

9 November 2010

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

Dear Sir,

RE: Singapore Exchange consults public on continuous all-day trading

I believe continuous all-day trading is not necessary in the Singapore market, or most other Asian stock markets in general as the benefits are not necessarily more than the disadvantages that come with it.

Unlike in US, brokerage firms play a key role in the eco-system here. In US, unless you pay top money for a full service broker, you would probably end up using a discount broker, which do not have a trading representative tied to the account. The reason why this can happen is because risk management can be calculated and computerised.

This is largely due to the difference in evolution of equities trading and trading account management. In Singapore, contra trading is common. Deposits by clients, if any, tend to be around 20% to 50% of the trading limit, as opposed to 100% in most US brokers. Thus, trading representatives play a very important role as risk managers as they are usually the ones who underwrite the credit risk of the clients.

Business in general tends to be conducted very differently in Asia as compared to the Western countries. In Asia, people tend to cultivate a more informal relationship while pursuing a business relationship. It is because of that you hear the common phrase 'guan xi'. This is no different in Singapore. While trading and execution is a significant part of the job, trading representatives spend a large amount of time meeting up with clients over meals and having casual chats.

Besides meeting clients, trading representatives also have to juggle with attending analyst briefings, luncheon presentations, or simply just catching up with the latest news. For a trading representative who is committed to providing quality service, one would be reluctant

to leave his trading desk during market hours. As such, most of such activities happen when the market is closed, such as before market, during lunch hour, or after market. For established brokers, some of them would hire trading assistants, so that they can devote more time to increasing their value to their clients.

Comparing this to a shop analogy, the longer the shop stays open, the more potential business it can generate. The main concern then would be the overheads expenses. In terms of the stock market, the overheads are placed on 3 parties, SGX, the brokerage houses and the individual trading representative. SGX and the brokerage houses would need to increase personnel cost in order to hire additional staff to handle the extra hours that the 'shop' is open. The trading representative would probably have to form groups or even hire trading assistants. This is not ideal, as the trading representative would still need to find additional time outside of 'opening hours' to meet up with their clients.

An interesting statistic to look at is the Turnover Velocity, which is taken as the shares turnover in a time period, divided by the total market capitalisation of the market. This is an annualised figure, which basically means how heavily traded the stock market is.

Comparing with the various exchanges, SGX seem to be doing poorly, even given the longer trading hours than some of its counterparts in the region.

| Market | Open | Close | Lunch time | Hours open | Turnover Velocity | Market Cap (in \$B) |
|------------------|-------|-------|---------------|------------|-------------------|---------------------|
| SGX (Singapore) | 09.00 | 17.00 | 12.30 – 14.00 | 6.5 | 46.1% | 481 |
| HKSE (HongKong) | 10.00 | 16.00 | 12.30 – 14.30 | 4 | 66.9% | 2,305 |
| SSE (China) | 09.30 | 15.00 | 11.30 – 13.00 | 4 | 207.3% | 2,704 |
| TSE (Japan) | 08.00 | 14.00 | 10.00 – 11.30 | 4.5 | 119.2% | 3,306 |
| KSE (S. Korea) | 08.00 | 14.00 | NIL | 6 | 149.0% | 834 |
| Taiwan (Taiwan) | 09.00 | 13.30 | NIL | 4.5 | 168.1% | 657 |
| ASX (Australia) | 07.00 | 13.00 | NIL | 6 | 73.8% | 1,261 |
| LSE (London) | 15.00 | 00.30 | NIL | 9.5 | 68.0% | 2,796 |
| Deutsche(German) | 16.00 | 04.00 | NIL | 12 | 98.8% | 1,292 |
| NYSE (USA) | 21.30 | 04.00 | NIL | 6.5 | 120% | 11,837 |
| NASDAQ (USA) | 19.00 | 08.00 | NIL | 13 | 716% | 3,239 |

Table 1 – Table of market hours of various exchanges as of 2009

One of the main points brought up in the public consultation is that 'international issuers

contribute more than 40% of SGX's market capitalisation on its securities market.' As of 31st Jan 2010, we have 461 domestic listings, 160 foreign listings (excluding China listings), and 153 China listings. I applaud SGX in its ability to attract numerous foreign companies to list in Singapore, especially since most large exchanges such as Tokyo Stock Exchange, Australian Stock Exchange, and Shanghai Stock Exchange still consists of largely domestic stocks. I would however caution that perhaps quality is more important than quantity.

One measure that intrigues me is market broadness. In a typical trading day, Genting SP can contribute up to 25-30% of the entire's market trading volume. In the recent days, the new IPOs have been dominating the market volume. For example, 28th October 2010's total market volume is 678.9M (as per SGX's website), and the new IPO, Xinren, contributes to 353M of that. In a more established market, market broadness is necessary to attract funds.

In my discussions with some proprietary traders, they mentioned they prefer to trade the Australian market, or even the Japan markets. Some of the reasons they gave is the market broadness as mentioned above, cost of trading (with respect to force key costs and wholesale clearing costs), as well as lack of tools (2nd level market depth). The existence of lunch breaks is not one of the reasons given for not trading the Singapore market.

One of the biggest beneficiaries of continuous all-day trading would be hedge funds running arbitrage systems or high-frequency trading systems. This may increase overall equity trade volume in the market and increased amounts of derivative trading. However, I don't think this will benefit the industry as a whole. Recently there was a large drop in the NYSE, and this was attributed to algorithmic trading. Shortly after, it was shown that 70% of the volume on NYSE is attributed to computer-automated trading¹. Is it really useful to the marketplace as a whole for computers to trade against each other?

