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Recent Developments and Future Direction

A. Recent Major Developments

Recent major developments are considered those that occurred or have been announced in the Singapore market since the first publication of the Singapore Bond Market Guide in April 2012.

1. Extension of the Benchmark Yield Curve

Since the introduction of 20-year issuances in 2007, MAS has taken steps to further increase liquidity in SGS and extend the SGS benchmark yield curve. This led to the introduction of 30-year SGS benchmark bonds in 2012, which established a liquid reference benchmark for corporate issuance that is more closely aligned with that of other developed markets, and, at the same time, addressed insurers' pent-up demand for longer maturity bonds.

2. Introduction of Mini-Auctions

MAS introduced mini-auctions in 2015 to address unexpected increases in demand for bonds outside the annual issuance calendar. Mini-auctions are reopenings of SGS bonds with a maximum size of SGD1 billion. Unlike normal auctions, should MAS decide to conduct a mini-auction, it will announce the bond to be reopened 1 month before its issuance date. The possible dates of mini-auctions are published in the issuance calendar.

3. Enhancements and Extension of Qualifying Debt Securities Scheme

The QDS and QDS Plus schemes were introduced to promote the development of Singapore's debt market, and were further enhanced and extended with effect from June 2013 and January 2014, respectively.

Qualifying income derived by investors from debt securities that qualifies under the QDS or QDS Plus schemes may be tax exempt or offered a concessionary tax rate. Both the QDS and QDS Plus schemes, which were due to expire on 31 December 2013, were extended for another 5 years to 31 December 2018 (see Chapter VI.G).[79]

With effect from 28 June 2013, the QDS Plus scheme was refined to allow debt securities with standard early termination clauses to qualify under the QDS Plus scheme at the point of issuance.

QDS had to be issued or "substantially arranged" by an approved bond intermediary or any Singapore financial institution (then called FSI awardholders) under the FSI. The original FSI

[79] As reported in KMPG Services. 2013. *KMPG Tax Alert*. August. https://www.kpmg.com/SG/en/IssuesAndInsights/tax/taxalert-201318.pdf

categories relevant for the securities market were consolidated into the FSI-Capital Markets award category with effect from January 2014.

In addition, effective January 2014, the substantially arranged condition was revised for debt securities issued during the qualifying period (1 January 2014 to 31 December 2018) under a program, such program must be wholly arranged by FSI-Capital Markets awardholders. Other qualifying conditions may apply.

SGS, including MAS bills, are considered Qualifying Debt Securities.

4. Association of Southeast Asian Nations Disclosure Standards Scheme

With effect from 1 April 2013, MAS, together with the securities market regulators in Malaysia and Thailand, implemented the ASEAN Disclosure Standards Scheme for multi-jurisdictional public offerings of equity and plain debt securities in ASEAN.

The scheme aims to facilitate fund-raising activities as well as to enhance investment opportunities within ASEAN capital markets. Issuers offering equity and plain debt securities in multiple jurisdictions within ASEAN will only need to comply with one single set of disclosure standards for prospectuses, known as the ASEAN Disclosure Standards, and bringing about greater efficiency and cost savings to issuers. The scheme is benchmarked against the International Organization of Securities Commissions' disclosure standards on cross-border offerings.[80] In addition, it fully adopts the IFRS and the International Standards on Auditing.[81]

The ASEAN Disclosure Standards Scheme operates on an opt-in basis, with ASEAN members adopting it when they are ready to do so. Singapore was among the first ASEAN jurisdictions to implement the scheme.

5. Asian Capital Market Forum Facilitates Cross-Border Fund-Raising and Investments

MAS and SGX jointly signed a memorandum of understanding with the Securities Commission Malaysia and the Securities and Exchange Commission, Thailand to establish a Streamlined Review Framework for the ASEAN Common Prospectus drafted based on the ASEAN Disclosure Standards. The framework, which is an initiative under the ACMF Implementation Plan endorsed by the ASEAN Finance Ministers, will facilitate cross-border offerings of equity securities and plain debt securities in ASEAN.[82]

This initiative, which is aimed at publicly offered securities, is expected to stimulate cross-border investment into debt securities of the participating markets since investors will find the single, standardized disclosure documentation helpful.

6. Covered Bonds as a New Category of Debt Instruments

In order to allow locally incorporated banks in Singapore to diversify their funding sources and broaden their long-term funding tools, MAS issued regulations in December 2013 to

80 See http://www.iosco.org/about
81 See http://www.ifac.org
82 Adapted by ABMF SF1 Consultants from http://www.mas.gov.sg/News-and-Publications/Media-Releases/2015/Facilitating-Cross-Border-Capital-Raising-in-ASEAN.aspx

allow the issuance of covered bonds by these banks. The regulations were further revised in June 2015 following industry consultation.

DBS Bank announced in June 2015 that it has established a covered bond program. Under the program, DBS Bank may issue up to USD10 billion of covered bonds in various currencies. In July 2015, DBS Bank priced its issue of USD1 billion (SGD1.36 billion) fixed-rate covered bonds due in 2018. The inaugural issuance of covered bonds by DBS Bank makes Singapore one of the first jurisdictions in Asia and the Pacific with covered bond issuances.

