

SPEECH BY DIRECTOR CAD, MR. TAN SIONG THYE AT THE CAD SEMINAR ON “SECURITIES TRADING: AVOIDING PITFALLS”, 9AM AT THE AUDITORIUM, POLICE CANTONMENT COMPLEX

Good morning ladies and gentlemen.

The Commercial Affairs Department (CAD) warmly welcomes you to today’s seminar on “Securities Trading: Avoiding Pitfalls”.

Theme

1. The theme of today’s seminar revolves around how our market players can do their part to safeguard the integrity and reputation of Singapore’s capital market.

Integrity

2. Integrity is the foundation of any sound market. Once this is shaken or compromised we will be in danger of losing our competitive advantage. A market that has high growth means prosperity for all that partake in the market. Thus we must work together to ensure that our capital market has long term sustainable growth. Given that Singapore’s financial market has witnessed tremendous growth, especially over the last few months, we should consider in depth

what we can do to avoid the pitfalls that may lead to disruptions in our market place.

Financial Services

3. The financial services industry in Singapore has witnessed unprecedented growth domestically and internationally. In the local context, it constitutes an impressive 11% of Singapore's current gross domestic product and provides employment to 5% of our local workforce¹. The World Economic Forum Global Competitiveness Report 2006-2007 ranked Singapore fifth most sophisticated financial markets in the world with the financial markets forming a key part of the score². Over the years Singapore has established itself as an international financial centre.

4. According to the World Bank and International Monetary Fund, the robustness of a financial market is not evaluated solely based on profits and returns; it encompasses other non-monetary considerations such as the stability of the market and its adherence

¹ Source: "Statistics Singapore"
<http://singstat.gov.sg>

² Source: "World Economic Forum – World Economic Forum Global Competitiveness Report 2006–2007"
<http://www.weforum.org/en/initiatives/gcp>

to the various standards and codes of conducts³. Thus it is imperative that the financial services industry is built on the foundations of integrity, transparency and accountability for sustained growth. Indeed, investors value capital markets that are sound, stable and able to protect their interests⁴. In this respect, Singapore has performed well. Based on a survey conducted by the World Bank, our market is ranked second out of 175 countries in terms of investor protection⁵. We must therefore continue to safeguard the virtues of our capital market and ensure that the market forces are not compromised or exploited unlawfully by any unscrupulous person or entity.

Qualities of a sound capital market

5. I would like to reiterate that it is important to maintain a sound and equitable capital market to attract investors. To achieve this goal the relevant stakeholders in the industry must be law-abiding and observe good governance. Secondly the legal infrastructure for the securities industry must be adequate and robust to maintain order

³ Source: “The IMF/World Bank Financial Sector Assessment Program”
<http://www.imf.org/external/np/vc/2001/022301.htm>

⁴ R. La Porta, F Lopez-de-Silanes, A. Shleifer, and R Vishny, “Investor Protection and Corporate Governance” (2000) 58 *Journal of Financial Economics* 3.

⁵ Source: “Doing Business – The World Bank Group”
<http://www.doingbusiness.org>

and fairness. Thirdly, it is pertinent to leverage on modern technology to advance the industry in every aspect.

6. I will now briefly elaborate on each of these factors. It is essential for all stake holders to discharge their duties with professionalism and propriety to ensure that our capital market emerges as the preferred choice of the investors. The authorities cannot be the sole guardians of the capital market. It is every body's duty to safeguard the market. All the relevant industry players have an important role in ensuring the integrity of the market place.
7. The legal framework for the securities industry has constantly been revised to keep up with the times. This is due to the dynamic environment within which financial markets operate. A major legislative reform was the enactment of the Securities and Futures Act in 2001, which consolidated the relevant provisions of different legislations such as the Securities Industry Act, Futures Trading Act and the Companies Act into one statute. This has streamlined our legal infrastructure and made it more robust and user friendly.
8. Technological developments have changed almost every facet of our business environment. Buzz words such as e-commerce, e-

transactions, e-communication, etc are now the evolving trends. The securities industry is no exception and we have seen an increasing use of internet trading. On the regulatory side, technological advances have also made it possible for enhancement to the market oversight processes.

Frontline market players

9. We recognize the importance of the frontline market players such as the brokerage houses, trading representatives and in-house compliance staff. They interact directly in the daily operations of our capital market. Thus, the success of our capital market also depends largely on these frontline players. Regulations and rules help to steer and guide the attitude and behaviour of these stake holders through the imposition and enforcement of guidelines and standards of conduct. The Monetary Authority of Singapore (MAS) requires individuals to hold a representative's license before they can legally carry out their responsibilities as a trading representative. The representative's license requires the trading representatives to be "fit and proper" in their conduct. As you will hear from MAS shortly, the "fit and proper" criterion extends beyond competence and capability. "Fit and proper" also include qualities such as honesty and integrity. The Singapore Exchange (SGX) has further reinforced these

qualities by issuing guidelines which forbid trading representatives from participating or assisting in market misconduct.

