Capital markets reform and the Singapore Exchange

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The Stock Exchange Review Committee and brokerage commissions

The stock exchange was the second target of the reforms. In July 1998 the Stock Exchange of Singapore Review Committee made 46 recommendations on membership, brokerage commissions, regulation and new products. They included the progressive liberalisation of brokerage commissions with a complete freeing of charges by 1 January 2003, the lifting of restrictions on local ownership of member firms and an increase of the foreign ownership limit in full member companies to 70 per cent. MAS accepted most of the recommendations, although some raised tax questions that had to be explored with the Inland Revenue Authority of Singapore.[1]

The timetable was soon accelerated, with the futures exchange leading the way. SIMEX abolished the minimum commission rates on its Nikkei, Japanese government bond and fuel oil futures contracts with effect from 5 February 1998. For the stock market, SGX announced in May 2000 that brokerage rates would become fully negotiable for all transactions, including online trades, from 1 October 2000. The date was brought forward from 1 January 2001. The chief executive of

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SGX, Thomas Kloet, explained that members were "under increasing pressure to sharpen their competitive edge". Fixed commissions had protected local brokers in the same way that licensing limits had protected local banks. Their abolition exposed the broking industry to the same price competition that the local banks were beginning to face from their foreign rivals.[2]

Demutualisation and the birth of SGX

The SES Review Committee also prepared the reform of the exchanges themselves. A Committee on Governance of the Exchanges recommended that SES and SIMEX be demutualised and merged into a single integrated company. Demutualisation would reduce the conflict of interest between members who owned the exchange and other users, while a merger would align the strategies for cash and derivatives business and increase the capacity to invest. Parliament passed the Exchanges (Demutualisation and Merger) Act on 4 August 1999. The Singapore Exchange began business on 1 December 1999 under the chairmanship of J. Y. Pillay.[3]

SGX described itself as the first demutualised, integrated securities and derivatives exchange in the Asia-Pacific region. On 1 December 1999 the Minister for Finance fixed the value of each member share at S$5,000. Each SES share was converted into 1,200 member shares, each SIMEX share into 23 and each SIMEX seat into 34. SGX listed on its own board on 23 November 2000 through a public offer and a private placement. Chapter II of this part follows the later history of the exchange, from the separation of its regulatory functions to the review of the equities market in 2024 and 2025.[4]

Looking back in 2009, Finance Minister Tharman Shanmugaratnam summarised the meaning of the change in one sentence: "Instead of a closed fraternity, the Exchange became a business." Membership had opened to any qualifying entity, including foreign institutions. By then SGX had grown from fewer than 500 listed companies in 2000 to more than 760, while foreign products accounted for more than 90 per cent of its derivatives business.[5]

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From merit to disclosure: the Corporate Finance Committee and the Securities and Futures Act

The most far-reaching reform of the capital markets concerned the philosophy of regulation. Until 1998 the authorities assessed the merits of companies seeking to list and of the securities they offered. The Corporate Finance Committee submitted its final report in October 1998 and made 38 recommendations on the philosophy and framework of regulation, standards of disclosure and the development of Singapore as a centre for corporate fund-raising. The government accepted all of them, including the central recommendation, which was a shift from merit-based regulation to a predominantly disclosure-based regime, in which disclosure would be judged by what a reasonable investor needs to know.[6]

The legislative result was the Securities and Futures Act 2001. It consolidated the Securities Industry Act and the Futures Trading Act, together with the capital-raising provisions of the Companies Act and certain provisions of the Exchanges (Demutualisation and Merger) Act. It aimed to create a legal framework for a disclosure-based capital market. Market intermediaries would need a single modular licence, which replaced a set of separate licences. The Act also empowered MAS to bring civil penalty actions in court for market misconduct. Criminal penalties for market misconduct had already been raised fivefold in March 2000, to maximum fines of S$250,000 for individuals and S$500,000 for companies.[7]

A companion statute, the Financial Advisers Act 2001, consolidated the regulation of advice on securities, futures and life insurance and allowed a single licence to cover a range of products. Both Acts took effect on 1 October 2002. The Securities Industry Act, the Futures Trading Act and the Insurance Intermediaries Act 1999 were repealed.[8] The two Acts remain the backbone of capital markets regulation in Singapore. Their present form, after the Financial Services and Markets Act 2022, is examined in Chapter I of Part E.

