Dear Richard,

First of all, thank you for your previous email. We applaud SGX for your opinion seeking approach.

Here are our findings after looking at the following jurisdictions:

1) Bursa Malaysia funds its own operations. They have 3 similar committees, namely Listing, Market Participants and Appeals Committees; refer to the link below http://www.bursamalaysia.com/corporate/about-us/corporate-governance/membership-of-board-committees/. Bursa functions as the first line of defense while the Security Commission (SC) plays the oversight role.

2) For Hong Kong Exchange (HKE), the relevant committees are Disciplinary, Disciplinary Appeals, Listing, Listing Appeals and Listing Nominating Committees; refer to the link below https://www.hkex.com.hk/eng/exchange/org/comsubsid.htm. We have spoken to the Securities and Futures Commission (SFC) and the response was that external committee members typically function on a voluntary basis. HKE however, does provide the secretarial services and administrative support for these committees. In addition, SFC collects levies from the exchange fees collected by HKE. All fines go directly to the Treasury of HK SAR Government.

3) In the case of Australia after 2010, the Australian Securities and Investment Commission (ASIC) is the sole agency responsible for monitoring the conduct of participants on the exchange leaving the Australian Securities Exchange (ASX) free to conduct its commercial affairs. ASIC has a markets disciplinary panel but it is unclear how it deals with the fines collected.

After several rounds of opinion seeking, we have come out with the following conclusions:

1) We agree with SGX that any in-house funding would constitute, or at the very minimum, result in the perception of a conflict of interest. Hence, this should be avoided.

2) We are more in favour of utilizing Hong Kong’s SFC model where a token levy is collected at the exchange fees level. The rationale being that the three committees were set up to safeguard the interest of the investing masses, which naturally means they should pay for it.

3) Fines are collected from convicted cases of misbehaviour. If historical records were to hold, the amount collected each year is irregular and unpredictable. As such, we question the practicability of using fines to fund the various committees on a long term basis.

4) On the other hand, using the fines on investor education has an embedded self-balancing mechanism. During years where more misbehaving activities take place, more fines are naturally collected and coincide with the time period where investors at large would most probably yearn for more education.

5) Another reason why we prefer the Hong Kong SFC levy system is that it will free up the fines to be deployed to restore the grievances suffered by direct victims during instances of market manipulation or insider trading. For recent example this, kindly refer to the following blog article written by Dr Tony Tan at http://blogs.cfainstitute.org/marketintegrity/2013/12/17/turning-tide-hong-kong-court-order-forces-insider-trader-to-pay-victims/.

6) We assume that the various committees will operate on a minimum cost basis where members either come on board on a voluntary basis or receive token sum for their effort. This should go a long way towards minimising any perceived conflict of interest. Given the social prestige of being a committee member on SGX, it should not be difficult to get senior practitioners to come on board.

Yours sincerely,

Daryl Liew, CFA and Alan Lok, CFA
Chair, Advocacy Committee Director of Capital Markets Policy
CFA Society Singapore CFA Institute