INTERVIEW

Putting Singapore on the map

FTSE RUSSELL CONVENES

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Interviewed by

Jamie McDonald, ex-portfolio manager, Point 72

Jamie: Janice, it's so great to meet you. Thanks so much for stopping by.

Janice: Thank you, Jamie. Pleasure to be here.

Jamie: Janice, we're going to talk a little bit about Singapore Exchange, the product offerings, product innovation and so on. What I'd love to do is get a little bit more background about yourself; what's your role there and maybe get a history of the Singapore Exchange itself.

Janice: I'm head of markets at SGX Group, the equity shelf, which includes the cash market as well as the equity derivatives contracts. Actually, the exchange is like my second home. I've been there for three decades now. But I started quite humbly from the Cimex entity, which was the company that merged together with Stock Exchange of Singapore to form the Singapore Exchange. It was really a momentous milestone for Singapore when Cimex was formed. So this is actually the entity that was the derivatives franchise of SGX group 40 years ago.

Jamie: Okay.

Janice: At that time it was the first financial futures exchange in Asia and lots of hype around it, like what you can do and how we can be on the global map.

Jamie: But not including Japan? Or including Japan?

Janice: No, not including Japan. Japan is started with a commodities exchange. When it comes to a financial futures exchange, Singapore was actually the first. So the beauty of that, is that we managed to successfully grow the Euro dollar futures contract in the Asia time zone. And that's a big deal at that time because, I don't know whether you remember, there was only physical floor trading for futures contracts at that time. So no electronic trading was available.

Jamie: Wow.

Janice: There is no such thing as like you can trade like 24 hours a day. So you're actually constrained by the real estate.

Jamie: These are physical people in a pit trading with hand signals.

Janice: That's right, yes. Those were the days and for a contract like Euro dollar, so Euro dollar is a interest rate contract that is based off the three months dollar Libor. So it was, you'll be great to get like 24-hour liquidity throughout all the time zones so that traders can risk manage their positions with interest rate movements. So with constraints like a physical flaw, it's not possible. In order to do that, actually then we must have two partnerships each covering 12 hours of time zone. And that's the magic of the mutual offset system that was innovated by Cimex at that time and also CME Exchange in Chicago. So for 12 hours, Euro dollar traded on the fiscal trading floor of Cimex and the other 12 hours was covered in Chicago. So that allows really a 24 hour risk management time zone for all participants. I think that really put-

Jamie: Singapore on the map.

Janice: Cimex and Singapore on that global map.

> **“One of the value propositions of SGX is we provide the risk management shelf for clients to use our products as access products”**

Jamie: How much of an impetus is there from the Singapore government to really make Singapore itself a sort of financial centre within Asia?

Janice: I would say that the motivation and ambition is set very high. Singapore is a very small nation. We don't really have natural resources. So in a way the odds are quite stacked against us. So the only valuable resources we have are actually humans, people, and that's where services become much more important. Financial services at this moment, I would say is top priority for the government. And Singapore is one of the key financial markets in Asia. So by FX trading we are third largest in the world.

Jamie: Really?

Janice: Yes.

Jamie: Wow.

Janice: Yes, so there's a lot of small details about Singapore that is still quite unknown to a lot of people.

Jamie: So on the Singapore Stock Exchange, obviously you have equities trading, you have options, derivatives, commodities, interest rates with Euro dollar. Who decides, and perhaps this is you, who decides what products you're going to start to trade on the Singapore exchange and how do you know when the products are going to work? What determines like what are the best products to have on the Exchange?

Janice: That is actually a very big question. Well, in the exchange world, launching new products is probably quite a daunting task. For every product success that I've seen, there are many more that have failed to gain market traction. So what we normally looked at is to try and identify what's the gap in the marketplace. Yeah, as a start, to be able to fill a shelf for our clients. So our clients are global institutions, they are not just Singaporean institutions, European institutions as well as our US institutions are actually a big part of our clientele. So for us to be able to attract them to come to this marketplace for all their Asian trading, requires some thinking.

Jamie: So when it comes to Chinese and Hong Kong investors, they typically use Hong Kong Exchange, Shanghai Stock Exchange is that right?

Janice: Our value proposition is actually Pan-Asia. So our shelf covers like almost 100% of the key Asian markets. That will include like Japan, India, China, Taiwan, Singapore, and we are multi-asset class. So aside from equity index futures, the other two large derivatives products will be commodities futures, and also currency futures. So in total this shelf serves our global institutions for their risk management needs, looking at Asian underlyings.

Jamie: And just going back to product innovation, how can you tell if you think a product will succeed or not?

Janice: There are two measurements. Okay? One is look at the volumes. The other one is looking at the open interest, but these are very hard, I would say very superficial kind of statistics that's offered by a lot of magazines and actually also newspaper reporting to determine the success of the product. But if you take a step back, what is the real economic value of a futures contract? It is actually the utility of risk management. Participants can use those products to risk manage their portfolios. So that means that as an exchange, fundamentally you are not really a product house, you're actually providing a risk management service. So like any marketplace, exchanges, as a financial infrastructure, drives actually on two parameters only. Number one is the network effects, and two is portfolio effects. So network effects is just a function of like number of users and the diversity of distinct user groups that are using your products or service. This is important because we need to match bias with sellers to form a trade and we can't have everyone on one side of the market. So, that network effects is important. So when you look at portfolio effects it's slightly different. Portfolio effects looks at the range of products that is relevant and available for the users and what is the efficiency that you can offer them so that they will treat everything with you on the same single platform. So it actually measures the stickiness of the users to your platform. And in combination, I would say these are, these two probably will determine whether a product will succeed or fail when it comes to attracting early adopters to form this network effect and inform this portfolio effect.

