

# 15

## Singapore Stock Exchange— Demutualization and Listing of the Singapore Exchange Limited

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### 15.1 Introduction

Singapore Exchange Limited (SGX) was the first demutualized, integrated securities and derivatives exchange in Asia Pacific. It was formed on 1 December 1999 by the merger of two well-established and respected financial institutions—the Stock Exchange of Singapore (SES), which traded securities, and the Singapore International Monetary Exchange Limited (Simex) which traded futures.

In 1998, the government of Singapore commenced a process to demutualize the SES and Simex. Before that, each exchange was owned by its members. The demutualization was to enhance competitive positioning and respond to the global trend.

This chapter outlines the process for the demutualization and listing of SGX, and discusses some of the general concepts.

### 15.2 Drivers for Change: The Rationale for Demutualization and Merger

The forces that brought about change for the creation of SGX were:

- *Globalization.* Increasingly, issuers and investors are migrating to markets that provide the greatest liquidity and best execution.

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Exchanges find themselves having to compete among themselves and against new players. The traditional value of an exchange is being eroded by the proliferation of electronic communications networks (ECNs), which are positioning themselves as virtual exchanges and providing a single electronic access point to multiple markets. A combined exchange offered better size and product range to compete.

- *Blurring of product distinctions.* As the differences between securities and derivatives products have become more blurred, the ability of different markets to compete has increased. A combined entity would be able to align securities and derivatives business strategies more closely, minimize operating costs by sharing overheads, and increase its value-positioning against other exchanges (in Singapore's case, foreign competition).
- *Technology.* New technology allows new players to compete. Moreover, platforms are expensive. If they can be shared across products (i.e., securities and futures), this has cost and customer advantages.
- *Issuers have become more sophisticated and demanding.* There is still "stickiness" to equities, making trading in the home market more likely than in a foreign market, but it has become much easier for capital raisers to access other markets<sup>2</sup> and some companies, especially "blue chip" companies, no longer look to raise capital in their domestic markets alone. A main driver of the decision where to list is the cost of capital. Therefore, companies may look to list in regional or other exchanges that can provide them with a large investor base and high liquidity.
- *Investors are more sophisticated.* With better market knowledge and access to both information and markets through the Internet, investors are looking for more innovative products.
- *International competition.* International brokers are now trading in a variety of markets, which make them sensitive to cost differences and the relative inefficiencies of competing exchanges.

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<sup>2</sup> There are two aspects of access for capital seekers: practical (i.e., delivering a prospectus and receiving the applications) and regulatory (i.e., registering the prospectus).

As a result of this aggressive operating environment, and global trends, it was felt that the exchanges had to reposition themselves to survive and better compete. Moreover, the exchanges had to make strategic decisions that, in mutual exchanges, are not always possible because of the misalignment of the exchange's interests with those of the broker-members. Often the exchanges needed to make strategic choices to serve the broader interests of the financial sector. Therefore, there was a need to revamp corporate governance and management structures so that the combined exchange could respond more quickly to profit opportunities.

### **15.3 Impact of Demutualization**

Demutualization has a dramatic impact. It is likely to result (sooner or later) in changes in corporate mindset to emphasize shareholder value and customer focus, and for operating discipline. Listing of the demutualized exchange is not a necessary part of this process, but it hastens the change because of the exposure to market disciplines. Table 15.1 identifies some of the main differences between the corporate structures of a mutual and a for-profit company that influence the change.

