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KEYNOTE ADDRESS BY DR RICHARD HU, MINISTER FOR FINANCE, AT THE SEMINAR ON SINGAPORE'S FINANCIAL MARKETS IN HONG KONG AT THE ISLAND SHANGRI-LA HOTEL ON TUESDAY, 29 OCT 96 AT 9.15 AM

Introduction

It is my pleasure to address you at this Seminar jointly organised by Singapore banks, the Stock Exchange of Singapore ("SES") and the Singapore International Monetary Exchange ("SIMEX").

Hong Kong and Singapore have much in common in terms of economic and financial development. We are both densely populated urban economies without natural resources other than strategic locations. We have similar legal and administrative systems inherited from the British, and use English as the language for international commerce.

There are strong economic links between Hong Kong and Singapore. Singapore is Hong Kong's fifth largest trading partner while Hong Kong is Singapore's fourth. Hong Kong businesses have substantial investments in Singapore and likewise, Singaporeans have significant investments in Hong Kong. Both Hong Kong and Singapore are international financial centres and there are substantial financial flows between the two centres.

As business and financial centres within the same time zone, there are many areas where Hong Kong and Singapore complement each other as well as areas where we compete with each other. The competition is, however, healthy and promotes efficiency and motivates each other to do better. There is no question of one centre replacing the other entirely. Hong Kong serves primarily China and the Northeast Asian market and Singapore mainly serves Southeast Asia. There are many interlinkages between Hong Kong and Singapore. Neither Hong Kong nor Singapore would have achieved so much without the other.

In this new Asian era where the East Asian economy is leading the world in economic growth, Hong Kong and Singapore will continue to play pivotal roles. Hong Kong's role may take on a new dimension after June 1997. Given the size and growth potential of the East Asian economy and the huge financing required to sustain its development, there will be sufficient business for both centres.

Singapore's role in financing Asia's economic growth and development will be two-fold:-

a) Firstly, Singapore offers investors a stable political, social and economic environment, supported by a sound and well regulated financial system. Our strategic location, excellent telecommunications system, and well-developed legal and accounting systems also make us an attractive conduit for capital flowing into the region.

b) Secondly, Singapore can serve as a gateway through which regional investors and businesses could access the global financial and capital markets to raise funds. We can do this by building on the existing strengths which we possess in the Asian dollar market and foreign

exchange and derivative markets to facilitate East Asian businesses and projects to raise funds and manage their financial risks.

Allow me to elaborate on some of the key features of Singapore's financial markets and how they can be relevant to financial institutions and businesses in Hong Kong.

Asian Dollar Market

Since the mid-1960s, the Singapore Government has been taking steps to develop Singapore as a financial centre to serve the financial needs not only of Singapore, but of the region. As early as 1968, the Government introduced the Asian dollar market, which is a foreign currency banking market in the major international currencies such as US dollar, Deutschemark and Yen. There are now 219 international banks in Singapore from almost 40 countries operating in the Asian dollar market with combined assets of about US$500 billion.

The Asian dollar market began as an interbank money market but has become more sophisticated over the years and now offers a wide array of financial products and services in international and regional currencies for investment and risk management activities by international financial institutions and investors.

Singapore also has a growing loan syndication market from which an increasing number of regional borrowers are raising funds to finance their business expansion. Last year, more than US$8 billion was syndicated by financial institutions in Singapore for Asian borrowers outside Singapore.

Foreign Exchange Market

Singapore has an active foreign exchange market, ranked fourth in the world after London, New York and Tokyo according to a survey by the Bank for International Settlements ("BIS") in 1995. The total volume of foreign exchange transacted in Singapore is now almost US$140 billion a day. The BIS survey also ranked Singapore as the fourth largest centre in the world in the trading of derivatives.

Singapore's foreign exchange market is the most international and diversified in the region, and is supported by a pool of experienced dealers and treasury managers. Other than transactions in Yen, Singapore is the largest centre in the Asian time zone for the trading of all other major international currencies.

