore.

### **Building Strong Pillars for Good Corporate Governance**

2.10 The spate of corporate scandals in the US and elsewhere further underscored the importance of high standards of corporate governance to safeguard the interest of investors, and foster better internal controls and greater transparency. Singapore has taken a number of initiatives over the last year to improve corporate governance practices. They include:

- (a) Formation of the Council on Corporate Disclosure and Governance (CCDG) in August 2002 to review accounting standards, corporate governance and disclosure issues – One of the CCDG’s recommendations was quarterly reporting of financial results, which is now required of listed companies with market capitalization of S\$75 million or more;
- (b) Coming into effect of the Code of Corporate Governance (“the Code”) on 1 January 2003 - All listed companies are required under SGX’s listing rules to disclose in their annual reports, their corporate governance

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<sup>6</sup> Previously, MAS conducted inspection of SGX member companies, as they were licensed under the SFA. At the same time, SGX also carried out inspection of its member companies in its capacity as supervisor of firms with trading access to SGX and to ensure compliance with SGX rules and the SFA.

practices with reference to the Code for financial years beginning on or after 1 January 2003; and

- (c) Proposed enhanced corporate governance standards for MAS-regulated financial institutions – In February 2003, MAS sought feedback on corporate governance guidelines for Singapore-incorporated banks and direct insurers. The guidelines to be issued aim to strengthen the independence of boards and set out the roles to be played by directors and chief executive officers in relation to their duties towards shareholders, depositors and policyholders.

### **Implementing Measures to Address Conflicts of Interest of Analysts**

2.11 In SGX's changes to its securities trading rules that would take effect from 1 December 2003, measures were introduced to strengthen conflict of interest rules for research analysts. Member-dealers of SGX will be required to separate research functions from its dealing, corporate finance and backroom operations (i.e. to have separate reporting lines and other procedures to avoid any conflict of interest). In addition, the member and its research analysts will be prohibited from trading a security contrary to the most recent research report published by the member unless three market days have passed since issuance of the report.

### **Developing the Capital Markets**

2.12 MAS issued revised its guidelines for hedge funds in December 2002. Recognising that features such as diversification and capital protection would reduce the risk of investing in a hedge fund, MAS introduced a lower minimum subscription level for hedge fund-of-funds to S\$20,000 (from S\$100,000), and removed that for capital protected and capital guaranteed hedge funds. Other types of hedge funds may continue to be offered to retail investors with a minimum initial subscription of S\$100,000.

2.13 A key liberalisation measure under the SFA for collective investment schemes is the removal of earlier restrictions preventing the direct offer of

foreign funds into Singapore. A foreign offeror is now allowed to sell its funds in Singapore by only registering as a branch of a foreign company in Singapore (previously, a foreign fund can only be offered through a feeder fund structure). The introduction of foreign funds directly into Singapore would not only reduce cost of compliance, but also mean lower costs for investors and a wider choice of investment products being offered.

### **Investor Education**

2.14 In collaboration with other public sector agencies and industry groups, MAS launched a national financial education program in October 2003, which aims to increase the level and effectiveness of existing financial education programmes, and to enhance the basic financial literacy of consumers. The main thrust of the program will be to impart knowledge about basic money management, financial planning and investment know-how. To serve as a central repository for all financial education materials (such as guides to explain financial regulations or policies that impact consumers), MAS also launched a new consumer portal on its website.

## **3 Regulatory Developments Across the Financial Sector**

### **Risk-based Regulatory Regime**

3.1 In recent years, MAS has implemented structured risk assessment frameworks for banks, insurance companies and capital markets intermediaries. Using these frameworks, MAS evaluates the risk profile of each institution and the adequacy of its risk management practices to form an overall assessment of the institution's health and the likelihood of key risks materialising in the future. Greater supervisory attention is given to those institutions that are systematically important and/or more risky.

3.2 For capital markets intermediaries, a risk based capital framework came into force in October 2002, while a framework for the insurance industry has

been tested and will be applied in 2004. MAS has been in close consultation with Singapore-incorporated banks to explore how the proposed Basel Capital Accord II can be best adapted for local market conditions and intends to follow the implementation schedule set by the Basel Committee on Banking Supervision.

### **Deposit Insurance Scheme**

3.3 In August 2002, MAS released a consultation paper on establishing a deposit insurance scheme. The objectives of the scheme are to provide small depositor protection and to dispel the perception of an implicit government guarantee of deposits. Key recommendations for the scheme such as a risk-based premium regime have received support. The next phase of the ongoing study will focus on implementation and legal issues of setting up the scheme and is expected to be completed by end 2003.