**Table 15.1. Corporate Structure of a Mutual and a Demutualized Exchange**

AREA	MUTUAL EXCHANGE	DEMUTUALIZED EXCHANGE
<b>Ownership</b>	Members who trade on the exchange.	Public shareholders. These may include members, but trading rights and ownership are separated.
<b>Aims of the Exchange</b>	Usually, to maintain: <ul style="list-style-type: none"> <li>• an efficient, low-cost, trading environment;</li> <li>• “risk-minimized” settlement; and</li> <li>• quality regulatory framework.</li> </ul>	Usually to: <ul style="list-style-type: none"> <li>• maximize gains from shares;</li> <li>• grow earnings and dividends;</li> <li>• improve product range and distribution; and</li> <li>• protect brand quality (including by having a quality regulatory framework).</li> </ul>
<b>Composition of board and decision-making</b>	<ul style="list-style-type: none"> <li>• The board usually comprises mostly or solely member representatives.<sup>3</sup></li> <li>• Decisions are usually made on one member, one vote basis.</li> <li>• Decision making power is vested with the board.</li> </ul>	<ul style="list-style-type: none"> <li>• The board is usually more diversified.</li> <li>• Decisions are usually made on a one share, one vote basis.</li> <li>• Decision making power is vested with the board, but it is likely to be more “strategic” leaving management to operate the business.</li> </ul>
<b>Acquisitions and alliances</b>	<ul style="list-style-type: none"> <li>• Not usually a priority.</li> </ul>	<ul style="list-style-type: none"> <li>• Likely to be a priority, given a desire to maximize growth.</li> </ul>
<b>Capital management</b>	<ul style="list-style-type: none"> <li>• Not usually a priority. Mutual exchanges may maintain high levels of capital backing on the basis of “better safe than sorry” and to meet statutory requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• A key priority as management attempts to maximize shareholder value. It may be undesirable for the exchange to maintain high cash/liquid reserves as it can weigh down the company’s return on assets.</li> </ul>

<sup>3</sup> Not SES board, which comprised four member representatives and five nonmember representatives (viz. art 69).

## 15.4 The *Merger Act*

SES and Simex were “mutuals.” Access to the SES was restricted to its 33 members. The Simex was owned by the 35 clearing members and access was restricted to them, the non-clearing members (whose number was restricted to 472 seats) and the 147 individual non-clearing members with trading permits.

To effect the demutualization and merger of SES and Simex, the Singapore government passed the *Merger Act*.<sup>4</sup> The SGX was formed to own the exchanges and their related clearing houses. Under the Act, the terms of the demutualization of each exchange and the merger were fixed and did not involve approval by the members.

The Act also provided that the shares of the transferee holding company (SGX) could be listed or quoted on a stock exchange if such arrangements as were required by the Monetary Authority of Singapore (MAS) were entered into for:

- dealing with possible conflicts of interest that may arise from the listing or quotation of securities of SGX, or
- ensuring the integrity of trading of securities of SGX.<sup>5</sup>

The acquisition of substantial shareholdings in SGX are regulated.<sup>6</sup>

The *Act* provided that MAS may give directives to the transferee holding company, of either a general or specific nature, for ensuring fair and orderly securities and futures markets or for ensuring the integrity of, and proper management of systemic risks in, the securities and futures markets.<sup>7</sup> This is a very wide power that extends to imposing requirements on officers or employees of SGX. The *Act* creates an offence of non-compliance with such requirements without reasonable excuse.<sup>8</sup>

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<sup>4</sup> The Exchanges (Demutualization and Merger) Act 1999.

<sup>5</sup> Section 13 of the Merger Act.

<sup>6</sup> Section 15 of the Merger Act.

<sup>7</sup> Subsection 14(1) of the Merger Act.

<sup>8</sup> Subsections 14(3) and (4) of the Merger Act.

## 15.5 The Process of Demutualization

The SES had 34 shares issued. Simex had 40 shares issued. These shares were cancelled and new shares issued to a transferee holding company (SGX). SGX was established with two subscriber shares of S\$1.00 each. On the transfer date,<sup>9</sup> SGX acquired the entire share capital of the SES, Simex and Securities Clearing and Computer Services Pte Limited (SCCS).<sup>10</sup> The share capital of SES, Simex and SCCS was cancelled and new shares in these companies issued deemed to be fully paid up by SGX. In this way, the entire assets of SES and Simex were transferred to SGX.

To compensate the SES shareholders, Simex shareholders and Simex seat holders, the transferee holding company (SGX) issued shares to each.<sup>11</sup> The value of the shares was based on slight discounts to the estimated market value of shares, and seats, at the time, taking into account that former share and seat values would decline once commissions were liberalized and access to the exchanges opened up.<sup>12</sup> The values attributed were:

- S\$6,000,000 to each SES share (except for one share held by a shareholder in involuntary liquidation);
- S\$115,000 to each Simex share; and
- S\$170,000 to each SIMEX seat.