Financial Futures

Singapore's active foreign exchange market is complemented by a large and well-developed financial futures market. SIMEX was the first futures exchange to establish a mutual-offset link with the Chicago Mercantile Exchange ("CME") to facilitate round-the-clock trading of financial futures contracts in a cost-efficient manner. The speed at which SIMEX has developed was due in no small part to this innovative link with the CME. Today, the Eurodollar is still the most actively traded contract on SIMEX, accounting for 38 per cent of the Exchange's average daily turnover. The arrangement has worked so well that in March 1996, the two exchanges extended the link to include the Euroyen futures contract. This development underscores the confidence market participants have in SIMEX's system and its linkage with CME. Since the extension of the mutual offset agreement to the Euroyen contract, trading in the contract has expanded from 25,000 contracts a day in 1995 to more than 30,000 contracts presently.

SIMEX also has a similar arrangement with London's International Petroleum Exchange ("IPE") in the trading of oil futures.

SIMEX will continue to expand its range of products in order to better meet investors' risk management needs. It will also upgrade its trading system to maintain its competitive edge as a major financial futures exchange in Asia where international investors can manage their interest rate, foreign exchange and equity risks in an efficient manner.

Finance and Treasury Centre

Owing to the active foreign exchange and derivative markets in Singapore, a growing number of multinational companies are using Singapore as a base to manage their treasury and funding needs in the region. Presently, almost 30 multinational companies with substantial operations in the region have set up regional finance and treasury centres in Singapore for this purpose. By centralising their finance and treasury activities in Singapore, they have benefited from economies of scale, improved efficiency and access to our well developed financial markets. I believe that as you increase your operations in the region, it would be worthwhile for you to explore the possibility of establishing such finance and treasury centres in Singapore to better manage your group's financial needs and risks. One of the speakers of this seminar will explain in greater detail the attractions of Singapore as a finance and treasury centre.

CAPITAL MARKETS

Stock Market

The stock market in Singapore is one of the most developed in Asia with a unique feature that many regional companies are listed on our Exchange.

In addition to its traditional role of trading the shares of Singapore and Malaysian companies, an increasing number of large regional companies find it attractive to seek a listing on the SES.

The SES' strategy is to position itself as a gateway into Asia for international investors who are seeking to participate in the economic growth of the region under a regulatory environment which meets international standards. Foreign investors can invest in regional stocks listed on the SES to achieve the desired regional exposure while enjoying the safety and efficiency accorded by the regulatory, trading, clearing and settlement systems of the SES. A listing on Singapore's stock exchange is perceived by the investment community as a stamp of good quality, allowing companies to raise funds at attractive price to earning multiples.

Early this year, the SES introduced a Foreign Board to facilitate infrastructure companies as well as young and promising non-infrastructure foreign companies with short track records but demonstrable profit potential to raise equity funds directly from the stock market. So far, two companies have been listed on the Foreign Board. More are expected to follow suit.

To date, besides trading the shares of 397 Singapore and Malaysian companies, the shares of 40 foreign companies with total market capitalisation of US$100 billion are traded on the Exchange, accounting for about 10 per cent of the Exchange's turnover.

The SES is continually reviewing its product range and trading infrastructure to enhance its effectiveness as a marketplace. In this regard, the SES has announced the following new initiatives last week:

a) Singapore Regional Index

To provide investors and fund managers with a meaningful benchmark to measure the performance of their investment portfolios in regional stocks listed on the SES, the Exchange has introduced a regional stock index comprising shares of foreign and Singapore companies which are listed on the Exchange and which have substantial regional operations. The index serves as a proxy for investment in the regional markets. SIMEX, our financial futures exchange, will conduct a feasibility study on whether this regional stock index meets the criteria for futures trading.

b) Securities Borrowing and Lending

To ensure greater transparency and to reduce settlement risk, the SES will be launching a formal securities borrowing and lending facility, via its computer terminals, where information on the demand and supply for securities lending and borrowing is disseminated to market participants. The new facility will allow fund managers to manage and hedge their investment portfolios more actively and efficiently.

c) Delivery Versus Payment

With the increasing speed and volume in international securities trading, the SES has sought to constantly improve its clearing and settlement system to reduce settlement risks and transaction costs, and retain its competitive edge. In this regard, the SES will be introducing a system which will settle share transactions on a delivery versus payment or "DVP" basis.

The system will allow cash and shares in the securities depository accounts at the SES to move simultaneously, thereby minimising credit and market risks to fund managers and investors in the settlement of their share transactions on the SES. Cash flows of both investors and SES member companies will improve and lead to lower transaction costs.