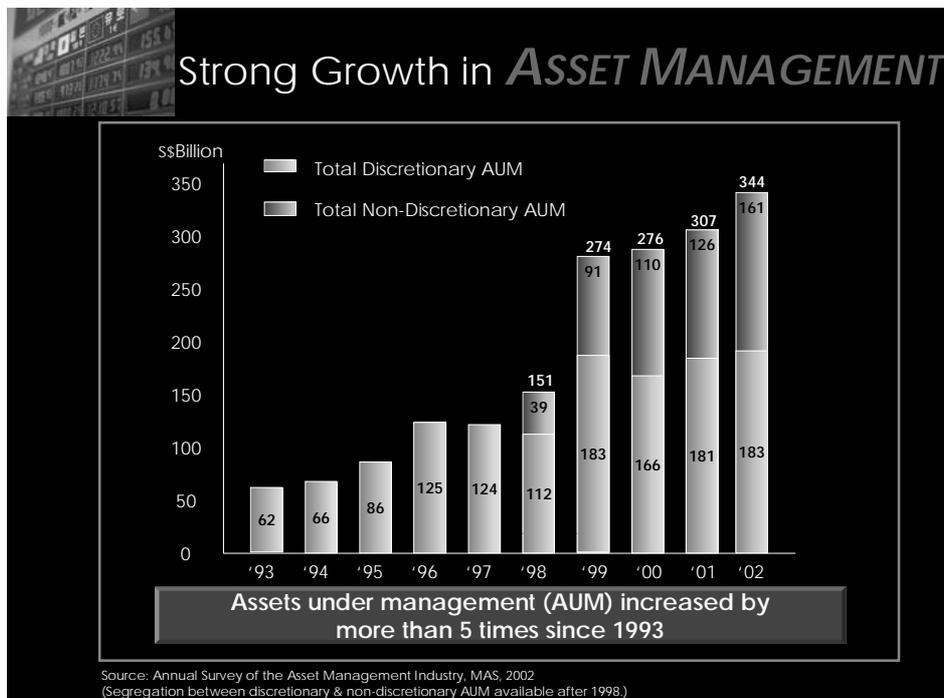
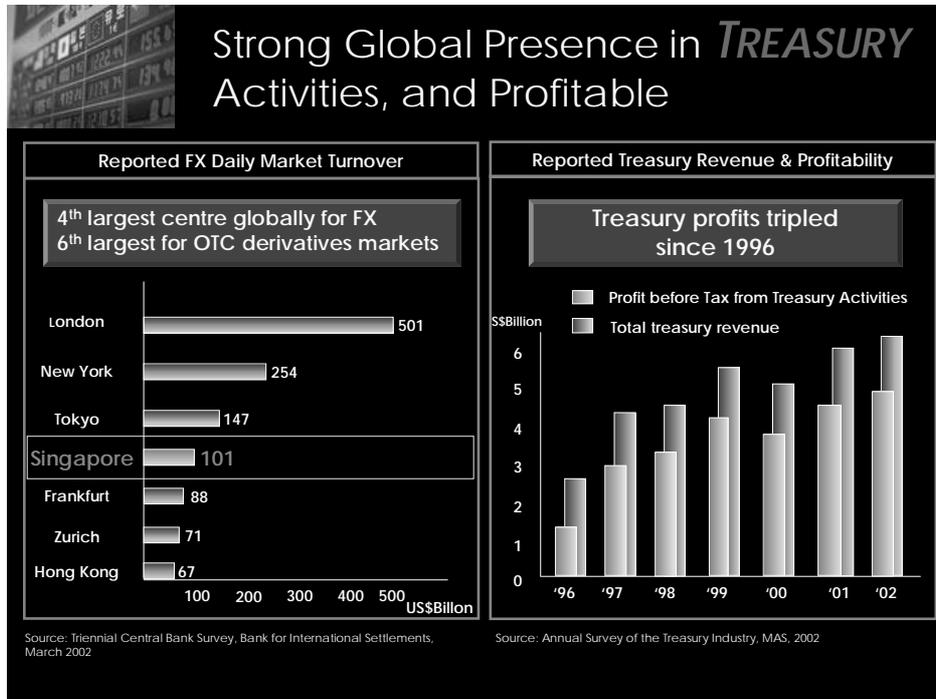
### **Introducing Alternative Dispute Resolution Schemes**

