

SPONSORED Q&A

An Asian 'super-bourse': Still a possibility?



Loo Choon Chiaw

Asian Legal Business (ALB): How did the SGX fare in terms of the listings it attracted last year?

Loo Choon Chiaw, Loo & Partners (LCC): 2010 was a harvest year for the SGX. It saw a five-fold leap in its IPO market capitalisation compared to 2009. An increase of SGD51 billion in comparison with SGD10.4 billion recorded in 2009. There were 39 new listings last year. 2009 only saw 29. A couple of the new listings were high-profile and attracted much publicity. They were the listings of: Tiger Airways (a home grown airline); STX OSV Holdings (a leading European offshore designer and shipbuilder); Sabana Shari'ah REIT (the world's largest Shari'ah compliant REIT); Global Logistics Properties (the world largest real estate IPO); Mewah International (one of the world's largest palm oil processors); Xinren Aluminium Holdings (a leading large scale integrated producer of primary aluminum products) and China Minzhong Food (a leading integrated

vegetable processor). Incidentally, 2010 also witnessed the secondary listings of Prudential Plc (an UK based Insurance giant) and the Golden Ocean Group (an international dry bulk shipping company), which collectively added another SGD29 billion to the total market capitalisation of the SGX. All in all, SGX's performance relating to the listings which it had attracted in 2010 was nothing less than stellar.

ALB: There have been a high volume of proposed regulatory changes surrounding and affecting the existing IPO framework of the SGX. Can you share with us some of these proposed changes?

LCC: The authorities have certainly kept themselves very busy since 2009. Let me highlight the key changes that have been installed for the IPO aspirants, the market players and the practitioners. The SGX has proposed significant changes to the listing rules for both its Main Board and Catalist, the sponsored-supervised board for fast growing companies, with a view to enhancing SGX's position as a preferred listing venue, broadening its investors' choice, deepening its resource sector and providing greater safeguards to the shareholders of the issuers. Under the revised Main Board admission criteria, a prospective issuer must have an operating track record of three years, be profitable in the latest financial year, and have a market capitalisation of SGD150 million based on the issue price and post-invitation issued share capital. Alternatively, it must have generated operating revenue in the latest financial year with a market capitalisation of not less than SGD300 million based on the issue price and post invitation issued share capital. The revised Main Board admission criteria will apply to IPOs and reverse takeovers (RTOs) alike. The SGX has further introduced a separate listing framework for its Main Board to cater for Special Purpose Acquisition Companies (SPACs) with appropriate safeguards. Under this framework, shell companies with no prior operating history will be able to raise capital through an IPO to enter into any future undetermined business combination, such as a merger, share exchange, asset acquisition, share purchase or reorganisation involving one or more operating businesses or assets. The IPO proceeds must be held in cash or cash equivalent short-term securities of at least A-2 rating until the completion

of a business combination that meets SGX's requirements. In addition to the usual quantitative criteria for listing, the proposed SPAC must have a minimum market capitalisation of SGD150 million based on its issue price and post-invitation issued share capital, and at least 25% of the SPAC's total number of issued shares must be held by not less than 300 public shareholders. The SGX has also revised the listing rules of Catalist to attract early stage mineral, oil and gas (MOG) companies. Under the relevant rules, any MOG company shall be eligible for listing on the Catalist if it has discovered deposits of mineral, oil or gas with reasonable prospects for economic extraction, as certified by an independent qualified technical expert in accordance with internationally recognised standards. At the point of its listing, the MOG company must demonstrate that it has a sufficient working capital for at least 18 months (as opposed to 12 months, which is applicable to other non-MOG Catalist companies) after listing on the Catalist. It must, after being successfully listed on the Catalist, provide quarterly reports on its use of funds, including its use of funds for the next immediate quarter, material information on exploration and extraction activities undertaken and an update on its reserves and resources. The sponsors of MOG companies listed on the Catalist must have access to appropriate technical expertise to discharge their duties and such experts must be independent from the sponsors. The new Catalist listing criteria for MOG companies have been effective since 1 February 2011.

ALB: The SGX-ASX merger had failed. Had the union been successful, would it have revolutionised the capital markets in Asia?

LCC: The failed SGX-ASX merger was representative of an international trend where exchanges find ways to integrate internationally, whether via mergers or the formation of alliances, for strategic and economic reasons. A successful merger or alliance of exchanges usually enables the combined entity to attain economies of scale and enhance their overall capabilities in the face of fierce competition from other exchanges. The combined SGX-ASX platform would have emerged as the second largest exchange in the Asia Pacific covering more than 2,700 listed companies based in over 20 countries, including household names like BHP and Rio Tinto. It would have created

Loo Choon Chiaw, founder and managing partner of Loo & Partners, argues that a regional 'super bourse' is still a possibility despite the failed ASX-SGX merger.

a much wider range of investing and trading opportunities and attracted both long-term and short-term investments into the region. The combined platform would also have diversified the product and customer bases of the two exchanges and create cross-access opportunities for investors and market players. Had the proposed merger been materialised, it might have been the catalyst for further mergers or alliances among the Asian exchanges, resulting in a better integration of the capital and investment markets in the Asia Pacific region.