In conjunction with the efforts of the SES to develop Singapore as a regional capital market and in line with the Monetary Authority of Singapore's ("MAS") policy to allow the gradual internationalisation of the Singapore dollar, foreign companies with substantial operations in Singapore may now apply to convert or list their shares in Singapore dollar. This is provided the company has located its senior management, regional headquarter and treasury centre in Singapore and have at least two years' operating track record in Singapore.

Those companies which have listed their shares on the SES and meet the criteria for a Singapore dollar listing will also be permitted to issue Singapore dollar bonds under suitable conditions where the majority of the proceeds raised is used for their Singapore operations.

Debt Market

The World Bank has estimated that bond issues in Asia could grow to US$1 trillion by the end of 2004. It is this huge potential that has led Singapore to develop itself as a regional market for the issue of foreign currency debt securities. Major international investment banks and securities companies are represented in Singapore. They bring with them the expertise and distribution capacity, reaching into the Euro and US markets. More sophisticated fund raising methods that have become popular in the international markets have made

their way to Singapore. Reflecting the growing size of the Singapore market, issue sizes have also increased. Issues of up to US$300 million are now common and can be easily absorbed by the market.

As a testimony to the growing international dimension of Singapore's capital market in meeting the infrastructure development requirements of the region, the first financial guarantee insurance company in Asia was established in Singapore earlier this year. The company, called Asian Securitisation and Infrastructure Assurance Pte Ltd ("ASIA"), is a joint-venture between the private sector and the Asian Development Bank.

The company provides financial guarantee insurance for bonds, including infrastructure bonds and asset-backed securities, issued by Asian borrowers to finance infrastructure projects. The guarantee will enhance the credit rating of the debt instruments, in particular for higher risk infrastructure projects, and hence improve their marketability to institutional investors. The backing of a reputable financial guarantee insurance company will allow some infrastructure projects, which would otherwise find it prohibitive to access the capital market, to raise long-term funds through bond issues. Besides providing financial guarantee insurance, the company also helps in originating, structuring and distributing the securities which it guarantees.

Before the end of this year, a second international financial guarantee insurance company will be established in Singapore by the International Finance Corporation of the World Bank and a consortium of regional financial institutions. The establishment of these two financial guarantee insurance companies and the formation of the Foreign Board on the SES reflect Singapore's continuing efforts to enhance the sophistication of its capital market so to act as a provider of long-term development capital to the region. They also underscore

the potential of the Asian capital market and the strategic role that Singapore is playing in its development.

Fund Management

Underpinning the growth of Singapore's capital market is a fast growing fund management industry. There are now 135 fund management institutions in Singapore managing US$64 billion of funds. The number of fund managers and the amount of funds managed in Singapore are expected to continue to increase to capitalise on the dynamism of the Asian stock markets and the rising affluence and wealth in the region. With Singapore's efficient infrastructure, its strategic location within the East Asian region, and the concerted policy to broaden the financial markets within a sound regulatory framework, we are confident of attracting more international fund managers to manage their Asian investment portfolios in Singapore.

Sound Regulatory Framework

The Monetary Authority of Singapore has always placed strong emphasis on the need for financial institutions to maintain high standards of integrity and prudence in their operations. We are reputed to have one of the most developed regulatory regimes in the region.

Our legal and regulatory frameworks are also comprehensive and transparent. More importantly, the rules and regulations are applied firmly and fairly. The confidence which the regulatory structure has engendered in investors that their investments are well protected has been the cornerstone of Singapore's development as a financial centre and will continue to be the foundation for future growth of our financial market.

Conclusion

I am confident that the dynamic economic growth of East Asia will continue into the next century, propelled by strong growth in many of the emerging Asian economies. Corporations as well as financial institutions which have established a strong presence in the region would be well positioned to capitalise on the increasing business opportunities. East Asia will present tremendous opportunities for those who have the foresight to seize them.

Singapore, with its efficient and reliable financial system and its stable political and social environment, is an ideal location for financial institutions and companies to use as a springboard into Asia, and as a regional headquarter to manage and control their East Asian operations. I hope that this Seminar would provide you with more information of and insights into our financial markets and the benefits you could derive from operating in Singapore.

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