B. Future Direction

A number of significant developments in the Singapore bond market have been announced since 2014, with effect from the second half of 2015, and are expected to have a beneficial impact on the Singapore bond market and, possibly, the region's bond markets at large.

1. Singapore Exchange Ltd. Bond Pro

In November 2014, SGX announced its intention to launch a bond trading platform. To drive this initiative, the first of its kind focused on Asian bonds, SGX formed a new subsidiary, SGX-BT, that will initially trade Asian corporate bonds in G3 currencies. Asian local currency bonds are to follow. SGX Bond Pro went live on 10 December 2015.

The platform was developed in close consultation with the industry and aims to become an Asian Liquidity Center for both high-yield and investment-grade corporate bonds. SGX maintained a steering committee with senior representatives of 32 leading Asian fixed-income dealers and investors until the launch of the platform to address the needs of Asian bond market participants.

SGX has signed a long-term contract with electronic trading solutions provider TradingScreen as the technology platform provider and is working with the industry to develop end-to-end automation to make trading in these instruments more efficient.

For further details on SGX Bond Pro, please refer to Chapter IV in this bond market guide.

2. Introduction of Singapore Savings Bonds

On 11 May 2015, MAS released detailed information on the proposed issuance of Singapore Savings Bonds. MAS issued the first Savings Bond in October 2015.

Singapore Savings Bonds are a new type of SGS designed to offer individuals a long-term, flexible savings option with safe returns. They will provide individuals with more options to save and invest to meet their long-term financial needs.

An individual CDP securities account with direct crediting service will allow Savings Bond payments to be made directly to an individual's direct crediting service-linked bank account. Individuals need to be at least 18 years old to open an individual CDP Securities account.

A new Savings Bond will be issued monthly. Applications for each Savings Bond issue will open on the first business day of each month and close 4 business days before the end of the month. Requests to redeem existing bonds can be made during the same period. All application and redemption requests will be processed 3 business days before month's end. Savings Bonds will be issued on the first business day of the next month and redemption proceeds will be processed by the second business day.

Applications and redemption requests must be made in multiples of SGD500, and Savings Bonds will only be available for purchase using cash. Individuals will be able to apply for each Savings Bond issue with as little as SGD500, and up to SGD50,000. In addition, individuals will be able to hold up to SGD100,000 of Savings Bonds at any point in time.

For more up-to-date information on Savings Bonds, please refer to the latest announcement on the MAS website,[83] and visit the dedicated Savings Bonds website.[84]

3. Seasoning and Exempt Bond Issuer Frameworks

In 2016, MAS and SGX will be introducing a Seasoning Framework and Exempt Bond Issuer Framework to enhance retail investors' access to corporate bonds.

Under the Seasoning Framework, wholesale bonds initially offered to Institutional and Accredited Investors by issuers who satisfy specified eligibility criteria (e.g., size, a listing track record, and strong credit profile) can be redenominated into smaller lot sizes after a 6-month seasoning period and made available to retail investors via secondary trading on SGX. In addition, such eligible issuers can offer to retail investors, without a prospectus, additional bonds with the same terms (except for price, original tenor, size, and date of issuance). The issuer instead provides a product highlights sheet and the offer document that was furnished to the institutional and accredited investors during the initial offer of the wholesale bonds.

Under the Exempt Bond Issuer Framework, issuers who satisfy the eligibility criteria at higher thresholds can offer bonds directly to retail investors without a prospectus. Instead, the issuer provides a simplified disclosure document and product highlights sheet to retail investors. Retail investors will therefore be able to acquire bonds directly from such eligible issuers at the onset.

4. ASEAN+3 Multi-Currency Bond Issuance Framework

The introduction of AMBIF in the region's markets in 2015 signaled another opportunity for bond or note issuance activities in the Singapore market. Potential issuers have identified Singapore as one of the markets of interest, particularly with regard to the listing for profiling of bonds, notes, and programs issued in the ASEAN+3 region.

Aimed particularly at the issuance or offer for sale or subscription of bonds and notes to Accredited or Institutional (professional) Investors in Singapore, AMBIF encourages domestic and regional issuers to take advantage of MAS' light-touch regime in Singapore (see Chapter II.F), as well as streamlined issuance approval processes in other regional markets. For additional information on AMBIF, please refer to Chapter IX.5.

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83 See http://www.mas.gov.sg/news%20and%20publications/media%20releases/2015/launch%20of%20the%20singapore%20savings%20bond%20programme.aspx

84 See http://www.sgs.gov.sg/savingsbonds

The key advantage of AMBIF lies in the ability of regional issuers to tap multiple markets, including Singapore, and cover both issuance and listing approval processes. This additional issuance avenue is seen as offering an alternative for corporate issuers to issue bonds and notes across markets instead of, or in addition to, relying on other forms of funding.

5. Fostering the Growth of an Active Secondary Market

A deep and liquid secondary market is crucial for a functional debt capital market with transparent and reliable prices within a stable financial system. However, a confluence of regulatory reforms, central bank operations, and dealer activity has led to a reduction in liquidity, especially in the corporate bond market.

MAS is monitoring the changing landscape of the secondary market as the role of market participants shifts and the drive toward electronic trading gathers pace. MAS is also reviewing measures which can create a market environment with increased trading liquidity.