ALB: Do you think a regional 'super-bourse' is still a possibility?

LCC: Certainly. I have already outlined the strategic and economic reasons for mergers and the formation of alliances among the exchanges when reviewing the failed SGX-ASX merger. A quick review of the mergers and alliances among the exchanges within the last decade will be illustrative of the rationale behind those mergers and alliances.

OMX (formerly known as NOREX, operates eight stock exchanges in the Nordic and Baltic region) was formed in 1998; Euronext (a cross-border European stock exchange originally created from the merger of the Amsterdam, Brussels and Paris stock exchanges) was formed in 2000; NYSE Euronext (a merger between New York Stock Exchange and Euronext) was formed in 2006; Nasdaq OMX, a merger between Nasdaq and OMX was formed in 2008. Recently, Deutsche Börse and a joint consortium of Nasdaq OMX and Atlantic-based ICE had respectively made a bid for NYSE Euronext. A super-bourse, the world's largest stock and future exchange, would indeed emerge should the bid by Deutsche Börse prove successful. Closer to home, it is heartening to note the initiative taken by the Asean Exchanges, (a collaboration of seven stock exchanges in ASEAN, namely, Bursa Malaysia, Hanoi Stock Exchange, Hochiminh Stock Exchange, Indonesia Stock Exchange, the Philippine Stock Exchange Inc, the Singapore Exchange and the Stock Exchange of Thailand), toward the creation of a common platform prior to the emergence of a regional 'super bourse'.

ALB: What common platform? Can you share some insights on this common platform?

LCC: On 8 April 2011, the Asean

Exchanges launched its official website, which now showcases the ASEAN Stars, namely a collection of 30 most exciting companies from each of the seven exchanges, ranked in terms of market capitalisation and liquidity. The website aims to provide international investors with an integrated single-window view into the ASEAN capital market, which has a combined capitalisation of about USD1.8 trillion and a participation of more than 3,000 companies listed on the Asean Exchanges. The initiative was certainly a step in the right direction. A win-win for all the seven exchanges. It also retained the absolute regulatory sovereignty of each of the seven exchanges. While the initiative taken by the Asian Exchanges was viewed by some as merely a baby step toward the creation of a regional super-bourse, we may take comfort in the words of Lao Tzu, an ancient Chinese sage, "the journey of a thousand miles begins with one step." 《老子：千里之行，始于足下》

ALB: As a leading boutique legal practice in the Region, what type of work have been keeping your firm busy this year?

LCC: The Singapore IPO market has been rather dull this year. To date there have only been 17 successful IPOs. We were honoured to have acted for the IPOs of Zhongmin Baihui Retail Group (the largest underground retail mall in Xiamen), Far East Group Limited (a comprehensive regional provider of refrigeration and air-conditioning refrigeration systems), and JK Tech Holdings (a leading one-stop provider of IT products, services and solutions). On the M & A front, we have been blessed with two notable instructions in addition to the run of the mill M&As. We are acting for Hsu Fu Chi (HFC), the leading manufacturer and distributor of confectionery products in the PRC, which is listed on the SGX-ST, in Nestle's acquisition of 60% interest in HFC amounting to approximately SGD2.1 billion. We are also acting for China Steel Corporation, the Taiwanese Steel Giant, in its acquisition of a strategic stake in a regional steel group amounting to USD 1 billion.

Our Energy and Natural Resource Practice colleagues have also been kept busy with several acquisitions (relating to coal mines and port facilities) in Indonesia, Inner Mongolia and the Sovgavan special economic zone of Russia.

ALB: Has your outlook for 2011 changed after the Euro Zone debt crisis and the downgrading of the sovereign debts of the United States?

LCC: The benchmark Straits Time Index (STI) has just fallen a sharp 62.91 points to 2821.09 points, its lowest in 13 months, even lower than its level in March this year, in the aftermath of the natural calamities that befell Sendai and the damage caused to the Fukushima nuclear power plant. My outlook for 2011 has definitely changed.

ALB: How would you react should the situation become worse?

LCC: I am acutely aware of the adverse change of business sentiments after S & P's downgrading of the US sovereign debts and that the global financial situation could become even worse than that prevailing during the 2008/2009 global financial crisis (GFC). How should I react? I have witnessed (and my firm has weathered through) the 1985 Singapore's financial crisis, the 1989 Asian financial crisis, the 2008/2009 GFC. My colleagues and I, as realists, shall face (and stare at), the next financial crisis, if and when it arrives, squarely in the eyes. Life must (and will) go on! It may be apt for me to end the interview with a quote from William Arthur Ward, "The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails."



Loo & partners LLP

俊昭法律事務所

Loo & Partners LLP
16 Gemmill Lane
Singapore 069254

Tel : (65) 6322-2288
Fax : (65) 6534-0833
Email : cloo@loopartners.com.sg
Website: www.loopartners.com.sg

Loo & Partners LLP (Registration No. LL0800566K), registered with liability in Singapore under the Limited Liability Partnerships Act (Chapter 163A), was converted from the firm "Loo & Partners" to a limited liability partnership with effect from 28 May 2008.