

Public Consultation

Proposed reduction of standard board lot size from 1,000 to 100 units

19 Aug 2013

Responding to this Public Consultation

SGX invites comments on this Public Consultation between **19 August 2013** and **6 September 2013** via:

Electronic mail: rules@sgx.com
Facsimile: (65) 6534 2207
Mail: Singapore Exchange Limited
2 Shenton Way
#19-00 SGX Centre 1
Singapore 068804
(Attention: Mr Chua Tat Hsien)

Comments should be organized in the following manner:

- cover page;
- statement of interest
- table of contents;
- summary of major points;
- comments; and
- conclusion.

Supporting material may be placed in an annex. All submissions should be clearly and concisely written, and should provide a reasoned explanation for any proposed revision to the rules. Where feasible, participants should identify the specific rule on which they are commenting. In any case in which a participant chooses to suggest revisions to the text of the rules, the participant should state clearly the specific changes to the text that they are proposing.

All submissions should be made on or before **6 September 2013**. Participants submitting comments should include their personal/company particulars as well as their correspondence address, contact numbers and email addresses on the cover page of their submissions.

Respondents to this Public Consultation are asked to identify the specific proposal or rule that they are commenting on. The Exchange reserves the right to make public all or parts of any written submission and to disclose the identity of the source. Participants may request confidential treatment for any part of the submission that the participant believes to be proprietary, confidential or commercially sensitive. Any such information should be clearly marked and placed in a separate annex. If the Exchange grants confidential treatment, it will consider the comments but will not publicly disclose the information. If the Exchange rejects the request for confidential treatment, it will return the information to the party that submitted it and will not consider the information as part of its review. In the interests of market transparency, participants should limit any request for confidential treatment of information submitted. The Exchange will not accept any submission that requests confidential treatment of all, or a substantial part, of the submission.

This Public Consultation is available for download from the SGX's website at www.sgx.com

Contents

1. Scope of public consultation	1
2. Proposal to reduce standard board lot size	1
3. Key benefits of a smaller standard board lot size	2
4. Impact of smaller board lot sizes on orders in the market	4
5. Potential increase in administrative costs to issuers.....	4
6. Review of Mainboard and Catalist Listing Rules	5
Appendix 1: List of counters currently trading with board lot sizes of less than 100 as at 19 August 2013.....	7
Appendix 2: Proposed amendments to Mainboard Listing Rules and Catalist Listing Rules.....	8

1. Scope of public consultation

- 1.1. The Singapore Exchange Limited (“**SGX**”) seeks public comment on our proposal to reduce the standard board lot size of securities listed on the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) from 1,000 to 100 units and on proposed consequential amendments to the SGX Mainboard and Catalist Listing Rules.

2. Proposal to reduce standard board lot size

- 2.1. Trading on SGX-ST is currently conducted in standard board lots of 1,000 units, save for the Unit Share Market which caters for the trading of odd lots with a minimum size of one share¹ and maximum size of 999 shares, and for particular individual counters. Given the current standard board lot size, investments in large companies with high-priced shares (commonly referred to as “blue-chips”) may be prohibitively expensive for many retail investors. The market is dependent on issuers and their shareholders to make a deliberate decision to split its shares into, or request for the trading of its shares in, affordable lot sizes.
- 2.2. To cater to the needs of individual investors and bring blue-chips within reach of the general public, SGX proposes to reduce the standard board lot size from 1,000 to 100 units, with a view to reducing the standard board lot size to 1 in the longer term. Such a phased approach will allow for post-implementation assessment of market impact before unitising the standard board lot. Reducing the standard board lot size on the SGX-ST market will also be a move towards closer alignment with global practices adopted by other developed markets.²
- 2.3. The proposed standardised standard board lot size of 100 units will apply to:
- (a) company shares (excluding preference shares) with a board lot size of more than 100;
 - (b) real estate investment trusts (“**REITS**”);
 - (c) business trusts;
 - (d) company warrants;
 - (e) structured warrants;

¹ The Unit Share Market was introduced to cater for investors who desire to trade in smaller parcels of shares and those with odd lot holdings arising from corporate actions. Following the proposed reduction of the board lot size to 100, SGX intends to retain the Unit Share Market to cater for trades of sizes smaller than the new board lot size of 100.

