

Singapore Investor Handbook

1. OVERVIEW

The J.P. Morgan cash equities execution broker in Singapore, J.P. Morgan Securities Singapore Private Limited ("JPMSS") is subject to the rules and regulation of the Singapore Exchange Securities Trading Limited ("SGX-ST"). Pursuant to Rules 4.5A.2 and 12.3A.1 of the SGX-ST Rules, JPMSS is required to have measures in place, in respect of its clients, to assure they are familiar with and comply with the SGX-ST Rules, and (in the case of accredited investors and institutional investors) provide adequate information in relation to prohibited trading practices.

As a result of the abovementioned requirements, we have prepared this Singapore Investor Handbook for your information.

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2. RULES AND REGULATIONS

2.1 Governing Regulations

The applicable laws, rules and regulations governing the trading of securities on the SGX-ST include :

- Securities and Futures Act, 2001 (“**SFA**”) (and any subsidiary legislation)
- SGX-ST Rules
- Directives, Practice Notes and Circulars issued by the SGX-ST
- Notices, Codes, Guidelines and Practice Notes issued by the Monetary Authority of Singapore (“**MAS**”)

It is important for you to remain informed and up to date of all relevant laws, rules and regulations, and to take steps to ensure that you are promptly informed of any amendments.

Copies of the rules and regulations are available online at the websites of the Monetary Authority of Singapore (“**MAS**”) (www.mas.gov.sg) and the Singapore Exchange (“**SGX**”) (www.sgx.com).

2.2 The SFA Provisions

In relation to prohibited trading practices in Singapore, please note the following key SFA provisions, which are contained in Division 1 – Prohibited Conduct – Securities, Part XII Market Conduct of the SFA.

a. False trading and market rigging transactions

- False trading and market rigging are covered generally by Section 197 of the SFA. The object of the prohibition is to ensure that the market reflects the forces of genuine supply and demand.
- Section 197 prohibits the following activities:
 - Creation of a false or misleading appearance of active trading in any securities on a securities exchange in Singapore;
 - Creation of a false or misleading appearance with respect to the market for or price of any securities on a securities exchange in Singapore;
 - Affecting the price of securities by way of purchases or sales that do not involve a change in the beneficial ownership of those securities; and
 - Affecting the price of securities by means of any fictitious transactions or devices.
- It is a defence to a prosecution of false trading or marketing rigging if you can show that you had no intention at all to create a false or misleading appearance of active trading in securities and the securities market.

b. Securities market manipulation

- Section 198 of the SFA provides that a person shall not effect, take part in, be concerned in or carry out, directly or indirectly, two or more transactions in securities of a corporation which have the effect of raising, lowering, maintaining or stabilising the price of securities of the corporation on a securities market with intent to induce other persons to subscribe for, purchase or sell securities of the corporation or of a related corporation.

c. False or misleading statements

- Section 199 of the SFA prohibits a person from making a false statement or disseminating information which is false or misleading in a material particular which is likely to have the effect of:
 - Inducing other persons to subscribe for securities;
 - Inducing the sale or purchase of securities by other persons; or
 - Increasing, reducing, maintaining or stabilising the market price of securities;

if, when making that statement or disseminating that information, the person does not care whether the statement or information is true or false, or knows that the statement or information is false or misleading in a material particular.

- False and misleading statements include written or verbal commentary (e.g. by telephone, e-mail or other communications means) by a person who does not have reasonable grounds for making those statements. In the context of securities or other financial products, the prohibition against making false and misleading statements centres on the likelihood of such statements inducing a person to deal in the securities/financial products or on having an effect on their prices.