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The bond market and the Singapore dollar

A capital market also needs bonds, for which the government issued Singapore Government Securities in order to build a benchmark yield curve. In 1998 MAS issued S$1.5 billion of ten-year bonds to extend the curve. By 2004 the curve reached fifteen years. Lee reported that corporate debt securities outstanding had reached S$103 billion at the end of 2003 and that the corporate debt market had quadrupled since the end of 1996.[9]

The bond market could not grow without foreign issuers, who needed access to the Singapore dollar. That required a relaxation of the policy of non-internationalisation, whose origins Chapter V of Part C describes. In 1998 MAS allowed foreign entities to issue Singapore dollar bonds in Singapore. In March 2002 it exempted individuals and non-financial entities, including corporate treasury centres, from the lending restrictions and freed asset swaps, cross-currency swaps and repos. It kept the prohibition on extending Singapore dollar credit facilities above S$5 million to non-resident financial institutions where there was reason to believe the funds might be used to speculate against the currency. In May 2004 MAS renamed the policy "Lending of S$ to Non-Resident Financial Institutions", because the old name had "become a misnomer".[10]

Corporate governance and fund management

The disclosure-based regime relied on companies that governed themselves well. A Corporate Governance Committee issued the first Code of Corporate Governance on 21 March 2001, which was revised in 2005, 2012 and 2018.[11] Listed companies must describe their governance practices in their annual reports and explain any deviation from the Code. The approach of "comply or explain" suited the new philosophy, since it left investors to judge the quality of governance with the help of disclosure.

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The reforms also transformed fund management, as the figures show. Lee reported in 2004 that institutional assets under management had grown by 35 per cent in 2003 to S$465 billion. Private banking assets had grown by an average of almost 20 per cent a year.[12] The build-up of private banking that followed is the subject of the next chapter.

Notes

1. MAS, *Annual Report 1998/99*, p. 55: "In July 1998, the SESRC made 46 recommendations", including "complete freeing-up of brokerage charges by 1 January 2003", lifting of the local ownership restriction of SES members and raising the foreign ownership limit in full member companies to 70 per cent; "MAS has accepted most of the SESRC recommendations." ↩
2. MAS, *Annual Report 1998/99*, p. 56: "With effect from 5 February 1998, SIMEX abolished the minimum commission rate structure which was applied to the Nikkei-225, Nikkei-300, JGB and Fuel Oil futures contracts." – Mondo Visione, "Singapore Exchange To Liberalise All Commissions From October", 15 May 2000: brokerage rates fully negotiable for all SGX-ST transactions from 1 October 2000, brought forward from 1 January 2001; Thomas Kloet: members "are under increasing pressure to sharpen their competitive edge". ↩
3. MAS, *Annual Report 1998/99*, p. 55: the Committee on Governance of the Exchanges "recommended that SES and SIMEX be demutualised and merged into a single integrated and privately-held stock company"; demutualisation "would reduce the potential conflict of interests between members, who are owners, and other users of the exchanges" – Lee Hsien Loong, speech at SIMEX's 15th anniversary dinner, 18 September 1999, mas.gov.sg: the Exchanges (Demutualisation and Merger) Act was passed on 4 August 1999; the merged exchange to start business on 1 December 1999 as "Singapore Exchange"; J. Y. Pillay to chair it. ↩
4. Mondo Visione, "Singapore Exchange Launched As The First Demutualised, Integrated Exchange In Asia-Pacific", 2 December 1999: the "first

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demutualised, integrated securities and derivatives exchange in Asia-Pacific", formed from SES and SIMEX; J. Y. Pillay, Chairman – Mondo Visione, "Trading of Singapore Exchange Shares", 24 April 2000: the Minister set the value of each Member Share at $5,000 on 1 December 1999; allotments of 1,200 Member Shares per SES share, 23 per SIMEX share and 34 per SIMEX seat – Wikipedia, "Singapore Exchange" (accessed November 2026): SGX was formed on 1 December 1999 as a holding company; on 23 November 2000 it listed through a public offer and private placement, "the third exchange in Asia-Pacific" to do so after the Australian Securities Exchange and the Hong Kong exchange. ↩