² Other developed exchanges have a unit share market or a board lot size of 100 units, including the New York Stock Exchange, NASDAQ-OMX, Deutsche Börse, London Stock Exchange and Australian Stock Exchange. Other exchanges, such as the Tokyo Stock Exchange and Hong Kong Exchange, let listed companies set their own board lot sizes, which can start from as small as one unit.

- (f) Extended Settlement Contracts; and
 - (g) shares on Globalquote.³
- 2.4. The standardised board lot size of 100 units is not intended to apply to existing shares which are currently trading in board lots of under 100. This is to minimise the potential impact on shareholders who may be holding shares in “odd” sizes that do not make up to multiples of 100 shares. A list of the counters that are currently trading in non-standard board lot sizes of under 100 is set out in **Appendix 1**.
- 2.5. The reduction of board lot size to 100 units will not apply to exchange traded funds,⁴ American Depository Receipts and fixed income instruments (including Singapore Government Securities, bonds and preference shares).

3. Key benefits of a smaller standard board lot size

- 3.1. It is expected that the proposed reduction in standard board lot size will bring about the following key benefits:
- (a) offer greater accessibility to equity investments to the general population;
 - (b) enhance risk management for investors; and
 - (c) improve market liquidity and price discovery.

Greater accessibility to equity investments

- 3.2. The reduction of standard board lot sizes is likely to benefit the public by making a large spectrum of equity investments, including blue chips, more accessible to a wider proportion of the general population.
- 3.3. The price of certain types of equity investments, such as blue chips, may be prohibitively expensive for some retail investors given the current standard board lot size of 1,000 units.⁵ The ability to purchase such equity investments in smaller quantities would help to place them within the means of more retail investors and encourage the participation of investors who wish to grow their savings through investing in equities. The increased accessibility to all types of equity investments would also enable existing retail investors to build more balanced portfolios.

³ As at 12 August 2013, the following shares are quoted on Globalquote: AVJennings A\$, Genting HK US\$, OGL Resources A\$ and TCIL 3k HK\$.

⁴ SGX intends to reduce the board lot size of SPDR STI ETF and ABF SG Bond Fund to 100 units. However, the board lot size for ETFs will continue to be determined jointly between the issuer and SGX, taking into consideration the minimum investment amount.

⁵ As at 12 August 2013, 12 out of 30 components of the Straits Times Index have a minimum investment amount of above \$5,000.

Enhance risk management for investors

- 3.4. The smaller standard board lot size will give both institutional and retail investors greater control and convenience in managing their investments, as a reduced standard board lot size allows them greater precision in the positions they take.
- 3.5. Retail investors with smaller investment funds would be able to diversify their portfolios more effectively by taking on smaller positions in a larger number of different shares. This would help to alleviate the concentration risk (that is, the risk of exposing a large proportion of their investable funds into only a small number of counters) for retail investors.
- 3.6. In addition, the smaller standard board lot size would also allow fund managers and private wealth managers to carry out finer asset allocation in the funds they manage. This would further enhance Singapore's standing as a fund management and private wealth management centre. More sophisticated investors would be better equipped to control their risk exposures by engaging in finer hedging against corresponding futures and options positions. Investors wanting to liquidate their investments would be able to easily sell off the precise number of shares necessary to meet their investment needs.

Improve market liquidity and price discovery

- 3.7. The reduction in the standard board lot size is also expected to increase trading volumes and enhance market liquidity. The increase in investor participation due to reduced barriers to trading is anticipated to lead to increased trading turnover and increased liquidity in the market. Further, a more liquid market is generally characterized by narrower bid-ask spreads, which contribute to lower trading costs for investors.
- 3.8. A more liquid market, as a consequence of the reduced standard board lot size, is likely to be more responsive to information.
- 3.9. First, the increase in liquidity is expected to encourage more active investor participation in the market. In this regard, we believe that an increase in investor participation in a securities market would cause information to be reflected in price movements more quickly.
- 3.10. Second, the higher the liquidity of the security, the lower the liquidity premium⁶ would be. These factors are expected to lead to more efficient price discovery and hence a more transparent and responsive market.
- 3.11. The above market improvements would serve to position Singapore as a prime capital market and listing venue of choice and help reduce costs of capital for issuers.

⁶ Illiquidity can negatively affect a security's value because investors naturally require compensation for lower liquidity (or what can be called a **liquidity premium**).

