SIMEX, Barings and the Discipline of Markets

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On Sunday 26 February 1995 administrators were appointed to Barings, the oldest merchant bank in London, after a trader in its Singapore futures subsidiary had run up losses that exceeded the capital of the whole group.[1] The positions had been built on the Singapore International Monetary Exchange, the futures market that Singapore had founded eleven years earlier as Asia's first financial futures exchange. For a few days in early 1995 it seemed possible that the collapse would damage the exchange and the reputation of the city as a place where derivatives could be traded safely. The exchange met its obligations, the margins were paid and the market continued to trade. The episode nevertheless became the best-known event in the history of the financial centre. It also shaped the way Singapore has regulated its markets ever since.

This chapter examines the exchanges of Singapore from the brokers' association of 1930 to the listed Singapore Exchange of today. It begins with the stock exchange, which Singapore shared with Malaysia until 1973 and whose history was marked by the Pan-Electric crisis of 1985 and the dispute over the over-the-counter market in Malaysian shares. It then describes the founding of SIMEX, the link with the Chicago Mercantile Exchange and the Nikkei contract that made Singapore a centre

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for trading Japanese risk. The third and fourth sections reconstruct the Barings collapse and the responses of regulators in Singapore, London and the wider futures industry. The last section follows the demutualisation and merger of the two exchanges in 1999, the Securities and Futures Act of 2001 and the reforms of the equities market that MAS has pursued since 2024.

The Geneva volume describes how the Bourse de Genève, the first stock exchange in Switzerland, was created by bankers who needed an organised market for the securities they placed with their clients. It also records how that exchange was absorbed in the 1990s into a national electronic market.[2] The same volume refers to the Barings collapse of 1995 as a warning to Geneva's private bankers that personal liability does not protect a house whose internal controls fail.[3] The present chapter tells that story from the place where the losses were made. It argues that Singapore's response to Barings, which combined firm prosecution, a defence of the exchange's integrity and a gradual move towards supervision based on disclosure and market discipline, became a model for the regulatory philosophy of the financial centre as a whole.

Essentials

The stock exchange of Singapore grew out of a brokers' association founded in 1930 and was shared with Malaysia until the end of currency interchangeability in 1973. The Pan-Electric collapse forced the Stock Exchange of Singapore to close from 2 to 4 December 1985 and led to the Securities Industry Act 1986. SIMEX, created in 1984 from the Gold Exchange of Singapore, was Asia's first financial futures exchange and was linked from the start with the Chicago Mercantile Exchange through a mutual offset system. In 1995 Nick Leeson, general manager of Barings Futures Singapore, caused losses of £827 million that rose to £927 million with the cost of closing his positions and brought down Barings. Since SIMEX met all its obligations, the market survived intact, while the collapse prompted an international declaration of futures regulators at Windsor in May 1995. In 1999 the stock and futures exchanges were demutualised and merged into the Singapore Exchange, which listed its own shares in 2000 and now operates under the Securities and Futures Act 2001.

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Notes

1. Reserve Bank of Australia, “Implications of the Barings Collapse for Bank Supervisors”, *Reserve Bank of Australia Bulletin*, November 1995, p. 1: “On 26 February 1995, administrators were appointed to manage the affairs of the Barings Group parent company”, following “the discovery of massive trading losses incurred by Barings Futures Singapore (BFS)”. ↩
2. Ressos, *Genève, place financière internationale*, partie D, chapitre II, section « La Bourse de Genève ». ↩
3. Ressos, *Genève, place financière internationale*, partie D, chapitre III (« Les banquiers privés : un statut, une responsabilité, une culture »), section « Les partnerships de Londres et de New York : une comparaison ». ↩

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