The value of the new shares was fixed by the Minister under the *Act*. The aggregate value of SGX shares issued to shareholders of SES and Simex, and to Simex seat-holders, was approximately S\$308.34 million in exchange for the entire share capital of SES, Simex and SCCS.<sup>13</sup>

This structure held until the IPO of SGX, when a special purpose company (SEL Holdings Pte Ltd, ultimately owned by Temasek Holdings (Private) Limited) was established to subscribe for such number of SGX shares at par as the Minister directed. The shares it subscribed for were

<sup>9</sup> Fixed to be 1 December 1999.

<sup>10</sup> The Securities Clearing and Computer Services Pte Limited, was a wholly subsidiary of SES.

<sup>11</sup> Simex seats were abolished upon the merger.

<sup>12</sup> Deputy Prime Minister Lee, speech, para. 40-414, November 1998.

<sup>13</sup> The net asset values of the entities combined in the merger, which were adjusted to fair values as at 1 December 1999, exceeded S\$308.34 million. The excess was taken directly to equity and reflected on the SGX consolidated balance sheet as general reserves.

held for the benefit of the Financial Sector Development Fund, and cannot be voted. Except to a limited extent (covering expenses) the proceeds of the sale of those shares in the IPO were not received by SGX.

## 15.6 The Singapore Exchange's Initial Public Offer

SGX undertook a capital restructuring to ensure that its offer price was in a customary range for shares traded on the Exchange, and that existing shareholders would hold issued shares with an aggregate value<sup>14</sup> at the offer price equal to the dollar value specified under the *Merger Act*.

After the restructuring, SGX had an authorized capital of 100 billion shares of S\$0.01 each and issued share capital of 1 billion shares, out of which former SES shareholders, Simex shareholders and Simex seat holders held 280.3 million shares and the rest (719.7 million shares) were sold at par to a special purpose company. The special purpose company then made a public offering of SGX shares to new investors, the proceeds of which, after paying the expenses and fees associated with the demutualization and listing, were paid into a Financial Sector Development Fund for the purpose of developing talents and infrastructure for Singapore's financial structure. A total of 291.7 million shares were retained by the special purpose company for the benefit of the Financial Sector Development Fund and cannot be voted. The detailed steps involved were:

- (i) 61,670 issued ordinary shares of par value S\$1.00 were subdivided into 6,167,000 shares of par value S\$0.01 each.
- (ii) 274,150,906 bonus shares of par value S\$0.01 each were distributed to existing shareholders.
- (iii) 719,682,094 shares were subscribed for by SEL Holdings. After these steps there were 1 billion shares on issue of par value S\$0.01 each.
- (iv) From the shares held by SEL Holdings, 319,700,000 shares were offered as follows:

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<sup>14</sup> S\$308,340,000.

- 278,000,000 existing shares of par value S\$0.01 each comprising: 88,000,000 Offer Shares at S\$1.10 each (75,000,000 by way of retail public offer and 13,000,000 reserved for employees and others); and 90,000,000 Placement Shares at S\$1.10 each to institutions.
- 41,700,000 shares reserved in an over allotment option.

From the shares held by SEL Holdings, 150,000,000 shares were offered to strategic investors as a strategic private placement. Strategic investors were invited to take up significant long-term stakes in the new exchange through the strategic private placement. The strategic shareholder group included existing shareholders, local financial institutions and other institutions, which have long-term interest in ensuring Singapore's success as an international financial centre.

After the over-allotment option was exercised, the selling shareholder (SEL Holdings) was left with 250 million shares.

The Minister under the *Merger Act* directed the number of shares the selling shareholder subscribed for, the number of shares it sold, and the offer price. He took advice from the financial advisers to the offering. The advisers conducted a book-building exercise before arriving at the price.

To ensure that the shareholder base is adequately diversified, any shareholding of more than 5% in the integrated exchange requires MAS' approval. This is similar to arrangements in other exchanges that have demutualized (examples are ASX and Amsterdam).