4. Impact of smaller board lot sizes on orders in the market

- 4.1. Smaller board lot sizes will allow investors the choice to place smaller orders in the market, including for high priced counters. This flexibility is beneficial to investors, although consequently, it may potentially lead to higher incidences of partially-filled orders. Investors should consider the impact of transaction costs on small order sizes and/or partially-filled orders. Such considerations are not new to investors, given that small order sizes and partially-filled orders currently already exist in the market (for e.g. for low-priced shares) and are not novel to the market. Further, the expected increase in liquidity following the reduction of the standard board lot size may help reduce incidences of partially-filled orders.

Question:

- (A) Do you support the proposed reduction of standard board lot size from 1,000 to 100 units? Please provide reasons for your views.
- (B) Do you consider potential fills to be a significant concern? Please provide reasons for your views.

5. Potential increase in administrative costs to issuers

- 5.1. SGX recognises that a reduction of the standard board lot size may potentially result in a larger number of shareholders for a listed company, particularly in the case of companies with higher-priced shares. This may in turn have an impact on administrative costs to issuers, for example, arising from the distribution of annual reports and circulars, processing of corporate actions and/or the holding of Annual General Meetings. SGX believes that such impact on costs would be limited.
- 5.2. We believe that for smaller companies with low share prices, the reduction in standard board lot size would not materially increase the number of their shareholders as their share prices are already low to begin with. The potential increase in administrative costs for smaller companies is therefore not expected to be significant. For larger companies with high share prices, the potential increase in administrative cost is expected to be manageable considering the scale of their business, as well as the associated benefit to marginal compared to the size of their business.
- 5.3. Further, electronic dissemination of notices and documents to shareholders may help to address the potential increase in administrative costs. Currently, a Singapore-incorporated company is permitted to use website publication as a medium for the giving of notices and sending of documents to shareholders, provided that the company and each shareholder have “agreed in writing” that such notices of meetings and documents may instead be

accessed by the shareholder on a website (amongst other conditions).⁷ In addition, we note that the Steering Committee for Review of the Companies Act has proposed changes to the Companies Act (Chapter 50 of Singapore) which will allow listed companies greater flexibility in determining the mode of electronic transmission of corporate notices and documents to their shareholders.⁸ It is anticipated that the proposed changes, if implemented, will facilitate the use electronic transmission for notices and documents to shareholders, especially for listed companies that have an extensive and dynamic shareholder base.

Question:

- (C) Do you consider that the proposed reduction of the board lot size is beneficial to the market, taking into account the potential impact on administrative cost to issuers and possible avenues for managing such cost? Please provide reasons for your views.

6. Review of Mainboard and Catalist Listing Rules

Implications on minimum shareholding spread requirements and distribution guidelines at IPO and minimum float requirements after listing

- 6.1. With the reduction in the standard board lot size to 100 units, a review of the Mainboard and Catalist Listing Rules was carried out to determine if the existing requirements on minimum initial shareholding spread requirements and distribution guidelines at initial public offer (“**IPO**”) and minimum float requirements after listing are still appropriate and whether amendments are necessary. Following the review, SGX is of the view that such requirements continue to be appropriate as preventive measures against concentration of shares, disorderly trading and market manipulation, hence we do not propose to change these requirements.

Proposed amendments to Mainboard and Catalist Listing Rules

- 6.2. For greater clarity and transparency, we propose to make minor amendments to the Mainboard and Catalist Listing Rules to introduce a new category to the distribution schedule of each class of equity securities which must be contained in the annual report, to track holders who hold less than 100 units of the security.

- 6.3. The following consequential amendments are proposed to the Mainboard Listing Rules:

⁷ See sections 387A(2)(a) and 387B(2)(a) of the Companies Act (Chapter 50 of Singapore).

⁸ See the Public Consultation on the Draft Companies (Amendment) Bill 2013, available at the website of the Accounting and Corporate Regulatory Authority at the following url:
<<http://www.acra.gov.sg/Publications/Public+Consultation+on+draft+Companies+%28Amendment%29+Bill+2013.htm>>

- (a) Rule 1207: An amendment is proposed to the distribution schedule of each class of equity securities under Rule 1207(9)(b)⁹ to introduce a category to track shareholders who hold less than 100 shares, given the reduction of standard board lot size from 1000 to 100 shares; and
 - (b) Rule 508: Currently, the minimum board lot size for structured warrants based on listed or quoted securities must be the same as the minimum board lot size of the underlying listed or quoted securities. For structured warrants based on stock indices and baskets of securities, the board lot size must be 1,000 warrants per board lot. Given the adoption of the standard board lot size, it is no longer necessary to stipulate the board lot size for the different categories of structured warrants. The requirements are therefore removed.
- 6.4. Similar amendments in relation to disclosure in the annual report are also proposed to the Catalist Listing Rules.
- 6.5. The specific rule amendments are set out in **Appendix 2**.