Jamie: Over the last five, 10 years, in the US one theme we've seen is the rise of the retail investor, not just in stocks and shares, but in ETFs and options too. What's the kind of state of play in Singapore and Southeast Asia?

Janice: For Singapore, it's a very unique situation because majority of our clients, both stock market as well as futures markets are actually institutions. Retailers are present in our market, but they actually pay a small share in terms of volume or activities. Mainly because first our population is not high, there's just so many people. So if you minus people who that are too old or too young to trade, the actual trading population in retail is not going to be much. However, because our clients are global, when it comes to the stock and futures market, that's where you see that Singapore features when it comes to like top five markets in Asia. So Asia is very fragmented. We have maybe close to 40, 50 markets, cash and futures markets combined. We have about 50 venues, the top five like China, India, Japan, Taiwan, and Singapore. The rest actually it just tails. Right? So for those, they are looking for the ability to enter these markets in a very easy manner. So imagine if you're global institutions and you need to access like five, six markets in Asia. It's quite difficult. And most of these markets they are closed markets or semi-closed markets whereby they either have capital currency controls or you need some kind of foreign limits in order to enter the market. That means that they put, many people actually not look at Asia as one of the investing venue and it's quite costly to Asia in that sense because there's so many capital flows and if you can't attract those capital flows, you can't actually grow the market. So one of the value propositions of SGX is we provide the risk management shelf for clients to use our products as access products.

Like in partnership with FTSE Russell, we had the China A50 index futures and the Taiwan index futures, which means that you can use those futures contract as an excess product or as a futures overlay to your investment and portfolio strategies. So those have been very popular when it comes to how do you get exposure without getting your feet wet, by going to the countries trading on the venues itself. So it has been quite helpful. And the platform efficiency that SGX offers also means that it's actually very cost efficient for them to come to SGX to trade a variety of contracts because we offer margin offsets between the various asset class. And so within the asset classes, increasingly I see that margin offsets is critically important with the rising interest rate environment or the higher interest rate environment, even if there's no more increase in interest rate for a while. The watermark has been set, so the cost of trading is getting higher. So every dollar of margins that an institution plays on exchange, they want to maximise that value and that requires a portfolio effect to happen whereby they can come and trade a multiple variety of products and being able to use that same dollar margins to fund those positions.

Jamie: Do you see the regulation in the financial services industry in Singapore as friendly?

Janice: I think Singapore is probably one of the friendliest environments when it comes to doing business. But I wouldn't say that this is the main thing that people come to Singapore for. I would say that people actually value Singapore for our legal, regulatory and frameworks because we are one of the few exchanges that meet international standards. When I say that, I really mean it because for SGX, we are a certified FBOT, a foreign board of trade by the US, US CFTC, we are also a recognised third country, CCP by the European regulator, ESMA. So that really, you know, puts us in a high watermark when it comes to the risk management and regulatory framework that our clients can expect from us, when they trade. 'Cause at the end of the day, what matters to clients is that they are assessing an institutional grade market that is situated in a triple area of the country in Singapore. That's a real compelling proposition.

Jamie: So who do you see as your competition?

Janice: Actually, competition is everywhere. I'm often asked like which exchanges are in competition with Singapore? And I don't really see it that way. I see it as like, who is competing for the wallet? Yeah. So, and that's really a lot of things. It's like, it can be a banking product, it can be deposits with the banks. It can be mutual funds, obviously, it can also be cash and also future positions. So there are a variety of instruments that as a retail or a global institution can actually access to put their money. I see that competition is a very narrow way of defining like, where you should look. So if you are able to see beyond that, then actually there's a lot more collaboration than competition that we can experience in the futures and options world especially. So the earlier example I gave you why we are successful in the Euro dollar is because of a collaboration with Chicago Mercantile Exchange.

Jamie: Right. Okay.

Janice: And that mutual offset system, it still exists today. We don't use it for Euro dollar anymore. We use it for Nikkei, the Japan Nikkei futures. And that is like the, I would say the most innovative clearing link globally right now when it comes to how you can help clients, risk manage their portfolios of risk positions.

Jamie: Do you have ETFs trade on SGX as well?

Janice: Yes. So ETF’s are actually growing very significantly for us in the last three to four years. It could be Covid because people have more free time to look at, "Okay, how to rebalance your own portfolio." And it's also difficult to have new product innovation at that time. So ETFs become a very easy way for passive investment. In Singapore, what we have seen is that the last two years, our assets under management of the ETFs has grown like twice, almost doubled. And the number of ETF launches, I think is at record high as well. So we have not done so many ETFs in the last two, three years compared to five years ago.

Jamie: Yeah. Janice, this has been so great. Thank you so much for spending the time with us.

Janice: Oh, thank you. Glad to be here.

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