## 15.7 The Structure of Singapore Exchange

There are 10 operating divisions of SGX: five service divisions<sup>15</sup> and five market divisions.<sup>16</sup> The five market divisions are wholly-owned subsidiaries of the parent company, SGX. Since a goal of demutualization was to turn the legacy exchanges into a commercially driven organization that could respond more quickly to competition and profit opportunities, the new organization's structure had to support that, so SGX's

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<sup>15</sup> Corporate Strategy & Marketing, Finance & Administration, Human Resource, Information Technology, and Risk Management & Regulation. Two other departments also service SGX: Legal and Internal Audit.

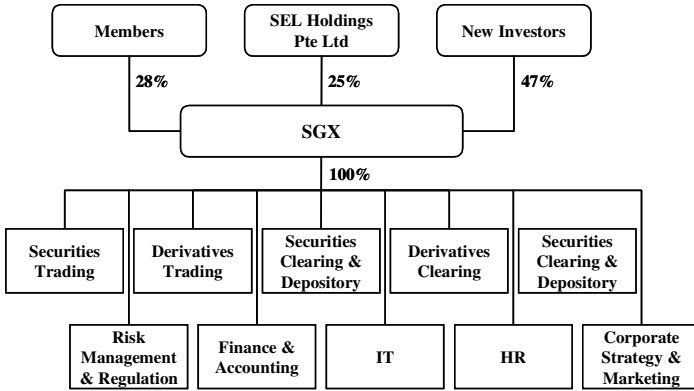
<sup>16</sup> Securities Trading, Securities Clearing and Depository, Derivatives Trading, Derivatives Clearing and IT Solutions (which offers securities processing and IT services to the financial sector).



profit-making businesses were organized as separate wholly-owned subsidiaries.

The figure below shows the structure of SGX (Figure 15.1).

**Figure 15.1. SGX Structure after Demutualization and Merger**



This structure allowed them the flexibility to pursue specific development objectives.<sup>17</sup> To achieve synergy and minimize operating costs, the service divisions were structured to be carried out at the parent company level. The regulation<sup>18</sup> of the businesses is now carried out at parent company level. This has the benefit of allowing an overall strategy to be employed, consistent with protection of the SGX brand. This advantage is also consistent with having central corporate strategy planning, which SGX does.<sup>19</sup>

The securities clearing function and the derivatives clearing function are housed in separate subsidiaries. This is to help manage the risks, which are higher for derivatives than securities. Theoretically, a “corporate veil” legally shields the parent company and other subsidiaries

<sup>17</sup> Currently there is no single IT platform for integrated cash and derivatives trading, so little synergy is available by combining the two subsidiaries, but that may become more important when an integrated engine becomes operationally available and cash and derivatives trading share a common trading engine.

<sup>18</sup> The clearing houses undertake some risk management functions that might be regarded also as an aspect of regulation (e.g., derivatives clearing house undertakes margin calls).

<sup>19</sup> Corporate Strategy and Marketing is a service division under SGX.

from the risk of contagion in the event of a failure of one of the clearing houses. Separation also helps meet a perception that integrating the two exchanges has resulted in a riskier marketplace. On the other hand, a single clearing house would facilitate cross-margining and more efficient use of collateral, as well as pooling resources for operational efficiency.

In reality, of course, in the absence of an extreme event the parent company would be likely to support its clearing subsidiary. Otherwise the loss of confidence may end its ability to run a market. However, there is some comfort to be drawn from being able to choose, and the perception is improved.

The legal barriers make design of the capital structure of the group more important. The subsidiaries must be adequately capitalized, and not dependent on the parent company to continue.

