

Heng Swee Keat: Singapore's investment banking industry and capital markets

Keynote address by Mr Heng Swee Keat, Managing Director of Monetary Authority of Singapore, at the Singapore Investment Banking Association 30th Anniversary Dinner, Singapore, 6 October 2005.

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I am honoured to address this distinguished audience, and to join you in celebrating the 30th anniversary of the establishment of SIBA. May I thank the Chairman and the Committee for this honour.

Global investment banking trends

In the 30 years since SIBA's predecessor body, the Merchant Bankers Association, was set up, the business of underwriting and trading has been dramatically transformed. The globalization of capital markets, driven by liberalisation and technological advances, has created a web of interconnected markets. This has facilitated innovation and sharpened competition. Financial transactions now transcend sovereign borders as well as traditional product lines. Investors have also become more sophisticated and demanding, and a new array of products has evolved to meet complex needs. This has led to significant growth, for example, of derivatives instruments to complement the cash markets, including within Asia.

Responding to these new challenges, investment banks have deepened capabilities, and many have also undergone significant consolidation, to achieve scale and depth. Beyond the traditional underwriting business, advisory and fees-related businesses have expanded. Investment banks also structure, market and trade in a full range of financial instruments - equities, fixed income, derivatives and hybrid instruments.

Recognizing these changes, SIBA enlarged its membership, and took on its current name in 2000 to reflect its role in representing a wider group of members. That was a very timely move.

Developments in Singapore's capital markets

In the last 3 decades, Singapore's capital markets have grown in tandem with the growth in the global markets. New listings have grown, and the Singapore Exchange has attracted many foreign companies. Foreign listings now account for more than a quarter of total listings, making SGX the most international among Asian exchanges. Our debt market has also grown, with outstanding corporate debt issuance rising from S\$23 billion in 1995 to S\$123 billion in 2004.

SIBA and its members have contributed to our success in developing our capital markets. The association has not only represented the interest of the investment banking community well; its initiatives have also facilitated the development of investment banking activities in Singapore. The professionalism and integrity of SIBA members in executing financial transactions have ensured that we maintain investor confidence in our markets.

Going forward, capital markets worldwide will continue to evolve and present new challenges. For Singapore's capital markets to capitalize on fresh opportunities, we must all, as regulators, as market participants and as an industry body, do our utmost to keep up with changes. I hope we can work in close partnership to break new grounds for the industry here.

I believe there are 3 fundamental factors that will enable our capital markets to stay ahead. Firstly, a high standard of industry practice, enabled by high industry standards, and a strong, responsive supervisory framework. Secondly, a strong pool of market participants with deep expertise. Thirdly, a good network among the players and regulators to promote collaboration and the introduction of new products; as well as to promote Singapore as the choice location for capital raising and trading. All these are to be done without of course undermining competition or investors' interests.

I believe SIBA can play key roles in each of these areas. Allow me to elaborate.

High standards to maintain confidence

A fundamental building block of a good capital market is trust and integrity. Investors must have confidence that the market is clean, transparent, and provides fair dealing for all participants. They demand a high standard of corporate governance, timely disclosures, and compliance with regulations.

Hence, MAS, as well as other relevant agencies like the Accounting and Corporate Regulatory Authority and the Singapore Exchange, have actively worked on various initiatives to enhance disclosure, strengthen market discipline and improve corporate governance of listed companies. These efforts included the Code of Corporate Governance, revisions to the SGX listing rules, as well as the introduction of the new civil penalty regime under the Securities and Futures Act that provides an alternative enforcement mechanism.

In September 2005, MAS released the Guidelines on Corporate Governance to provide guidance on the best practices for financial institutions on corporate governance. For banks, and direct life insurance companies above a certain size, requirements that MAS considers essential for sound corporate governance are now embedded in directives for compliance.

In response to the growing interest in Islamic finance, we also amended our regulations to facilitate the growth of specific segments of the market. These changes will enable financial institutions to use Singapore as a base to reach out to clients and investors beyond the region, especially in the Middle East.

Clear regulatory treatment and tax rules can help to catalyse the development of markets. The rapid development of Real Estate Investment Trust, or REITs, is a good example. Since the launch of the first REIT in July 2002, this segment has developed rapidly. Today, the total market capitalization of REITS is close to S\$12 billion, making Singapore the second largest REIT market in Asia, after Japan. Singapore is now a preferred location for property owners to structure their REITs.

To further strengthen our regulatory framework for REITs, so that this market segment can maintain its high reputation and grow in a sustained way, we have recently embarked on a consultation exercise to review the Property Fund Guidelines governing REITs. We expect to announce the results of our review soon, which will provide greater clarity on how we will be strengthening the REITs regime to promote better governance of REITS and further facilitate the growth of the industry.

