

18th February 2013

Mr David Gerald
President
Securities Investors Association (Singapore)
7 Maxwell Road #05-03
MND Building Annexe B
Singapore 088902

Dear David,

SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS") SAFEGUARD PROPOSALS FOR INVESTORS OF FOREIGN ISSUERS LISTED ON SINGAPORE EXCHANGE

Thank you for your letter of 11 July 2012 containing proposals to safeguard the interests of investors of foreign issuers listed on SGX.

2 We appreciate the efforts made by SIAS to safeguard investors' interest and raise the level of corporate governance in Singapore. We wish to assure you that SGX, as a market operator and frontline regulator, spares no effort to raise the level of market quality and integrity. This is demonstrated by the new Mainboard admission criteria unveiled on 19 July 2012. The enhanced Mainboard admission criteria, which stands among the most rigorous amongst international exchanges, is aimed at improving the overall quality of listings.

3 Since 2009, SGX stepped up the monitoring of market professionals due diligence process and intensified engagement with listed issuers. Audit professionals, audit committees and independent directors were asked to scrutinize high risk areas such as cash balances, accounts receivable and off-balance sheet items, and conduct additional validation where required. Board directors, as stewards of companies with fiduciary duties to shareholders, are best placed to determine whether improvements to governance practices and controls are needed to safeguard the assets of companies and protect the interest of shareholders.

4 This past few years, we also reviewed emerging risks and studied many proposals to enhance the listing rules, engaging the industry and regulators closely to assess their practicality and effectiveness. In March 2011, SGX introduced two measures designed to address specific issues surrounding foreign issuers from the People's Republic of China (PRC). First, the Audit Committees of these foreign issuers were required to incorporate provisions in the articles of association of its key PRC subsidiaries to give the issuer's Board the power to replace the legal representatives in the PRC. This enabled the issuer to retain control over the assets and bank accounts in its subsidiaries. Second, SGX required that these issuers engage qualified auditors and legal professionals to determine whether checks and balances and controls are adequate. These professionals are required to review whether these controls are working effectively after implementation.

5 Additional new measures to strengthen governance standards of issuers and enhance disclosures to address specific concerns arising from governance failures were also introduced. The amendments to the listing rules to strengthen corporate governance practices and foster greater corporate disclosure took effect from 29 September 2011. A summary of the various corporate governance measures implemented is attached in **Annex A**.

SIAS's Proposals

6 SIAS's latest proposals were considered and discussed in consultation with the newly established working committee reviewing the SGX-ST Listing Rules (the "**Working Committee**"). The Working Committee comprises capital market stakeholders including representatives from the Exchange, the Association of Banks in Singapore, Singapore Institute of Directors, law firms, accounting firms and company secretarial firms.

7 There was consensus amongst the Working Committee members that while there is merit to SIAS's proposals, there are other better alternatives to address the concerns raised.

Proposal 1: Legislation to disallow resignation of directors, CEO and CFO except for serious illness during life of Notice of Compliance

8 It would be difficult to compel directors and senior management to continue to serve on Boards. This proposal may have the unintended consequence of directors and senior management "racing to the door" at the first sign of difficulty. The Working Committee is of the view that the problems arising from sudden resignations of directors may be addressed by other means. For example, there could be a requirement for board directors of listed issuers to give a minimum notice period before any resignation becomes effective.

9 To further address the difficulties in getting troubled issuers to co-operate with the Exchange, the Working Committee proposes that the Exchange be empowered under statute to direct issuers to appoint special auditors or other professionals to assist in or investigate the affairs of the troubled issuers. At present, the Exchange relies on the enforcement of its Listing Rules only.

Proposal 2: Disallow listing of companies from countries which have no reciprocal enforcement arrangement or extradition treaty with Singapore, failing which, disclosure of enforcement difficulties in the prospectus

10 Singapore is an established international financial centre and an attractive venue to raise capital. Its attractiveness as a capital markets centre will be significantly diminished if we were to disallow the listing on SGX-ST of issuers from jurisdictions with no reciprocal enforcement or extradition treaty.