What this would do is to widen the information gap, where fast computers will be able to react faster than humans, and thus individual investors without access to such systems will be left at a disadvantage.

I would suggest SGX look to improve their systems first. Perhaps having more transparent market information such as 2nd level market depth, lower cost of trading with regards to clearing fee and force key fee, or even a removal of 10bids limitation. Eventually, you need to provide more value to the marketplace in order to generate more profits.

¹<http://arstechnica.com/tech-policy/news/2009/08/nyse-builds-computer-trading-mothership-worries-about.ars>

If SGX is still keen in having continuous all-day trading, might I suggest having it on the GlobalQuote board first. If market volume does increase and it does attract more players, SGX can consider further implementing it on the other boards. In the US, not all exchanges/boards have pre-market and post market trading. This would be similar.

SGX is losing it's key objective to 'ensure that the exchange creates value for its participants and shareholders.' In the end, SGX must know what they want to be. They cannot fight against all fronts using the same tool. Competing against other domestic markets, international markets, derivative driven markets, and dark pools all require different toolsets.

An exchange that is open for one of the longest hours to match the other exchanges does not make it the market leader. In fact, it becomes a market follower, a place for secondary listings rather than the choice venue for primary listings.

I believe the incremental benefits of eliminating lunch breaks is lesser than the incremental disadvantages incurred by the industry as a whole. Additional labour costs, change of business model, with only an unproven potential benefit. The Seoul Stock Exchange abolished its lunchtime interruption in May 2000, and "there has been no significant rise" in the value of shares changing hands there².

As reported on 25 Oct 2010, Tokyo Stock Exchange has decided not to eliminate its 11.00 to 12.30 trading break. I suppose they realise people do need to eat after all.

Thank you.

Yours faithfully,
Fergus Tan
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PS: This letter reflects the opinion of the author only and do not represent the views of anybody else or any other association or corporation.

Encl: Announcement: Singapore Exchange consults public on continuous all-day trading
Share Turnover Velocity in 2009, Source, World Federation of Exchange members
2<http://www.yomiuri.co.jp/dy/business/T100727005071.htm>

| Equity - 1.8 Turnover velocity of domestic shares | | |
|---|------------------------------------|------------------------------------|
| | | |
| | | |
| Exchange | Year-end 2009 Turnover velocity | Year-end 2008 Turnover velocity |
| Americas | | |
| Bermuda SE | 1.3% | 4.3% |
| BM&FBOVESPA | 65.0% | 64.2% |
| Buenos Aires SE | 3.6% | 3.0% |
| Colombia SE | 22.5% | 17.8% |
| Lima SE | 8.8% | 5.3% |
| Mexican Exchange | 26.3% | 23.9% |
| NASDAQ OMX | 716.4% | 1143.5% |
| NYSE Euronext (US) | 120.0% | 192.7% |
| Santiago SE | 21.1% | 23.4% |
| TSX Group | 76.8% | 105.4% |
| Asia - Pacific | | |
| Australian SE | 73.8% | 93.0% |
| Bombay SE | 19.4% | 30.9% |
| Bursa Malaysia | 23.9% | 20.3% |
| Colombo SE | 26.3% | 3.3% |
| Hong Kong Exchanges | 66.9% | 77.7% |
| Indonesia SE | 32.7% | 38.9% |
| Jasdaq | 44.6% | 32.9% |
| Korea Exchange | 149.0% | 261.2% |
| National Stock Exchange India | 61.5% | 87.5% |
| New Zealand Exchange | 44.6% | 29.9% |
| Osaka SE | 79.8% | 106.8% |
| Philippine SE | 19.2% | 32.0% |
| Shanghai SE | 207.3% | 193.2% |
| Shenzhen SE | 408.2% | 382.3% |
| Singapore Exchange | 46.1% | 48.9% |
| Taiwan SE Corp. | 168.1% | 141.7% |
| Thailand SE | 62.5% | 83.7% |
| Tokyo SE Group | 119.2% | 128.5% |
| Europe - Africa - Middle East | | |
| Amman SE | 34.8% | 23.5% |
| Athens Exchange | 65.3% | 46.1% |
| BME Spanish Exchanges | 132.2% | 143.8% |
| Borsa Italiana | 93.7% | 92.7% |
| Budapest SE | 64.0% | 95.7% |
| Cyprus SE | 10.4% | 10.8% |
| Deutsche Börse | 98.8% | 239.1% |
| Egyptian Exchange | 73.9% | 37.4% |
| Irish SE | 42.0% | 64.6% |
| Istanbul SE | 165.6% | 110.9% |
| Johannesburg SE | 40.4% | 46.9% |
| Ljubljana SE | 5.6% | 17.7% |
| London SE | 68.0% | 98.7% |
| Luxembourg SE | 0.2% | 1.2% |
| Malta SE | 1.1% | 0.5% |
| Mauritius SE | 7.4% | 7.0% |
| MICEX | 64.1% | 126.3% |
| NASDAQ OMX Nordic Exchange | 71.7% | 97.7% |
| NYSE Euronext (Europe) | 68.1% | 107.5% |
| Oslo Børs | 87.5% | 105.4% |
| Saudi Stock Market - Tadawul | 105.7% | 212.3% |
| SIX Swiss Exchange | 61.5% | 81.1% |
| Tehran SE | 7.6% | 19.3% |
| Tel Aviv SE | 66.0% | 73.6% |
| Warsaw SE | 43.0% | 42.3% |
| Wiener Börse | 39.3% | 42.5% |

Note : Turnover velocity ratios have been calculated with monthly moving averages