d. Fraudulently inducing persons to deal in securities

- Section 200 of the SFA deals with the situation where a person fraudulently induces other persons to deal in securities. The accused must have made or published a statement, promise or forecast that was misleading either recklessly or with knowledge that it was misleading.
- Under this section 200, a person is prohibited from fraudulently inducing or attempting to induce another person to deal in securities by the following means:
 - Making or publishing any statement, promise or forecast that the person knows or ought reasonably to have known to be misleading, false or deceptive;
 - Dishonestly concealing material facts;
 - Recklessly making or publishing any statement, promise or forecast that is misleading, false or deceptive; or
 - Recording or storing in, or by means of, any mechanical, electronic or other device information that the person knows to be false or misleading in a material particular.
- It is a defence to a prosecution of fraudulently inducing persons to deal in securities if you can show that at the time when the information was recorded or stored, you had no reasonable grounds for expecting that such information would be available to any other person.

e. Employment of manipulative and deceptive devices

- Section 201 of the SFA is a catch-all provision that is designed to prohibit any other form of securities fraud that has not been specifically dealt with in any other section. It prohibits three things:
 - The employment of any device, scheme or artifice to defraud in connection with the purchase and sale of any securities;
 - Engaging in any act, practice or course of business in connection with the purchase or sale of any securities which operates as a fraud or deceit on any person; or
 - Making an untrue statement of a material fact or omitting to state a material fact necessary to make statements made not misleading, in connection with the purchase or sale of any securities.

f. Dissemination of information about illegal transactions

- Section 202 of the SFA prohibits circulation or dissemination of any statement or information to the effect that the price of any securities of a corporation will rise, fall or be maintained by reason of transactions entered into in contravention of any of the provisions of Sections 197 to 201 of the SFA.
- Section 202 applies to:
 - A person, or a person associated with the person, who has entered into or purports to enter into any such transaction or has done or purports to do any such act or thing; or
 - A person, or a person associated with the person, who has received, or expects to receive, directly or indirectly, any consideration or benefit for circulating or disseminating, or authorising or being in concerned in the circulation or dissemination of the information or statement.

g. Penalties

- Under the SFA, anyone found guilty of any of the acts mentioned in Division 1 of Part XII Market Conduct of the SFA may be subject to the following penalties:
 - In the case of a person who is not a body corporate, to a fine not exceeding S\$250,000 or to imprisonment for a term not exceeding 7 years or to both; or
 - In the case of a body corporate, to a fine not exceeding S\$500,000.
- Where a corporation or unincorporated association is guilty of an offence under the SFA, any director, executive officer, secretary or similar officer of the corporation or unincorporated association who was knowingly concerned in or party to the commission of the offence shall also be guilty of that offence.

2.3 The SGX-ST Rules

The prohibitions against market manipulation and false market are contained in SGX-ST Rule 13.8.

For further guidance on the interpretation and application of this SGX-ST Rule 13.b, see Practice Note 13.8.1 on Market Manipulation and False Market.

a. SGX-ST Rule 13.8.1

- SGX-ST Rule 13.8.1 prohibits a Trading Member or a Trading Representative from engaging in, or knowingly act with any other person in, any act or practice that will or is likely to:
 - Create a false or misleading appearance of active trading in any securities; or
 - Lead to a false market in respect of any securities.
- For the purposes of this rule, a false market includes a market in which:
 - Information is false, exaggerated or tendentious;
 - Contrived factors are in evidence, such as buyers and sellers acting in collaboration to bring about artificial market prices; or
 - Manipulative or fictitious orders, transactions or other devices have been employed.