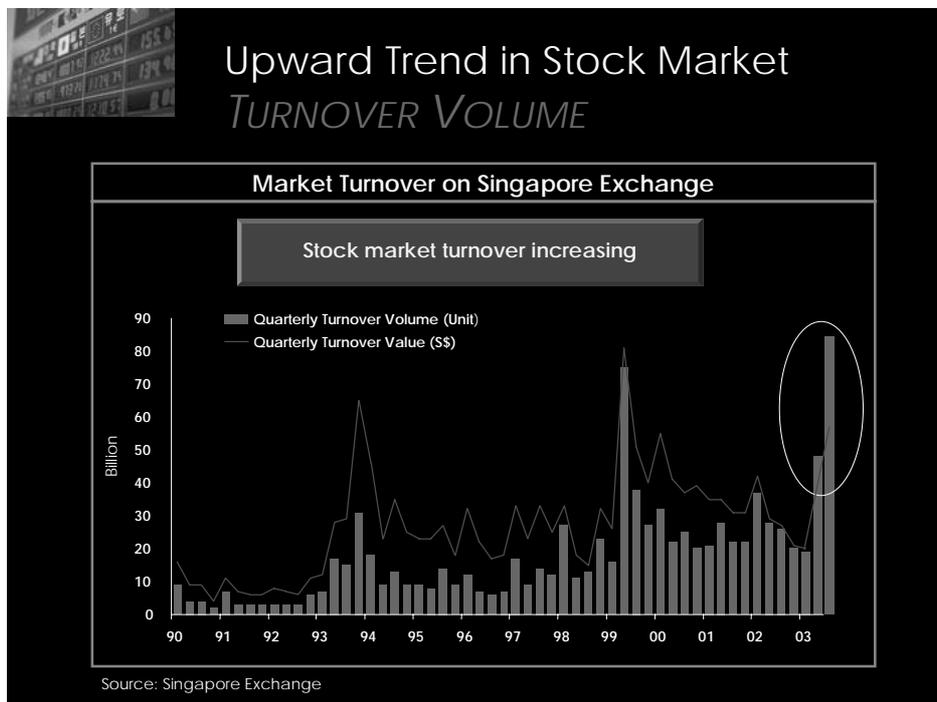
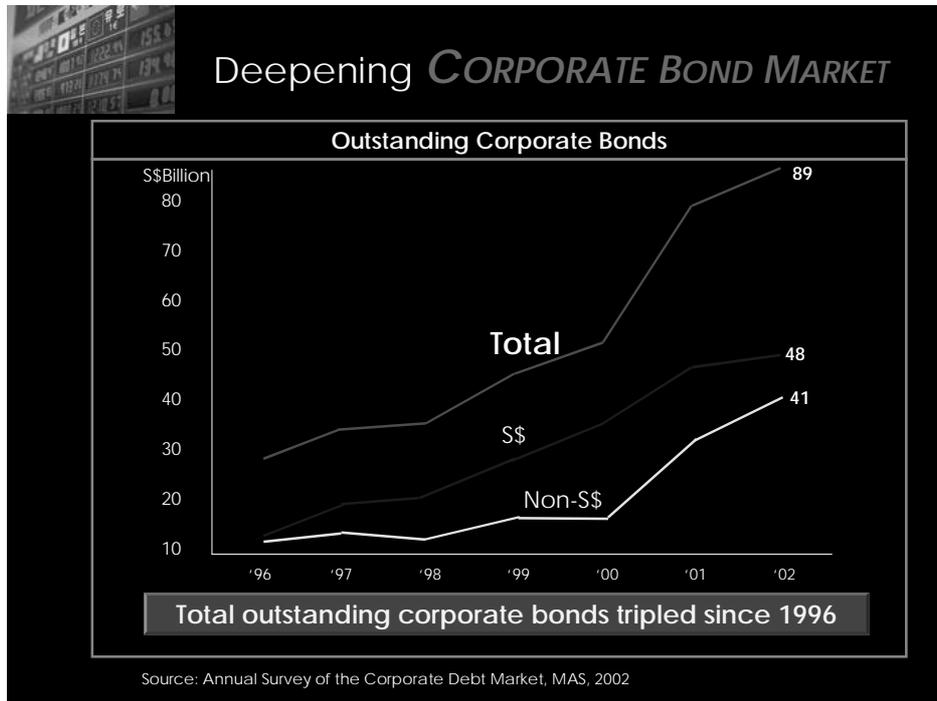
3.4 Alternative dispute resolution schemes were set up earlier this year for the banking and insurance industries. These initiatives were led by the respective industry associations and aimed at providing consumers with faster and more cost-effective ways of settling disputes with financial institutions. A similar scheme for the capital markets is also being considered by the industry.

**KEY ECONOMIC INDICATORS, 1999 – 2002**

	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
GDP (US\$ bil)	81.4	91.5	84.9	87.0
Real GDP growth (YOY % change)	6.4	9.4	(2.4)	2.2
Growth in financial services sector	5.2	2.1	3.7	(4.8)
CPI inflation	0.0	1.3	1.0	(0.4)
<b>S\$ Exchange Rate Against: (end-period)</b>				
US Dollar	1.6660	1.7315	1.8510	1.7365
100 Japanese Yen	1.6272	1.5091	1.4105	1.4632
Overall balance of payment (% of GDP)	5.3	7.5	(1.1)	1.5

**PERFORMANCE OF SINGAPORE'S FINANCIAL MARKETS**  
**(Treasury, Wealth Management & Capital Markets)**





**KEY MARKET STATISTICS, 2000 – 2002**

	<b>2000</b>	<b>2001</b>	<b>2002</b>
Total number of listings on SGX (Mainboard and secondary board, Sesdaq)	480	492	501
Total number of new listings	83	37	32
Funds raised through initial public offerings (SGD millions)	3,394	486	1,685
Securities market capitalisation (year- end) (SGD millions)	354,608	423,016	407,501
Securities market turnover value (SGD millions)	172,028	131,739	118,702
STI (year-end)	1,926.83	1,623.60	1,341.07
Futures market turnover (number of contracts)	27,571,963	30,989,862	32,887,395
<b>Asset Management Industry</b>			
Total number of collective investments offered	265	319	382
Total amount of funds managed (SGD millions)	7,846	10,524	14,147