

30th September 2014

Primary Markets Conduct Division

Market Conduct Department

Monetary Authority of Singapore

10 Shenton Way

MAS Building

Singapore 079117

Submitted via email to: PartXIISFA_SFR_amendments@mas.gov.sg

Re: Consultation Paper No. P020-2014 – Consultation Paper on Facilitating Bond Offerings to Retail Investors

Dear Sir

CFA Society Singapore welcomes the opportunity to participate in this consultation paper on facilitating bond offerings to retail investors in Singapore. We commend the Monetary Authority of Singapore (“MAS”) and Singapore Exchange (“SGX”) for this initiative to both facilitate bond offerings to retail investors and improve retail access to debt securities.

We are pleased to share our comments below. All comments made are primarily from the perspective of representing investors’ interests.

Q1. MAS seeks views on the proposed scope of bonds under the proposals.

We agree with the proposed scope comprising plain vanilla unsubordinated bonds with maturity not exceeding 10 years be offered under the proposals for seasoning framework and exempt bond issuers. However, we would like to clarify if there is a restriction on the currency of denomination of the bonds to only Singapore-dollars or whether other currencies (e.g. US\$, RMB) are allowed. Also, for issuances of preference shares and convertible bonds to retail investors, we would like to clarify that the Offering Information Statement framework for SGX listed issuers is still applicable.

Q2. MAS seeks views on:

- (a) the proposed prospectus exemption for issuers who offer bonds by way of a re-tap under the Seasoning Framework set out in paragraphs 3.2 and 3.3.**
- (b) the proposed conditions to the prospectus exemption set out in paragraph 3.4.**

(c) the proposed form and content requirements of the PHS in respect of the re-tap under the Seasoning Framework set out in Annex A.

We would like MAS to clarify whether an issuer whose bonds meets the eligibility criteria would automatically be placed under the seasoning framework or whether the issuer has the option to elect for its bonds to be placed under the seasoning framework. We ask this because we are concerned that institutional and accredited investors who purchased these bonds at the primary issue stage, could “take advantage of” retail investors after the 6-month seasoning period by breaking up their holdings and selling it off in smaller denominations. If the issuer has the option to elect, must the issuer elect at the initial bond offer or can the issuer elect anytime within the 6-month seasoning period. [With reference to the SGX consultation paper, it is implied that it is not automatic and election is at onset.]

Under the seasoning framework, we agree to the eligibility criteria for the issuers to satisfy 3.1(a) Size Test; 3.1(b) Listing Test; and 3.1(c) Credit Test. In respect of 3.1(c) Credit Test, we would propose that 3.1(c)(i) (“has not recorded a net loss over the previous 5 years”) be a AND and not OR test i.e. it would be a criteria for all issuers to satisfy. However, the minimum threshold of listed or guaranteed bonds under 3.1(c)(iii) can be lowered from S\$750m to S\$500m. We believe that having a good track record of no net losses is a more important criteria than the amount of listed or guaranteed bonds issued in the market.

Accordingly, 3.1(c) Credit Test should read: has not recorded a net loss over the previous 5 years;
AND

- (i) Has a credit rating of BBB or higher, or the bonds to be offered is rated BBB or higher, where the rating is done by an international credit rating agency; OR
- (ii) Has listed, or guaranteed the issuance of, bonds listed on SGX of at least S\$500m (or its equivalent in foreign currency) over the previous 5 years.

We agree with paragraph 3.2 for issuers to re-tap seasoned bonds for distribution to retail investors anytime during the tenure of the bond with re-tap amount not exceeding 50% of the initial offer size of bonds to institutional and accredited investors.

We have no objections with paragraph 3.3 for retail bonds to be distributed to retail investors via automated teller machines and/or brokerage firms. To avoid confusion amongst retail investors of differing distribution channels for shares and bonds, we recommend that the distribution of retail bonds be similar to distribution of shares at initial public offering.

Under paragraph 3.4, we agree with conditions (a) that seasoned bonds and bonds offered to retail investors via a re-tap must be listed and traded on SGX; and (b) the aggregate amount of bonds offered through re-taps cannot exceed 50% of the initial size of bonds offered to institutional and accredited investors.

