SGX-ST REVIEWS TOOLS USED TO DEAL WITH MARKET MANIPULATION RISK

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On 28 November 2019, the Singapore Exchange Securities Trading Limited ("**SGX-ST**") issued a consultation paper titled "*Review of the Tools Used to Deal with Market Manipulation Risk*" ("**Consultation Paper**") pursuant to which it, *inter alia,* proposed that the current minimum trading price ("**MTP**") framework be removed, and invited public feedback on the same. It also took the opportunity to set out its expectations in relation to companies applying to exit from the financial watch-list.

Proposed Removal of the Minimum Trading Price Framework

Current MTP Framework

The current MTP framework was introduced in March 2015 and applies to companies listed on the Mainboard of the SGX-ST. The MTP framework was formulated with the aim of reducing the risk of market manipulation.

Under the existing MTP framework, companies with a 6-month volume weighted average price ("**VWAP**") of less than S$0.20 and a 6-month average market daily capitalisation of less than S$40 million are deemed to be susceptible to market manipulation. These companies are placed on the MTP watch-list, which can be accessed by the public via the SGX-ST website.

A company on the MTP watch-list is expected to take active steps to meet the exit criteria to exit the watch-list, namely, achieving a 6-month VWAP of at least S$0.20 and a 6-month average market daily capitalisation of S$40 million or more. Whilst on the watch-list, trading in the company's securities will continue as per normal. However, the SGX-ST may delist a company that has been on the MTP watch-list for more than 3 years, or suspend trading in its shares with a view to delisting it.

Review and Proposed Removal

The SGX-ST has reviewed the existing MTP framework and made the following observations in its Consultation Paper:

- since the introduction of the MTP framework, the SGX-ST has developed other tools to manage market manipulation risks in a more direct and targeted manner;
- companies on the MTP watch-list face operational challenges, including difficulties borrowing from banks and developing business relationships;
- most companies in the MTP watch-list have not been shown to be susceptible to market manipulation; and
- delisting companies which have been on the MTP watch-list for more than 3 years may be detrimental to shareholders' interests.

In view of the above, the SGX-ST expressed the view that the MTP framework should be abolished, and proposed changes to the listing rules to effect the same. The proposed changes are set out in the appendix to the Consultation Paper. The public was invited to give comments by 27 December 2019.

Transitional Arrangements

Pending the proposed removal of the MTP framework, the following transitional arrangements shall apply:

- no new entrants would be placed on the MTP watch-list, although companies currently on the MTP watch-list may continue to exit upon meeting the exit criteria at the half-yearly reviews conducted by the SGX-ST; and
- from 1 December 2019, a moratorium will be placed on the 3-year cure period, till further notice by the SGX-ST.

Clarifications on the Exit Criteria for the Financial Watch-list

Financial Watch-list

Currently, the SGX-ST will place a company on the financial watch-list if it records pre-tax losses for the past 3 consecutive financial years and has an average daily market capitalisation of less than S$40 million over the last 6 months. It may apply to be removed from the financial watch-list if it records a pre-tax profit for the most recently completed financial year and achieves an average daily market capitalisation of S$40 million or more over the last 6 months.

Exit Criteria

The SGX-ST clarified that an issuer must demonstrate an improvement in its fundamentals and financial performance in order to exit the financial watch-list. Specially, it clarified that it may exercise its discretion to reject an application to exit the financial watch-list even if a company's accounts reflect profitability in the following scenarios:

- where the profitability was achieved due to non-recurrent income, exceptional transactions, items generated by activities outside the ordinary course of business, or by making changes to accounting policies; or
- where the financial statements are subject to a qualified opinion, a disclaimer or an adverse audit opinion, or if the company's auditors have highlighted a material uncertainty relating to going concern

The above considerations have been included in the proposed amendments to the relevant SGX-ST practice note. The SGX-ST will also be proposing certain miscellaneous amendments relating to its review of the financial watch-list, including changing the frequency of reviews from quarterly to half-yearly. The proposed amendments are set out in the appendix to the Consultation Paper.