As market players, SIBA members understand commercial realities and market practices well. SIBA therefore plays a very important role in complementing MAS to ensure that high standards and best practices are upheld in the market. I am therefore very glad that SIBA has taken this role seriously.

In Aug 2004, SIBA released the Due Diligence Guidelines, which set out the basic principles on due diligence to be performed by issuer managers for initial public offerings. The Guidelines raise the professional standards of issue managers, and help maintain investors' confidence in the quality of the issue. MAS endorses these Guidelines as a valuable guide to issue managers and underwriters on the level of due diligence expected of them as professional advisers and in meeting their obligations under the Securities and Futures Act and SGX listing manual.

MAS appreciates that SIBA is now currently working to release a Code of Best Practices on Debt Issuance. This Code will serve as guidance on debt issuance. I believe this will enable issue managers to discharge their mandates better, and to address potential concerns of investors. Such a code will be beneficial to issuers and issue managers, as well as to investors.

Developing deep expertise

The second key factor in developing our market is expertise. Investment banking is a knowledge-intensive, innovation-driven industry. A deep pool of highly trained and committed professionals is critical to enable the industry to thrive. The nurturing of these professionals should start from academic education, where knowledge and theories of investment banking could be imparted. This provides the foundation, to allow professionals to deepen knowledge and skills through on-the-job training and professional upgrading courses that focus on commercial issues and execution skills.

With the experience and expertise among its members, SIBA is well-positioned to spearhead efforts to develop the pool of investment banking professionals in Singapore. The association's collaboration with SMU in 2002 to introduce an executive course on fixed income markets serves as a good

foundation for future training initiatives. I understand that SIBA is also working on introducing a corporate finance course. SIBA's collaboration with the SMU, as well as its role in spearheading the FICS (Financial Industry Competency Standards) in corporate finance, will help the industry to develop expertise in this core area.

Promoting Singapore as a preferred location for capital raising, exploring and developing new growth areas

The third key ingredient in developing our capital markets is effective promotion and innovation. The continued development of Singapore's capital markets will significantly depend on industry practitioners, including SIBA members, taking an active interest in promoting Singapore as a preferred capital-raising location. Industry players like the SGX and our investment banks can undertake more promotional trips, to market the strengths of the Singapore markets.

I am therefore delighted to announce that the Singapore Exchange will be launching its Global Depository Receipt programme soon. This innovative new product would provide an alternative means through which foreign companies can access institutional funds from Singapore.

Similar to the American Depository Receipts or Global Depository Receipts offered in many other American or European exchanges, the Global Depository Receipts to be offered by SGX will allow foreign companies greater exposure in the Singapore market and provide them with a wider international shareholder base. It will help to boost the company's prestige in its local market, in being traded internationally, while also encouraging greater liquidity for the company's shares. We believe that this new product will provide investment bankers in Singapore with a wider range of solutions when advising companies keen on tapping Singapore's capital markets for fund raising.

MAS is also considering how best we can treat corporate bonds as regulatory liquid assets of banks. This is in response to market feedback from SIBA, and is expected to increase demand from banks in Singapore for corporate bonds. This will eventually attract more corporate debt issuance in Singapore and further the development of our debt markets. MAS will be consulting the industry on this initiative in due course.

To help generate further buzz in the Singapore market, SIBA can make use of its extensive network of experts to organize seminars and conferences to bring investors, bankers and other market practitioners to discuss new areas of interest and to gain wider understanding of the developments in the Singapore capital markets.

SIBA and its members can also help to identify investment instruments that will better service clients' needs, and facilitate the development of such instruments in Singapore. For instance, equity derivatives is a rapidly growing area, as it offers a more flexible alternative to investing in the underlying assets. This is especially attractive to institutional investors and hedge fund managers.

To this end, SIBA is establishing a task force to explore the potential of equities derivatives and structured products. I understand the task force will identify the range of derivative products that Singapore could focus on, study the competitiveness of Singapore as an equity derivative centre, and determine the infrastructure necessary to support the growth of this industry. I look forward to the active participation of SIBA members in helping to grow the product offerings available here.

Conclusion

Over the last 30 years, SIBA has made significant contributions to the development of Singapore's investment banking industry and capital markets. Going forward, it is vital for the association to remain relevant in the ever-changing market environment in order to ensure its continued success.

MAS is committed to working in partnership with SIBA, to develop Singapore's financial sector and to raise industry standards and best practices. We look forward to working closely with SIBA, and trust that SIBA will emerge as an even stronger industry champion of investment banking activities in Singapore in the years to come.

Thank you.