Under condition 3.4(c), however, we reckon that a product highlights sheet (PHS) which sets out the key features and risks of the bonds should be available to retail investors as long as the issuer elects for its bonds to be included under the seasoning framework and regardless of whether the issuer undertakes a re-tap. Should the issuer undertake a re-tap, a 1-page factsheet comprising the terms of the bonds, in particular, the yield to maturity should be provided.

Under condition 3.4(d), we agree that all offer documents given to accredited and institutional investors at time of offering, PHS and factsheet (if applicable in a re-tap) will have to be lodged with SGX and made available to investors on SGX's website.

In relation to the PHS template, we propose that MAS provide further guidance on how the complexity rating of the bonds should be depicted/explained assuming the proposals in the Consultation Paper on Proposals to Enhance Regulatory Safeguards for Investors in the Capital Markets are fully implemented.

Q3. MAS seeks views on:

- 1. the proposed prospectus exemption for issuers who satisfy the eligibility criteria set out in paragraph 4.3.**
- 2. the proposed conditions to the prospectus exemption set out in paragraph 4.4.**
- 3. The proposed form and content requirements of the SDD set out in Annex B.**

We believe that there is no compelling reason to set two different eligibility criteria for prospectus exemption for exempt bond issuers and bonds that qualify under the seasoning framework. Issuers with bonds that qualify for retail access under the seasoning framework should be able to offer the same bonds to retail investors at initial offer. The timing on when the retail investors access the bonds has no bearing on the quality of the bond. Notwithstanding, the seasoning period would be useful to ensure that the bond issued is not mispriced for its level of risk. One of the risks of issuing retail bonds is the difficulty of undertaking a book-building exercise to establish the yield of the retail bonds. The advantage of the seasoning framework is that it allows the bonds to be distributed to

institutional and accredited investors through a book-building process, and then traded for a 6-month timeframe to establish a fair price/yield based on market forces. Retail investors can then access the bonds after a 6-month seasoning period through the open market and where applicable, in a re-tap, where the issuer reopens existing bond issued to offer new retail bonds. Accordingly, we recommend that the eligibility criteria for both seasoning framework and bond exempt issuers be aligned. To qualify as an exempt bond issuer, the issuer must satisfy similar eligibility criteria under the seasoning framework comprising (a) Size Test; (b) Listing Test; and (c) Credit Test. The Credit Test will be defined as proposed in our response to Question 2:-

Has not recorded a net loss over the previous 5 years; AND

- (i) Has a credit rating of BBB or higher, or the bonds to be offered is rated BBB or higher, where the rating is done by an international credit rating agency; OR
- (ii) Has listed, or guaranteed the issuance of, bonds listed on SGX of at least S\$500m (or its equivalent in foreign currency) over the previous 5 years.

We agree to the conditions set out under paragraph 4.4(a) where the bonds offered must be listed and traded on SGX; 4.4(b) the exempted offer must comprise tranches to both institutional/accredited investors and retail investors; and 4.4(c) a simplified disclosure document (SDD), in lieu of prospectus to be given to institutional/accredited investors and retail investors.

In addition to condition 4.4(d) where retail investors are given PHS, we recommend that a 1-page factsheet setting out the terms of the bond, in particular, the yield to maturity be given. In relation to the PHS, we propose that MAS provide further guidance on how the complexity rating of the bonds should be depicted/explained assuming the proposals in the Consultation Paper on Proposals to Enhance Regulatory Safeguards for Investors in the Capital Markets are fully implemented.

Under condition 4.4(e), we agree that SDD, PHS and the 1-page factsheet must be lodged with SGX and made available to investors on SGX's website.

Other remarks

While we agree in principal with this move to ultimately improve retail investors' accessibility to bond offerings, we would caution on the timing of this due to the current low interest rate environment. With interest rates likely to head higher over the next several years, retail investors need

to be educated on the possibility of marked-to-market losses. As retail investors are also mostly not as familiar with investing in bonds, we suggest that various investor education initiatives be organized in the lead up to the launch.

Concluding remarks

CFA Society Singapore welcomes the proactive effort undertaken by MAS and SGX in seeking public consultation prior to rolling out the proposed regulatory changes. We are available to meet with MAS to discuss these comments in greater detail and certainly look forward to the day when retail investors are better able to diversify their portfolios with the addition of good quality bonds at low minimum investment sizes. Bonds are a key building block in a diversified asset allocation strategy and this proposal will hopefully lead to more bond offerings targeting retail investors, thereby filling a gap that currently exists in the Singapore market.

