SIMEX and financial futures

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From gold futures to financial futures

The futures market of Singapore grew out of a commodity exchange. The Gold Exchange of Singapore traded gold futures. In 1984 a team that included Ng Kok Song, later the chief investment officer of GIC, expanded it to financial futures, and the exchange was renamed the Singapore International Monetary Exchange with Ng as its first chairman from 1984 to 1987.[1] Contemporary newspapers report a new gold futures contract under the SIMEX name in July 1984 and the start of trading in financial futures, including Eurodollar and Deutsche mark contracts, on 7 September 1984.[2]

In 2014 the Managing Director of MAS, Ravi Menon, described SIMEX as "Asia's first financial futures exchange". He credited Lim Ho Kee, a former deputy managing director of MAS, with helping to create the exchange. Trading volumes, he reported, had grown more than 700 times since 1984.[3] The involvement of MAS from the outset distinguishes SIMEX from the older futures exchanges of Chicago, which had been founded by merchants. It was part of the strategy of the state to build financial markets in Singapore, which Chapters IV and V of Part C traced through the Asian dollar market and the founding of MAS.

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The Mutual Offset System with Chicago

The most important decision of the founders was to link SIMEX with an established exchange. In 1984 Ng Kok Song and Leo Melamed, the chairman of the Chicago Mercantile Exchange, created a mutual offset system between the two exchanges. Under the system a trader could open a position in a contract on one exchange and close it on the other. Since Singapore trades during the Chicago night, a bank in Asia or Europe could manage a Eurodollar position around the clock while holding it in a single clearing account.

The link served both partners. For the CME, it extended trading in its Eurodollar contract into Asian hours and helped it to compete with the London International Financial Futures Exchange, which offered a rival Eurodollar contract. For SIMEX, it brought immediate liquidity, since contracts traded in Singapore were fungible with those traded in Chicago. It also lent SIMEX the standing of its partner. A young exchange in a small state thereby borrowed the reputation of the largest financial futures market in the world, a strategy that Singapore has repeated in many fields, from arbitration to listings.

The Nikkei 225 contract and the trading of Japanese risk

In September 1986 SIMEX launched a futures contract on the Nikkei 225 index of the Tokyo stock market, which the exchange described as the world's first Nikkei futures contract.[4] The Singapore contract gave international investors an exchange-traded instrument with which to hedge or speculate on the Japanese market as a whole, traded in a time zone close to Tokyo and under English-language rules. The Osaka Securities Exchange later introduced its own Nikkei 225 futures. From then on the two contracts traded side by side, with prices that should move together because they referred to the same index.

The price differences that occasionally arose between Singapore and Osaka created opportunities for arbitrage. A trader who bought the cheaper contract and sold the dearer one would earn a small and nearly riskless margin as the prices converged. Many international banks set up arbitrage desks in Singapore for this purpose.

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SIMEX also listed Japanese government bond futures, Euroyen futures and options on the Nikkei index, so that Singapore became an important offshore centre for trading Japanese financial risk. The Singapore subsidiary of Barings was one of the participants in this business.

The pattern established with the Nikkei contract has proved durable. A futures exchange in Singapore can list contracts on the indices of large Asian markets whose own exchanges are closed to foreign investors or restricted by capital controls. Global investors then use Singapore to hedge or to take exposure, while the home market receives the benefit of price discovery without opening its capital account. The same logic later supported Singapore's contracts on Taiwanese, Indian and Chinese indices, whose development the last section of this chapter outlines.

Growth, leadership and regulation

SIMEX grew quickly in the decade after its foundation. Ang Swee Tian, who served as president of SIMEX and then at SGX from 1984 to 2006, led the launch of the Nikkei 225 and MSCI Taiwan futures and the move from pit trading to electronic trading. Elizabeth Sam, who chaired the exchange from 1987 to 1990 and again from 1993 to 1996, expanded it into financial options and commodities. Francis Yeo, chairman from 1990 to 1993, launched the first offshore options on a Japanese equity index. The same speech credited Elizabeth Sam with upholding the integrity of the market during the crash of October 1987 and during the Barings crisis.[5]

The legal framework for the exchange was the Futures Trading Act of 1986, under which MAS regulated SIMEX and its members. Suspected violations of the Act, including manipulation, were referred to MAS for investigation and prosecution.[6] By the mid-1990s SIMEX had become an important offshore futures market for Asian risk. By the standards of Chicago it was nevertheless a small market whose reputation depended heavily on the confidence of the foreign banks and brokers who provided most of its business.

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The exchange protected itself through the standard techniques of a futures market. Each member had to deposit initial margin when it opened a position. Each day the clearing house marked all positions to the settlement price and called variation margin from members whose positions had lost value. A member that could not pay was closed out, and the losses fell first on its own deposits. These mechanisms do not prevent a member from taking excessive risk. Their purpose is to ensure that the risk is paid for in cash every day, so that the failure of one member does not become the failure of the market.

Notes

1. Futures Industry Association, profile of Ng Kok Song, FIA Futures Hall of Fame, fia.org (accessed November 2026): he was part of the team that "conceived and expanded the trading of gold futures to include financial futures" at the Gold Exchange of Singapore, which was renamed SIMEX; first chairman from 1984 to 1987; "Together with CME chairman Leo Melamed, Ng created the mutual offset arrangement between the two exchanges in 1984." ↩

2. *Singapore Monitor*, 5 July 1984 and 7 September 1984 (afternoon edition); *The Business Times*, 6 July 1984, via NLB NewspaperSG. ↩

3. Ravi Menon, remarks at the SIMEX Hall of Fame, 4 December 2014, reproduced by Mondo Visione: "SIMEX has the distinction of being Asia's first financial futures exchange"; Lim Ho Kee, MAS Deputy Managing Director 1981–1982, helped create SIMEX; trading volumes grew more than 700 times since 1984. ↩

4. Nikkei Inc., "Index Linked Products", indexes.nikkei.co.jp (70th anniversary pages): the Nikkei 225 futures contract was listed on SIMEX in September 1986; some secondary sources give 3 September 1986 as the first trading day. ↩

5. Ravi Menon, remarks at the SIMEX Hall of Fame, 4 December 2014, reproduced by Mondo Visione: Ang Swee Tian, President of SIMEX/SGX

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1984–2006, led the Nikkei 225 and MSCI Taiwan futures launches and the move from pit to electronic trading; Elizabeth Sam, Chair 1987–1990 and 1993–1996, oversaw expansion into financial options and commodities and helped uphold market integrity during Black Monday in 1987 and the Barings crisis in 1995; Francis Yeo, Chairman 1990–1993, launched the first offshore Japanese equity index options. ↩

6. US Commodity Futures Trading Commission, Division of Trading and Markets, CFTC Letter No. 00-77 (2000): SGX and its subsidiaries "are regulated by the Monetary Authority of Singapore under the Futures Trading Act of 1986", last amended in March 2000; suspected violations, including manipulation, are referred to MAS for investigation and prosecution; SIMEX signed the International Information Sharing MOU "signed on March 15, 1996 at Boca Raton, Florida". ↩

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