## 15.8 The Governance of Singapore Exchange

Corporate governance usually improves with demutualization for a number of reasons, including:

- The board of directors becomes more diversified. As a mutual, the board will often largely reflect the single group of owners. Their perspective is that of a broker, although their interests are not always uniform. A more diversified board represents a greater diversity of business views.
- The priority of the board shifts from brokers' interest to shareholder value. This changes the organization in many ways and, significantly, introduces customer focus. There is a widening of the groups recognized as customers.
- The idea of shareholder value introduces new disciplines to management. Hopefully, the culture shifts to a service culture. This is partly dependent on the ability of management to act as agents of change and of staff to embrace change. The social culture probably plays a role as well.
- Staff can be rewarded in line with improved efficiencies. It is usual for a mutual not to distribute profits and use any reserves to even out good and bad years. The leveling effect also applied to staff salaries, so staff may expect regular pay increases and promotions regardless

of the company's performance. Profit distribution changes that and allows better rewards in good times and for productivity gains.

- Market disciplines will apply, particularly if the entity lists. Because the company is paying a return on capital it can be measured against other investments doing the same.

Brokers become one of the significant stakeholder groups of the new organization. At SGX, broker interests have been balanced with other interests. Broker interests represent no more than half the SGX Board.<sup>20</sup> An independent director chairs the SGX Board and there are nine other nonexecutive directors. The only executive director is the Chief Executive Officer. The Board meets every two months and supervises the management of the business and affairs of SGX.

The SGX Board's responsibilities are similar to any listed company's board, and include:

- (i) to approve the annual budget and major funding and investment proposals;
- (ii) to review the financial performance of the company;
- (iii) to approve the company's corporate and organizational strategic plans;
- (iv) to appoint key managerial personnel.

To facilitate effective management, certain functions have been delegated by the board to various board committees. Board committees should include:

- *A nominating committee.* The nominating committee comprises at least four directors from the SGX board and is responsible for reviewing all nominations for appointment and re-appointment of the directors of SGX and the Chief Executive Officer.<sup>21</sup> MAS must approve the appointment of persons to the nominating committee.
- *An audit committee.* The audit committee comprises four members, all of whom are independent nonexecutive directors and is

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<sup>20</sup> SGX has 11 directors, of whom four represent broker interests.

<sup>21</sup> Directors are elected at each annual general meeting of shareholder on a rotational basis.

responsible for nominating the external auditors, reviewing the audit plans of the internal and external auditors, ensuring the adequacy of the company's control systems, reviewing the interim and annual financial statements, and reviewing legal and regulatory matters that may have a material impact on the financial statements, related exchange compliance policies, and programs and reports received from regulators.

- *An appeals committee.* The appeals committee comprises six directors and non-directors and conducts hearings on appeals against the decisions of the Office of the CEO, and the Business Conduct Committee, the Clearing House Committee and the Disciplinary Committees of the securities and derivatives trading divisions.
- *A compensation and management development committee.* The compensation and management development committee comprises seven directors, of whom a majority are nonexecutive, and reviews all matters concerning the company's senior management remuneration program and administers the company's Employee Share Option Plan.<sup>22</sup>

## 15.9 Listing and Conflict of Interest

While many demutualized exchanges are listed,<sup>23</sup> it is not an essential aspect of the demutualization process. It is a separate decision, which should be made for similar reasons to those of any company considering a listing.<sup>24</sup> In SGX's case the reasons have been given as follows:

"A listing will confirm our commitment to run the exchange on a commercial basis, providing a high-calibre service to the securities and derivatives markets of Singapore, the region, and the world. A listing also facilitates the forging of alliances with other exchanges around the world, as well as with entities in related industries such as information technology."<sup>25</sup>

<sup>22</sup> SGX annual report 2000.

<sup>23</sup> Including Australian Stock Exchange, Euronext, London Stock Exchange, Singapore Exchange, Stockholmsbourse (as part of OM Group), Deutsche Bourse.

<sup>24</sup> Advantages include capital raising, access to capital in the future, exit strategies for shareholders, higher profile, better management incentives, alignment of employee benefits to profits etc. Disadvantages include, cost, public scrutiny, additional regulatory requirements, etc.

<sup>25</sup> Chairman's Report, SGX 2000 Annual Report, at 15.

A demutualized, unlisted exchange may more closely resemble a mutual exchange because the brokers simply own shares rather than having a membership interest. Indeed, the legacy exchanges, SES and Simex, were shareholding structures. But usually ownership and trading rights are separated in a demutualization, so there is no necessary reason for brokers to continue to own the shares. Over time, they may sell. If there is a market, this process is hastened, which gives effect to one of the drivers for change, namely the desire for broader ownership. If the exchange raises capital, listing will introduce new investors.