b. SGX-ST Rule 13.8.2

- SGX-ST Rule 13.8.2 further prescribes a list of relevant factors when considering whether an act or practice may breach SGX-ST Rule 13.8.1, which include:
 - Whether the proposed transaction will be inconsistent with the history or recent trading in the security;
 - Whether the proposed transaction will or may cause or contribute to a material change in the market for or the price of the security, and whether the person involved or another person with whom the first person is collaborating may directly or indirectly benefit from alterations in the market price;
 - Whether the proposed transaction involves the placing of multiple buy and sell orders at various prices higher or lower than the market price, or the placing of buy and sell orders which give the appearance of increased volume;
 - Whether the proposed transactions coincide with or is likely to influence the calculation of reference/settlement prices and valuations;
 - Whether parties involved in the proposed transaction are connected;
 - Whether the buy and sell orders are to be entered at about the same time, for about the same price and quantity;
 - Whether the proposed transaction will or may cause the price of the security to increase/decrease, but following which the price is likely to immediately return to about its previous level;
 - Whether a proposed bid (offer) is higher (lower) than the previous bid (offer) but is to be removed from the market before it is executed;
 - Whether the volume or size of proposed transaction is excessive relative to reasonable expectations of the depth and liquidity of the market at the time;
 - Whether the proposed buy (sell) order is likely to trade with the entire best offer (bid) volume and part of the offer (bid) at the next price level;
 - Whether the proposed buy (sell) order forms part of a series of orders that successively and consistently increase (decrease) the price of the security; and

- Whether there appears to be legitimate commercial reason for the proposed transaction.

c. SGX-ST Rule 13.8.3

- SGX-ST Rule 13.8.3 provides that a Trading Member or a Trading Representative must not enter a buy order or a sell order on the Trading System if there is an existing opposite order from that same Trading Member or Trading Representative in the same security for the same price. This rule does not apply if:
 - The Trading Member or Trading Representative knows or ought reasonably knows that the orders are for different beneficial owners;
 - The order is a type expressly permitted in a practice note published from time to time by SGX-ST as having a legitimate commercial reason and which is unlikely to create a false market; or
 - The Trading Member or Trading Representative can otherwise establish that the purpose for which the order was not to create a false market.

d. SGX-ST Rule 13.8.4

- SGX-ST Rule 13.8.4 provides that a Trading Member or Trading Representative must not directly or indirectly deal in securities which involve no change of beneficial ownership. It is a defence if the Trading Member or Trading Representative can show that there is no reason to suspect or no reasonable Trading Member or Trading Representative ought to have suspected or known that the transaction was a wash trade.

e. SGX-ST Rule 13.8.5

- SGX-ST Rule 13.8.5 prohibits a Trading Member or a Trading Representative from dealing in securities in a manner that will or may affect or maintain the price of the securities with intent to induce other persons to subscribe for, buy or sell the securities. This rule does not apply to stabilising action carried out in accordance with Regulation 3 of the Securities and Futures (Market Conduct) (Exemptions) Regulations.

f. SGX-ST Rule 13.8.6

- SGX-ST Rule 13.8.6 prohibits a Trading Member or a Trading Representative from disseminating false or misleading information if the Trading Member or Trading Representative:
 - Knows or ought reasonably knows that the information was false or misleading; or
 - Is reckless about the truth of the information.

g. SGX-ST Rule 13.8.7

- SGX-ST Rule 13.8.7 provides that a Trading Member or a Trading Representative must not participate in any prohibited market conduct in securities or in any insider trading, or knowingly assist a person in such conduct.

h. SGX-ST Rule 13.8.8

- SGX-ST Rule 13.8.8 provides that a Trading Member or a Trading Representative must immediately inform SGX-ST if there are reasonable suspicions or knowledge of any attempted market manipulation, false trading or insider trading.

i. SGX-ST Rule 13.8.9

- SGX-ST Rule 13.8.9 requires a Trading Member to have in place processes to review orders and trades for the purpose of detecting suspicious trading behaviour.

3. MARKET MANIPULATION

3.1 What is Market Manipulation?

Market manipulation (or “market rigging” or “false trading”, as it is sometimes also called) is the conduct of market activities to interfere with the actual supply and demand in the market, so as to create a false or misleading appearance of the true state of the market. Such market manipulative activities seldom have a legitimate business or economic purpose.

Market manipulation can be done by creating a false or misleading market by driving up, suppressing or stabilising the price of the securities in question. The effect of which is to mislead investors by creating the appearance of active trading of the securities through transactions in which a person buys or sells securities without a change of beneficial ownership in the transaction.