5. Tharman Shanmugaratnam, speech at the SGX 10th anniversary commemoration, 9 September 2009, mas.gov.sg: "Instead of a closed fraternity, the Exchange became a business"; "From fewer than 500 listed companies in 2000, there are now more than 760"; foreign products "accounting for more than 90 percent of SGX's derivatives business". ↩

6. MAS, *Annual Report 1998/99*, p. 55: the Corporate Finance Committee "submitted its final report in October 1998. It made 38 recommendations … The government has accepted all of the Committee's 38 recommendations" – Lee Hsien Loong, speech of 18 September 1999: the Corporate Finance Committee recommended a shift from merit-based regulation to a "predominantly disclosure-based regime"; disclosure judged by what a reasonable investor needs to know. ↩

7. MAS, "Explanatory Brief: The Securities and Futures Bill, the Financial Advisers Bill and the Insurance (Amendment) Bill", 25 September 2001, mas.gov.sg, paras. 4, 11 and 16: the SFA "consolidates the provisions in the Securities Industry Act (SIA) (Cap 289), the Futures Trading Act (FTA) (Cap 116)", the capital-raising provisions of the Companies Act and provisions of the EDMA; "a single modular licence, instead of multiple licences"; a framework that "facilitates the development of a disclosure-based capital markets" – MAS, Explanatory Brief of 25 September 2001, para. 27 and footnote 3: MAS "will be empowered to bring an action in Court against a defendant for a civil penalty"; market misconduct penalties raised by a factor

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of five in March 2000, to maximum fines of $250,000 for individuals and $500,000 for a body corporate. ↩

8. MAS, media release on the implementation of the SFA and FAA, 2002, mas.gov.sg: "This new regulatory regime governing Singapore's capital markets will take effect on 1 October 2002"; "The Securities Industry Act and the Futures Trading Act will consequently be repealed"; the Insurance Intermediaries Act 1999 and its regulations repealed; a "single, modular licensing framework". ↩
9. MAS, media release of 24 August 1998: MAS issued $1.5 billion of 10-year SGS to extend the benchmark yield curve; increased issuance by statutory boards and a regular issuance calendar listed as pending – Lee Hsien Loong, speech of 17 June 2004: the SGS yield curve extended from 7 to 15 years; "The corporate debt market has quadrupled since end-1996"; corporate debt securities outstanding of S$103 billion at end-2003. ↩
10. MAS, media release of 24 August 1998: "Foreign entities were allowed to issue S$-denominated bonds in Singapore"; banks allowed to transact S$ repurchase agreements of up to $20 million with non-bank non-residents – MAS, media release, "MAS Further Liberalises S$ Non-Internationalisation Policy", 19 March 2002, mas.gov.sg: individuals and non-financial entities, including corporate treasury centres, exempted; asset swaps, cross-currency swaps and cross-currency repos freely permitted; S$ credit facilities above S$5 million to non-resident financial entities still prohibited where the funds may be used for speculation – MAS, circular RMD 25/2004, "MAS Notice 757 – Lending of Singapore Dollar to Non-Resident Financial Institutions", 28 May 2004, mas.gov.sg: non-resident non-financial issuers of S$ bonds and equities no longer need to convert proceeds before remitting them abroad; the name "Non-Internationalisation of the S$" had "become a misnomer". ↩
11. MAS, "Code of Corporate Governance", mas.gov.sg (accessed November 2026): first issued by the Corporate Governance Committee on 21 March 2001; revised on 14 July 2005 and 2 May 2012; revised Code issued on 6 August 2018. ↩

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12. Lee Hsien Loong, speech of 17 June 2004: institutional AUM grew 35 per cent year-on-year to S$465 billion in 2003, a majority internationally sourced; private banking AUM grew by an average of almost 20 per cent a year. ↩

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