Please note that all feedback is made in our personal capacities as CFA Society Singapore members and do not necessarily represent the views of the organisations where we work.

Yours sincerely,

CFA Society Singapore Advocacy Committee

(Email: advocacy@cfasingapore.org)

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30th September 2014

Attention: Ms. Neo Hwee Kuan / Mr. Lim Qingyang

Singapore Exchange Limited

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#06-07 The Metropolis Tower 2

Singapore 138589

Submitted via email to: LM@sgx.com

Re: Public Consultation Paper – Initiatives to Improve Retail Access to Debt Securities

Dear Sir

CFA Society Singapore welcomes the opportunity to participate in this consultation paper on initiatives to improve retail access to debt securities in Singapore. We commend the Monetary Authority of Singapore (“MAS”) and Singapore Exchange (“SGX”) for this initiative to both facilitate bond offerings to retail investors and improve retail access to debt securities.

We are pleased to share our comments below. All comments made are primarily from the perspective of representing investors’ interests.

Proposal 1:

SGX seeks your views on:

- (i) The proposed issuer’s eligibility criteria for the Seasoning Framework, which will comprise:
 - a. the Size Test;**
 - b. the Listing Test; and**
 - c. the Credit Test.****

- (ii) The proposed application of the issuer’s eligibility criteria (a) at the time of its application for listing of the debt securities; (b) prior to trading of the seasoned issue on the Mainboard; and (c) at the time each re-tap is made available to retail investors.**

(i) Under the Seasoning Framework, we agree to the eligibility criteria for the issuers to satisfy (a) the Size Test; (b) the Listing Test; and (c) the Credit Test. In respect of (c) the Credit Test, we would

propose that paragraph 2.2(iii)(a) (“has not recorded a net loss over the previous 5 years”) be a AND and not OR test i.e. it would be a criteria for all issuers to satisfy. However, the minimum threshold of listed or guaranteed bonds under paragraph 2.2(iii)(c) can be lowered from S\$750m to S\$500m.

Accordingly, (c) Credit Test should read: has not recorded a net loss over the previous 5 years; AND

- (i) Has a credit rating of BBB or higher, or the bonds to be offered is rated BBB or higher, where the rating is done by an international credit rating agency; OR
- (ii) Has listed, or guaranteed the issuance of, bonds listed on SGX of at least S\$500m (or its equivalent in foreign currency) over the previous 5 years.

(ii) We agree that the issuer’s eligibility criteria test has to be applied (a) at the time of listing of the debt securities; (b) prior to the trading of the seasoned issuer on Mainboard; and (c) at the time each re-tap (if applicable) is made available to retail investors.

Proposal 2:

SGX seeks your views on:

- (i) **The imposition of a minimum issue size of S\$300million on debt securities that are to be seasoned;**
- (ii) **Restricting the Seasoning Framework to only plain vanilla debt securities;**
- (iii) **The proposal to allow re-tap to be carried out on an issue of seasoned debt securities and the imposition of a cap on the size of the re-tap issue to retail investors at 50% of the initial issue size; and**
- (iv) **The modes of distributing re-tap seasoned debt securities.**

(i) We agree to a minimum issue size of S\$300m on debt securities that are to be seasoned. A larger issue size would ensure wider distribution and deeper liquidity of the debt securities for retail participation. Notwithstanding, to ensure that there is sufficient liquidity for retail participation, we would recommend that the lead manager(s) who originated the bond at initial offer and/or re-tap remain as market makers for the issue at least for a period of 6-months after the seasoning period and/or re-tap.

(ii) We agree to restrict the Seasoning Framework to plain vanilla unsubordinated bonds with maturity not exceeding 10 years. However, we would like to clarify if there is a restriction on the currency of denomination of the bonds to only Singapore-dollars or whether other currencies (e.g. US\$, RMB) are allowed. For issuances of preference shares and convertible bonds to retail investors,

we would like to clarify that the Offering Information Statement framework for SGX listed issuers is still applicable.