Question:

(D) SGX seeks your views and comments on the proposed amendments to the Mainboard and Catalist Listing Rules.

Please provide reasons for your views/comments.

⁹ Rule 1207 of the Mainboard Listing Rules provide for the information required to be contained in an annual report, including without limitation a distribution schedule of each class of equity securities other than share options, setting out the number of holders in various categories of security holding interests under Rule 1207(9)(b).

Appendix 1: List of counters currently trading with board lot sizes of less than 100 as at 19 August 2013

Primary Listings

Counter	Board Lot Size (Shares)
Singtel10 ¹⁰	10
Creative50	50

Secondary Listings

Counter	Board Lot Size (Shares)
Lonza10	10

Counters with a board lot size of less than 100 units will remain status quo after the reduction of board lot size of the mother share to 100, given the potential impact on the shareholders who currently trade in board lot sizes of less than 100 units.

¹⁰ This is in addition to the trading of SingTel shares in board lots of 100 and 1,000 units.

Appendix 2: Proposed amendments to Mainboard Listing Rules and Catalyst Listing Rules

Existing Rule	Proposed Rule
<p>Mainboard Rules</p> <p>Rule 508</p> <p>The following rules apply to all categories of structured warrants:</p> <p>...</p> <p>Board Lot Size</p> <p>(2) The minimum board lot size for structured warrants based on listed or quoted securities must follow the board lot size in which such securities are traded. For example, if the board lot size of the underlying share is 200 shares per board lot, the warrant must also be issued in board lots of 200 warrants.</p> <p>(3) For structured warrants based on stock indices and baskets of securities, the board lot size must be 1000 warrants per board lot.</p>	<p>(2) [Deleted]</p> <p>(3) [Deleted]</p>

Existing Rule	Proposed Rule
<p>Issue Price</p> <p>(4) The minimum issue price for structured warrants must be S\$0.20 per warrant. The minimum contract value for each board lot must be S\$200.</p> <p>...</p>	<p>(4) The minimum issue price for structured warrants must be S\$0.20 per warrant. The minimum contract value for each board lot must be S\$200.</p>
<p>Rule 1207</p> <p>The annual report must contain enough information for a proper understanding of the performance and financial conditions of the issuer and its principal subsidiaries, including at least the following:-</p> <p>(9) A statement (made up to a date not more than 1 month before the date of the notice of the annual general meeting or summary financial statement, whichever is earlier) indicating the date of such statement and setting out:-</p> <p>(a) the number of holders of each class of equity securities and the voting rights attaching to each class;</p>	

Existing Rule	Proposed Rule																											
<p>(b) a distribution schedule of each class of equity securities (including convertible securities) other than share options referred to in Rule 1207(16), setting out the number of holders in the following categories:-</p> <table border="0" data-bbox="184 656 751 862"> <tr> <td>1</td> <td>-</td> <td>999</td> </tr> <tr> <td>1,000</td> <td>-</td> <td>10,000</td> </tr> <tr> <td>10,001</td> <td>-</td> <td>1,000,000</td> </tr> <tr> <td>1,000,001</td> <td>and</td> <td>above</td> </tr> </table> <p>(c) the names of the substantial shareholders and a breakdown of their direct and deemed interests as shown in the company's Register of Substantial Shareholders. For deemed interests, the issuer must disclose how such interests are held or derived;</p> <p>(d) for each class of equity securities, the names of the 20 largest holders and the number held; and</p> <p>(e) the percentage of shareholding held in the hands of public and confirmation that Rule 723 is complied with.</p>	1	-	999	1,000	-	10,000	10,001	-	1,000,000	1,000,001	and	above	<p>(b) a distribution schedule of each class of equity securities (including convertible securities) other than share options referred to in Rule 1207(16), setting out the number of holders in the following categories:-</p> <table border="1" data-bbox="999 643 1539 938"> <tr> <td>1</td> <td>-</td> <td><u>999 99</u></td> </tr> <tr> <td><u>100</u></td> <td>-</td> <td><u>1,000</u></td> </tr> <tr> <td><u>1,000 1,001</u></td> <td>-</td> <td>10,000</td> </tr> <tr> <td>10,001</td> <td>-</td> <td>1,000,000</td> </tr> <tr> <td>10,000,001</td> <td>and</td> <td>above</td> </tr> </table>	1	-	<u>999 99</u>	<u>100</u>	-	<u>1,000</u>	<u>1,000 1,001</u>	-	10,000	10,001	-	1,000,000	10,000,001	and	above
1	-	999																										
1,000	-	10,000																										
10,001	-	1,000,000																										
1,000,001	and	above																										
1	-	<u>999 99</u>																										
<u>100</u>	-	<u>1,000</u>																										
<u>1,000 1,001</u>	-	10,000																										
10,001	-	1,000,000																										
10,000,001	and	above																										