Listing creates a conflict of interest because the exchange is, usually, the listing authority. However, it should not admit and supervise itself. In Singapore, this issue was resolved in a similar way to Hong Kong and Australia. The government regulator, MAS, has stepped in to perform the listing and supervisory function for the self listed exchange. This is set out in section 13 of the *Merger Act* and in a Deed of Undertaking executed by MAS, SGX and SGX-ST (the equities market arm of SGX<sup>26</sup>).

Under the Deed, MAS is authorized, instead of Singapore Exchange Securities Trading Ltd (SGX-ST), to make all decisions and take action (or require SGX-ST to take action on behalf of MAS) in relation to SGX that would be taken by SGX-ST in the case of other corporations listed on SGX-ST. SGX and SGX-ST jointly and severally undertook that they will abide by and comply with the decisions and action taken by MAS.

SGX successfully listed on 23 Nov 2000.

Except in relation to self listing, and perhaps decisions that may directly affect the exchange's share price, the listing of the exchange does not introduce conflicts of interest where there were none; the conflicts are simply different. There are conflicts in a demutualized but unlisted exchange or in a mutually-owned structure.<sup>27</sup> The Chairman of MAS is reported as saying running the stock and futures exchanges as a business and acting as a regulator of the exchanges at the same time poses no conflict of interest for SGX. The two roles are not incongruent, because an exchange seeking to attract listings and investors gains from sound regulation and effective enforcement.<sup>28</sup> The Chairman was addressing a particular potential conflict, namely the profit motive versus expenditure on regulation of the market. On the other hand, commentators in the same paper have argued that SGX suffers from conflicts regarding its

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<sup>26</sup> SGX-ST became a party to facilitate the implementation of the arrangements.

<sup>27</sup> For example, in a member-owned exchange, broker directors may be motivated to maximise the profits of the brokers at the expense of the exchange.

<sup>28</sup> The *Business Times*, 23 February 2001.

“contradictory roles as a regulator and a profit-driven entity.” The commentator was addressing the conflict between admission standards and earning fees from new listings, and of disclosure standards of the exchange compared to other listed entities, although in respect of the latter the commentator confuses disclosure as a listed company with giving reasons for regulatory actions as an SRO.<sup>29</sup>

The types of conflicts that may be faced are broad, and particular conflicts can arise quickly. They include conflict of interest regarding regulation of:

- (i) brokers, as the exchange enters new business opportunities which start to compete with the brokers traditional businesses,
- (ii) listed entities for similar reasons,
- (iii) the market generally, since there is increased pressure to reduce spending on activities that do not make profits, notably regulation.<sup>30</sup>

Exchanges are traditionally self-regulatory bodies. They are “self” regulatory because brokers oversee their peers, such as in disciplinary committees. They are probably not self-regulatory in relation to listed entities, although traditionally exchanges have undertaken this regulation role.<sup>31</sup> Demutualization changes the basis for the claim to self-regulation, because the exchange is no longer organized around the brokers, but it need not change the practice. It is still usual to have a broker-manned tribunal for hearing disciplinary actions against brokers. The exchange may even retain other broker-manned committees (e.g., listing committee). However, there is often cost or time pressure to reduce the committee structures that mutuals relied on.

The strategies for dealing with each conflict usually need to be different, depending on the individual circumstance of the exchange and the conflict itself. Each conflict should be analyzed to assess whether it is a real or perceived conflict, the likelihood, and potential consequences of the event happening, the strength of the response needed, the structures already in place, etc.

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<sup>29</sup> The Hock Lock Siew column, the *Business Times*, 2 February 2001.

<sup>30</sup> In October 2000, 84% of the FIBV member exchanges surveyed considered market surveillance as part of the product line of exchanges. This shows that exchanges have viewed the exchanges’ supervisory work as integral to the operation of the exchange. (Poll taken at the FIBV Annual Meeting.)