(iii) We agree that issuers should be allowed to re-tap seasoned bonds for distribution to retail investors anytime during the tenure of the bond with an aggregate re-tap amount not exceeding 50% of the initial offer size of bonds to institutional and accredited investors.

(iv) To avoid confusion amongst retail investors of differing distribution channels for shares and bonds, we recommend that the distribution of retail bonds be similar to distribution of shares at initial public offering i.e. distribution will be via automated teller machines and/or brokerage firms.

Proposal 3

SGX seeks your views on:

- (i) The proposal for issuers to appoint a trustee that complies with the trustee and trust deed requirements in the Listing Rules for the issue of debt securities which it intends to season;**
- (ii) The proposal to make prominent disclosures of the issuer's intent to season the debt securities in the offer documents;**
- (iii) The proposal to publish calculated daily fair values for the seasoned debt securities as a price reference for investors for at least 6 months after listing;**
- (iv) The proposal to apply existing continuing listing obligations in Part VI, Chapter 3 of the Listing Rules to the debt securities; and**
- (v) The proposal to make a SGXNet announcement and to minimally provide a PHS when the issuer decides to conduct a re-tap on the seasoned debt securities.**

(i) No comment

(ii) We agree with the proposal to make prominent disclosure of the issuer's intent to season the debt securities in the offer document. However, we would like to seek clarification if the issuer would be allowed to elect to season the debt securities during the 6-month period. [This is with reference to the MAS consultation paper where it is unclear whether this is automatic – i.e. that any eligible bond automatically becomes accessible to retail investors, or whether this can happen only after the issuer has elected to do so anytime within the 6-month seasoning period.]

(iii) We agree with the proposal to publish calculated fair values for the seasoned debt securities as a price reference for investors for at least 6 months after listing. We also propose that SGX provide clarity on how fair value is computed.

We also would request that SGX provide clarity on how the seasoned bonds will be traded on the Mainboard of the SGX in terms of:-

- (a) price in \$ or % basis;
- (b) minimum increase or decrease to each ticker quote;
- (c) clean or dirty price quotation.

We would also propose that SGX provide investors with access to a yield calculator on the dedicated webpage on the SGX website for each seasoned bond issue. This concept is similar to that of a mortgage calculator where the retail investor is able to establish the yield of the bonds.

(iv) We agree with the proposal to apply existing continuing listing obligations in Part VI, Chapter 3 of the Listing Rules to the debt securities.

(v) We propose that the product highlights sheet (PHS) which sets out the key features and risks of the bonds should be available to retail investors as long as the issuer elects for its bonds to be included under the Seasoning Framework regardless of whether the issuer undertakes a re-tap. Should the issuer undertake a re-tap, a SGXNet announcement has to be made together with a 1-page factsheet comprising the terms of the bonds, in particular, the yield to maturity.

All offer documents given to accredited and institutional investors at time of offering, PHS and factsheet (if applicable in a re-tap) should have to be lodged with SGX and made available to investors on SGX's website.

In relation to the PHS and assuming the implementation of the tabulation on complexity rating of bonds under the MAS Consultation Paper on Proposals to Enhance Regulatory Safeguards for Investors in the Capital Markets, we propose that MAS and SGX provide further guidance on how the retail bonds should be depicted/explained in the PHS.

Other remarks

While we agree in principal with this move to ultimately improve retail investors' accessibility to bond offerings, we would caution on the timing of this due to the current low interest rate environment. With interest rates likely to head higher over the next several years, retail investors need

to be educated on the possibility of marked-to-market losses. As retail investors are also mostly not as familiar with investing in bonds, we suggest that various investor education initiatives be organized in the lead up to the launch.

Concluding remarks

CFA Society Singapore welcomes the proactive effort undertaken by MAS and SGX in seeking public consultation prior to rolling out the proposed regulatory changes. We are available to meet with MAS to discuss these comments in greater detail and certainly look forward to the day when retail investors are better able to diversify their portfolios with the addition of good quality bonds at low minimum investment sizes. Bonds are a key building block in a diversified asset allocation strategy and this proposal to provide retail access to debt securities fills the gap that currently exists in the Singapore market.

Please note that all feedback is made in our personal capacities as CFA Society Singapore members and do not necessarily represent the views of the organisations where we work.

Yours sincerely,

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