10. Having guidelines and standards are important as they help to create a systemic framework that clearly defines the boundaries of acceptable behaviour. However the existence of regulations alone is never enough to convince investors on our commitment to build a sound and stable market place. The most direct and evident way to demonstrate our commitment is to practice good governance. Industry players must adhere to the guidelines and standards in both their form and spirit. The law should never be the maximum ethical standard; rather it should be the minimum.⁶

11. Compliance with the prescribed standards and guidelines would not only benefit the overall market but also impact you directly. With the intense competition for businesses by the various global financial markets, investors now have more choices in deciding which markets to invest in. Serious investors are unlikely to trade in markets that do not operate according to the rules and where unethical players have an unfair edge over the other investors. Hence in order for you to attract and retain your clients, it is

⁶ Marianne M. Jennings (2000) "Professional Responsibilities, Ethics and the Law." in Ethical Issues for Today's Firm, AIMR.

important that you demonstrate only the highest standards of integrity and professionalism.

Consequences of non-compliance

12. Non-compliance with the rules and regulations would not only result in legal consequences for the errant trading representatives but also taint the reputation of the securities firm. Customers are likely to shun away from securities firms that are associated with market misconduct. Securities firms with bad reputation would eventually lose their competitive edge as they are unable to attract customers.

13. In 2004, more than half of the total securities related offences prosecuted by CAD and MAS involved trading representatives. In 2005, there was a significant decrease to 7%. In 2006, the proportion of securities related offences involving trading representatives rebounded to 20%. These figures serve as a reminder that while the majority of our trading representatives have executed their responsibilities in a “fit and proper” manner, there are still a few black-sheep that have chosen to misconduct themselves in the capital market. We have also noticed that there are some who were dancing by the edge of the law. It is a matter of time that these people will end up on the wrong side of the law. MAS and CAD will

not hesitate to take enforcement action against anyone who breaks the laws.

New arsenal against market misconduct

14. The introduction of the civil penalty regime for market misconduct has strengthened the arsenal of the law enforcers in dealing with market misconduct offenders. The civil penalty regime was introduced to complement the criminal penalties. It is easier to make out a case of market misconduct under the civil penalty regime as the burden of proof is lower than the criminal regime. The standard of proof in the civil penalty regime is that of a civil standard ie on a balance of probabilities, while the criminal standard is that of a beyond reasonable doubt. The availability of both criminal and civil sanctions greatly enhances the enforcement agencies' effectiveness against market misconduct. I note also that since 2000, criminal penalties for market misconduct offences have been enhanced – the maximum fine for individuals stands at S\$250,000, previously it was \$50,000, while that for corporations stands at S\$500,000, previously it was \$100,000. As such offences are serious in nature, there is also a possible imprisonment term up to a maximum of 7 years.

15. The laws governing insider trading have also been amended to deal with insider trading offenders more effectively. Prior to the enactment of the Securities and Futures Act, the court in the case of PP v Ng Chee Kheong [1999] 4 SLR 56 held that the prosecution had to prove that the accused had the intention to use the price sensitive information. After the introduction of section 220 of the Securities and Futures Act, the ruling in PP v Ng Chee Kheong is no longer applicable. This provision clearly states that it is no longer necessary to establish that the accused intends to use the price sensitive information. This and other amendments have indeed made it easier to prosecute insider trading. Therefore those people who think that they can easily get away scot-free with insider trading should seriously re-think. A conviction will bring along many adverse consequences to the offender. There will be a criminal record, career may be destroyed overnight, social stigma to the offender and his loved ones will be ostracized by friends and society, face difficulty in seeking re-employment resulting in untold financial difficulties, may even result in breaking up of family. These consequences will be accentuated many folds if the insider trading misconduct is so serious that it warrants a custodial sentence. Therefore it is simply not worth it. The best advice is don't even think about it.

Technology

16. Technology has been the catalyst of many changes that have occurred in our financial market. For instance, technological development has led to the disappearance of share scrips and the open outcry trading that were once synonymous with the stock market. Technological advancement has also enabled market traders to conduct their transactions through the Internet. Technology therefore has made trading in the equity market more efficacious.

17. At the same time modern technology enables law enforcers to watch over the e-market place. SGX has been using an effective electronic monitoring system known as SMARTS to monitor the market for unusual and irregular transactions. Thus this system enables the exchange to pick up suspicious securities market behavior in real time. This will enable the authorities to identify any market misconduct in the shortest possible time. We understand that it is now common for many exchanges around the world to use technology in their surveillance systems to watch over the market to safeguard its integrity.

Conclusion

18. A thriving financial services industry not only requires our capital market to be competitively attractive but also be on a level playing field with uncompromising integrity. As pointed out by Peter Cortello, the treasurer of the Commonwealth of Australia, confidence is something hard won, but easily lost⁷. In order to safeguard the reputation of our financial market, the industry players must remain committed in adhering to the highest standards of conduct and not participate in market misconduct. It is only through the concerted effort of the various market stake holders that we can continue to develop a sound and efficient market place. In this light, we would like to urge you to discharge your responsibilities with professionalism and integrity.

19. Please enjoy the Seminar. We will endeavour to answer all your queries to the best of our abilities.

20. Thank you.

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⁷ Source: “Address to the 25th Annual Conference of the International Organisation of Securities Commissions”

<http://www.treasurer.gov.au/tsr/content/speeches/2000/002.asp>