11 The Working Committee proposes that clear and prominent disclosure in the prospectus on the absence of such reciprocal enforcement arrangement or extradition treaty with Singapore is the more appropriate solution. It notes that it is the market practice for new issuers listing on SGX-ST to disclose in their prospectuses the risks specific to their jurisdictions of establishment or operations.

Proposal 3: Issuer to provide bank guarantee to ensure Company and directors will fully comply with laws, regulations and SGX-ST Listing Rules for 5 years

12 The Working Committee is of the view that imposing this requirement may not necessarily benefit shareholders and potentially result in unintended consequences. This is because such an arrangement creates a moral hazard whereby directors and management may undertake more risks in running the issuer's business if they are certain that any mismanagement by them would be covered by monies set aside by the issuer.

13 The Working Committee believes that a better solution may be to require issuers to confirm its compliance with relevant laws and the SGX-ST Listing Rules, in their annual reports. This is consistent with Singapore's disclosure-based regime.

Proposal 4: Prohibition of transfer of monies raised from Singapore market out of Singapore unless Audit Chairman and independent directors confirm that purpose is bona fide

14 The Working Committee notes that Listing Rule 704(30) already requires issuers to disclose the use of IPO and fund-raising proceeds as and when such funds are materially disbursed. There is unlikely to be any incremental benefit to be derived by requiring additional confirmations from the Audit Committee chairman and independent directors.

Proposal 5: Require top management to undertake to submit to arbitration in Singapore for application and adherence of SGX-ST Listing Rules and securities laws

15 Arbitration proceedings are confidential. Given that there is an element of public interest in any non-compliance with SGX-ST Listing Rules and securities laws by listed issuers, the Working Committee is of the view that it is better for such matters to be resolved in the Singapore courts rather than through an arbitration proceeding.

Alternative Safeguards

16 The Exchange is mindful of the enforcement difficulties against foreign issuers, which forms the basis for most of SIAS's safeguard proposals. The Exchange hopes to address SIAS's concerns through the alternative safeguard measures suggested above.

17 At the same time, we will continue to monitor and review the efficacy of these safeguards as we work with fellow regulators to further strengthen cross-jurisdictional information sharing and enforcement mechanisms. The Exchange will also continue its engagement with SIAS as well as all relevant stakeholders, through the Working Committee, to study ways to further bolster governance practices and investor protection.

Yours sincerely,



Richard Teng
Deputy Chief Regulatory Officer
Singapore Exchange Securities Trading Limited

Measures to Enhance Corporate Governance Standards

Amendments to Listing Rules	Area of concern
<p>Boards are required to state their opinion in the annual report whether the issuer has a robust and effective system of internal controls that addresses financial, operational and compliance risks.</p>	<p>Firms must have a robust and effective system of internal controls that addresses financial, operational and compliance risks.</p>
<p>Disclosure of any loan agreements by the issuer that makes reference to a change of control or controlling shareholder interest.</p>	<p>This came out of the experience of a few S-chip companies whose controlling shareholder and CEO had lost their controlling stake to debtors after defaulting on loans.</p>
<p>Disclosure of information relating to the appointment of and changes to the legal representative(s) or person(s) of equivalent authority, power and responsibilities of the legal representative(s) or person(s) of equivalent authority and any risks in relation to the appointment, including concentration of authority and impediments to their removal and a description of the procedures it has in place to mitigate these risks.</p>	<p>The legal representative is a key figure in the Chinese corporate governance structure as he or she holds the company seal used to execute transactions and transfer assets.</p> <p>This key appointment in S-chip companies should therefore be disclosed.</p>

Amendments to Listing Rules	Area of concern
Disclosure of issuer's independent directors who are appointed to the board of principal subsidiaries based in jurisdictions other than in Singapore	Companies that have principal subsidiaries outside Singapore (defined as those that contribute more than 20 per cent of pre-tax profit) will also have to disclose the identities of the independent directors who have been appointed.