

SGX-ST Consultation on Proposed Removal of the Minimum Trading Price Framework

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Introduction

The Singapore Exchange Securities Trading Limited (SGX-ST) issued a consultation paper on 28 November 2019 to consult on the proposed removal of the minimum trading price framework (MTP Framework).

By way of background, the MTP Framework was first proposed in a joint public consultation by the Monetary Authority of Singapore (MAS) and the SGX-ST in 2014 as a continuing listing requirement for issuers on the Mainboard of the SGX-ST in order to address concerns that low-priced securities are more susceptible to excessive speculation and potential market manipulation. This was formally introduced in March 2015, and after some refinement in December 2016, the MTP Framework in its current form requires that where issuers on the Mainboard of the SGX-ST with a 6-month volume weighted average price (VWAP) below S\$0.20 will be placed on the MTP watch-list if their 6-month average daily market capitalisation is below S\$40 million. The underlying rationale was that SGX-ST considered such issuers to be more susceptible to excessive speculation and potential market manipulation.

Once an issuer was on the MTP watch-list for failing to meet MTP requirements, it would remain on the MTP watch-list for 36 months (i.e. a 36-month cure period) and it can only exit the MTP watch-list if it records a VWAP of at least S\$0.20 and an average daily market capitalisation of S\$40 million or more over the last 6 months (Exit Criteria). During this period, while trading in its securities would still carry on, the intention was to warn investors that such issuers on the MTP watch-list are in danger of excessive speculation and market manipulation. However if it fails to meet the Exit Criteria within the 36-month cure period, the SGX-ST may either remove the issuer from the Official List of issuers maintained by the SGX-ST, or suspend trading of the listed securities of the issuer (without the agreement of the issuer) with a view to removing the issuer from the Official List. As a result, companies which were in danger of falling afoul of the MTP Framework would often undertake either corporate actions such as share consolidation in a bid to ensure its trading price was above S\$0.20, or consider shifting its listing status to the Catalist board where it could engage a suitable Catalist sponsor.

Proposed Removal of the MTP Framework

In explaining its proposal, the SGX-ST emphasised that over the years, the SGX-ST had worked with its members in introducing a suite of other tools and approaches to continually address the risk of market manipulation. These initiatives include the introduction of a Member Surveillance Dashboard in 2016 to alert members to potential market misconduct relating to that member's trades, Trade Surveillance Handbooks published in 2016 and 2018 to improve understanding of improper market conduct and set guidelines as to how members can improve their internal surveillance programmes to detect and prevent market misconduct, as well as Trade with Caution alerts introduced in 2015, which were subsequently paired with trading restrictions introduced in 2019 if the SGX-ST reviewed that

suspicious trading activity from a trading account was continuing or recurring over a protracted period.

The SGX-ST observed that these were tools that were able to address market manipulation concerns in a more targeted and direct manner, whilst noting that the MTP Framework was “*a blunt regulatory tool in addressing the risks of manipulation*”. Specifically, the SGX-ST noted that amongst the 100 companies on the MTP watch-list, since June 2017, 92 companies, or 92%, have not been the subject of a TWC alert or referral to MAS for potential manipulation. Yet those companies will, by operation of the MTP Framework, be subject to delisting. Additionally, the SGX-ST noted the significant consequences of delisting on the issuer and shareholders (in particular minority shareholders) whilst also considering feedback from some issuers on the MTP watch-list of the challenges faced including the reduced ability to borrow from banks as well as difficulties in developing business relationships. Taking into account the entirety of the factors, the SGX-ST concluded with its considered belief that delisting all companies on the MTP watch-list is excessive and may be detrimental to investor interests.

With the consultation on the proposed removal of the MTP Framework, the SGX-ST highlighted the following transitional arrangements:

- a. not placing new entrants on the MTP watch-list until and unless it is determined that the MTP Framework should be retained in its current form, however companies currently on the MTP watch-list may continue to exit under the existing criteria at SGX’s half-yearly reviews;
- b. SGX-ST will continue to conduct its half-yearly reviews for considering whether companies on the MTP watch-list may exit the MTP watch-list; and
- c. for companies on the MTP watch-list, a moratorium will be placed on the 36-month cure period effective from 1 December 2019. The 36-month cure period will continue to run if and when it is determined that the MTP Framework should be retained in its current form.

Proposed Amendments relating to the Financial Watch-List

Separately from the MTP watch-list, under the current Listing Rules, issuers are placed on the financial watch-list (Financial Watch-list) if they record pre-tax losses for the past 3 consecutive financial years and have an average daily market capitalisation of less than S\$40 million over the last 6 months. Companies are allowed to apply to the SGX-ST to exit the Financial Watch-list if they have recorded a pre-tax profit for the most recently completed financial year and have an average daily market capitalisation of S\$40 million or more over the last 6 months.

In the same consultation paper, the SGX-ST took the opportunity to clarify its expectations in relation to companies applying to exit from the Financial Watch-list, as follows:

- a. the SGX-ST expects that companies must demonstrate an improvement in their fundamentals and financial performance in order to exit the Financial Watch-list, and where the pre-tax profit arises from exceptional transactions (such as one-off asset disposals) or changes to their accounting policies (e.g. writeback of provisions), the SGX-ST may not consider this to demonstrate actual improvement arising from the ordinary course of the company’s business, and may accordingly exercise its discretion to reject an application to exit the Financial Watch-list even if the company’s accounts reflect profitability; and
- b. the SGX-ST will not consider a company to have met the profitability test if its financial statements are subject to a disclaimer or adverse audit opinion, or if its auditors have highlighted a material uncertainty relating to going concern, as it considers that there may be insufficient basis for investors to make an informed decision that the financial statements present a true and fair view of the company’s profitability, and therefore these financial statements may not be relied upon for the purpose of exiting the Financial Watch-list. Where the financial statements are subject to a qualified opinion, the SGX-ST will continue to retain its discretion to determine if a

company should be allowed to exit from the Financial Watch-list, based on its assessment of the specific circumstances

In clarification of the above two points, the SGX-ST will amend its Listing Rules and relevant Practice Notes and also propose certain miscellaneous amendments to the Listing Rules relating to its review of the Financial Watch-list.

Conclusion

The consultation can be accessed here: All comments to the consultation paper are requested to be submitted by 27 December 2019.

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