<sup>31</sup> Originally on the basis that the brokers were deciding what securities they wanted to trade.

In Singapore's example, the *Merger Act* set up two general structures: a power of direction in the MAS, and a Conflicts Committee at exchange level which is required to report conflicts to the MAS. SGX and SGX-ST have undertaken<sup>32</sup> to comply with a procedure for dealing with possible conflicts of interest or conflicts of interest that may arise from the listing or quotation of SGX shares on the SGX-ST. This is set out in the Appendix.

Perhaps the arrival of demutualized and listed exchanges has brought about a thorough re-examination of the whole conflicts issue.

## 15.10 Conclusion

Globalization and the use of technology are changing the way exchanges operate and compete. Exchanges today face competition from proprietary trading systems, such as ECNs, and investors are more sophisticated and demanding as they seek to execute trades directly, want convenient low-cost access, and look for a variety of cash and derivative instruments.

These challenges are forcing exchanges to be more commercial, which in turn is causing them to consider their constitutional structure. Often, they are deciding that the mutual structure does not provide the flexibility to meet these challenges because it is geared toward maintaining members' interests. On the other hand, demutualization allows trading rights to be separated from ownership and therefore allows exchanges to be driven as business entities. Listing, a separate decision, takes that a step further by speeding up the process of separation and sharpening the focus on shareholder value.

However, for an exchange to reap the benefits of demutualization, it must plan the appropriate organization structure, risk management strategy, corporate governance model, business model, and ownership structure. The experience of SGX is one case study, but different exchanges will have different issues to be addressed. Therefore, the answer is not to be found in a single model, but in a range of responses which take into account the history of the exchange, its place in the economic structure of the country, the state of market development, the existing ownership position, the intended goals, and public policy. The government, the statutory regulator and the exchange each have a role to play in the decisions.

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<sup>32</sup> Clause 4 of the Deed of Undertaking.

## ***APPENDIX 1:***

### ***Procedures to Deal with Conflicts of Interest***

The Board of Singapore Exchange (SGX) will appoint a “Conflicts Committee” to consider possible conflicts of interest or conflicts of interest that may arise from the listing or quotation of SGX shares on SGX-ST. The Conflicts Committee will comprise not less than three senior management executives of SGX of whom at least one must be a director of SGX. The head of Risk Management and Regulation Division of the SGX will be the Conflicts Committee Secretary (who shall not be a Committee Member).

SGX will obtain MAS’ approval for appointment of Committee Members.

SGX shall use its best endeavours to ensure that the staff of SGX or of any subsidiary of SGX are alert to, and identify, conflicts of interest or possible conflicts of interest which may arise in the course of the performance of regulatory functions in relation to the listing of SGX shares on SGX-ST. All relevant facts giving rise to any conflict of interest or possible conflict of interest shall be brought to the attention of the Conflicts Committee and the Conflicts Committee Secretary at the earliest possible opportunity.

Where the Conflicts Committee has determined that a conflict of interest or possible conflict of interest does or may arise it shall notify MAS of all relevant facts including any proposals for resolving the matter in a manner which assures the proper performance of any relevant regulatory function. SGX and SGX-ST shall provide any further particulars that MAS may reasonably require for purposes of determining whether the regulatory function can be discharged without its intervention.

Where SGX has been notified by MAS of its determination that a conflict of interest or possible conflict of interest does or may exist, SGX shall:

- provide such information requested by MAS with respect to its present and proposed interest and all those of any subsidiary of SGX;
- comply with, or procure that its subsidiaries comply with, any direction given by MAS; and



*Appendix I: Procedures to Deal with Conflicts of Interest*

- facilitate MAS' exercise of all or any of the powers and functions otherwise exercizable by SGX or any subsidiary of SGX to the exclusion of any such company.

The following matters shall be referred directly to MAS instead of the Conflicts Committee:

- complaints received concerning insider trading in SGX shares; or
- market surveillance reports indicating that insider trading in SGX shares could have taken place; or
- investigations into possible insider trading in SGX shares; or
- the receipt by SGX-ST of a listing application from an applicant whom SGX regards as that is a competitor of SGX.