Existing Rule	Proposed Rule
<p>(f) the number of treasury shares held and the percentage of such holding against the total number of issued shares excluding treasury shares.</p>	
<p>Catalist Rules</p> <p>Rule 1204</p> <p>The annual report must contain enough information for a proper understanding of the performance and financial conditions of the issuer and its principal subsidiaries, including at least the following:-</p> <p>(9) A statement (made up to a date not more than 1 month before the date of the notice of the annual general meeting or summary financial statement, whichever is earlier) indicating the date of such statement and setting out:-</p> <p>(a) the number of holders of each class of equity securities and the voting rights attaching to each class;</p>	

Existing Rule	Proposed Rule																											
<p>(b) a distribution schedule of each class of equity securities (including convertible securities) other than share options referred to in Rule 1204(15), setting out the number of holders in the following categories:-</p> <table border="0" data-bbox="184 711 751 917"> <tr> <td>1</td> <td>-</td> <td>999</td> </tr> <tr> <td>1,000</td> <td>-</td> <td>10,000</td> </tr> <tr> <td>10,001</td> <td>-</td> <td>1,000,000</td> </tr> <tr> <td>1,000,0001</td> <td>and</td> <td>above</td> </tr> </table> <p>(c) the names of the substantial shareholders and a breakdown of their direct and deemed interests as shown in the company's Register of Substantial Shareholders. For deemed interests, the issuer must disclose how such interests are held or derived;</p> <p>(d) for each class of equity securities, the names of the 20 largest holders and the number held; and</p>	1	-	999	1,000	-	10,000	10,001	-	1,000,000	1,000,0001	and	above	<p>(b) a distribution schedule of each class of equity securities (including convertible securities) other than share options referred to in Rule 1204(15), setting out the number of holders in the following categories:-</p> <table border="1" data-bbox="999 613 1537 911"> <tr> <td>1</td> <td>-</td> <td>999 <u>99</u></td> </tr> <tr> <td><u>100</u></td> <td>=</td> <td><u>1,000</u></td> </tr> <tr> <td>1,000 <u>1,001</u></td> <td>-</td> <td>10,000</td> </tr> <tr> <td>10,001</td> <td>-</td> <td>1,000,000</td> </tr> <tr> <td>10,000,001</td> <td>and</td> <td>above</td> </tr> </table>	1	-	999 <u>99</u>	<u>100</u>	=	<u>1,000</u>	1,000 <u>1,001</u>	-	10,000	10,001	-	1,000,000	10,000,001	and	above
1	-	999																										
1,000	-	10,000																										
10,001	-	1,000,000																										
1,000,0001	and	above																										
1	-	999 <u>99</u>																										
<u>100</u>	=	<u>1,000</u>																										
1,000 <u>1,001</u>	-	10,000																										
10,001	-	1,000,000																										
10,000,001	and	above																										

Existing Rule	Proposed Rule
<p>(e) the percentage of shareholding held in the hands of public and confirmation that Rule 723 is complied with.</p> <p>(f) the number of treasury shares held and the percentage of such holding against the total number of issued shares excluding treasury shares.</p>	





Singapore Exchange • London • Tokyo • Beijing

2 Shenton Way, #19-00 SGX Centre 1, Singapore 068804

Main: (65) 6236 8888 Fax: (65) 6557 2651