


 REGIONAL UPDATE
SINGAPORE
Loo & partners LLP
 俊昭法律事務所


MINIMUM ALLOCATION TO FACILITATE GREATER RETAIL PARTICIPATION IN INITIAL PUBLIC OFFERS



In February 2016, the Singapore Exchange (“**SGX**”) issued a Consultation Paper on Minimum Allocation to Facilitate Greater Retail Participation in IPOs (“**Consultation Paper**”). The Consultation Paper contained SGX’s proposal for a minimum 10% allocation of the total offer size to the public subscription tranche in all primary-listed Mainboard IPOs (“**Proposal**”).



The Proposal was grounded in two reasons. Firstly, earlier in October 2012, the SGX issued a Consultation Paper on Proposed Initiatives in relation to Offer Structure of Initial Public Offers, in which it proposed a minimum initial allocation of 5% of the shares offered under an IPO to the public subscription tranche. Feedback to this proposal was positive. Secondly, in addition to such positive feedback, the SGX found that over 90% of the IPOs during the period of 2010 to 2015 had applications in the public subscription tranches which were greater than 10% of the total offer size. These findings indicated retail demand from retail investors for IPO shares.

In relation to the Proposal, the SGX noted the concern that not all IPOs would be able to achieve application rates in the public subscription tranches of at least 10% of the total offer size. It thus laid out two ways of addressing the concern. The first way would be a reverse claw-back mechanism, pursuant to which shares unsubscribed under the public subscription tranche (due to a lack of demand in the public subscription tranche to take up the 10% initial allocation) may be transferred to the placement tranche. It was noted that such a mechanism is currently adopted in most IPOs. The second way would be a dollar cap on the value of shares allocated to the public subscription tranche. The SGX deemed this dollar cap particularly relevant for large IPOs where it is forecasted that public demand for allocated shares will fall below the 10% initial allocation. The SGX proposed a S\$100 million dollar cap, which represents 10% of an IPO with a total offer size of S\$1 billion. The above two ways will be adopted if the SGX implements the Proposal.

The SGX decided not to proceed with the implementation of a retail claw-back mechanism (to increase the number of shares allocated to the public subscription tranche when certain demand thresholds are crossed), after noting concerns that this mechanism would create uncertainty in the allocations in the placement tranche and thus increase underwriting risks.

The Proposal promises to foster greater participation in Singapore’s capital market.

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