3.2 How can Markets be Manipulated?

Market manipulation tactics include:

- The release of false or misleading information.
- The taking up of wash sales from one another within a certain trading period to increase the turnover of the stock or distort the actual share price.
- The placing of purchase orders at slightly higher prices or sale orders at lower prices to drive up or suppress the price of the securities when the market just opens, i.e. “marking the open”.
- The attempt by a fund manager to “window dress” the valuation of the fund manager’s portfolio by buying or selling a stock near the close of the day’s trading in order to affect the closing price, i.e. “marking the close”.
- The drying up of stocks supply to exert undue upward price pressure on the stocks. This is known as “cornering shares”.
- The placing of multiple orders at various price levels (“layering”) to create the appearance that the market depth is deeper than it actually is. This is known as “layering”.
- The refusal to participate in the market when the price is favourable, while giving specific instructions to buy at higher levels at the close of the day’s trading.
- The placing of large and/or multiple layers of orders on the bid or ask side, and then shortly after, trading a significant volume on the opposite side of the market while removing the original orders. Such “spoofing” activities are made to mislead the market to believe there is strong depth on the opposite side so as to achieve a better price for the intended trade.

4. INSIDER TRADING

4.1 Insider Trading

The regulations governing insider trading in Singapore are contained in Division 3, Part XII of the SFA.

The SFA's approach to Insider Trading is an "information connected approach". This means that trading whilst in possession of inside information will constitute a violation, even if the person who provides the material, non-public information ("MNPI") is not an "insider" as defined previously.

4.2 What is MNPI?

MNPI (also known as inside information) is material, non-public information about the securities, activities or financial condition of a corporation, public entity or other issuer of securities that, if known to the public, is reasonably likely to have an impact on the market price of those securities or is likely to influence a reasonable investor to subscribe for, buy or sell those securities.

4.3 Elements of the Prohibition

The regulations prohibit the following:

- Possession of information concerning securities that is not generally available and materially price sensitive; and
- Subscribing, purchasing or selling those securities or procuring another person to subscribe, purchase or sell those securities or communicating the information where the securities are listed on an exchange and the insider knows, or ought reasonably to know, that the tippee would be likely to subscribe, purchase or sell the securities or procure another person to do so.

4.4 Proof of Knowledge

Section 219 of the SFA provides that it must be shown that the insider knew of the nature of the information that was possessed although Section 220 of the SFA specifically states that there is no need to prove an intention to use that information.

Connected persons like directors control the mechanisms for disclosure in the company, and may choose to self-deal based on undisclosed information. Section 218 of the SFA reverses the burden of proof in such cases, so that all that need be shown is that they were in possession of inside information. In such an instance, a presumption arises that they knew of the nature of that information when they traded.

4.5 Defences

It is a defence to any prosecution under sections 218 and 219 of the SFA to show that the other party to the transaction knew or ought reasonably to have known of the information before entering into the transaction.

Other formal defences include the “Chinese Wall” defence. The SFA provides an exception for corporations and partnerships where despite the attribution of knowledge to a corporation or partnership of the knowledge of its officer or partner respectively, the corporation or partnership will not be found to have breached the insider trading prohibition. However, the following requirements must be satisfied:

- The decision to enter into the transaction or agreement was taken by a person other than the officer or partner who was in possession of the information;
- The corporation or partnership had arrangements that could reasonably be expected to ensure that the information was not communicated to the person who made the decision and that no advice with respect to the transaction or agreement was given to that person by a person in possession of the information; and
- The information was not communicated and no such advice was given to the decision-maker.

4.6 Penalties

- For Insider Trading, other than the above penalty stated under paragraph 2.2(g) above, civil action could also be taken against a person. Where found guilty, the person could be fined the greater of:
 - Not exceeding 3 times:
 - The amount of the profit that person gained; or
 - The amount of the loss that he avoided.

OR

- S\$50,000 if the person is not a corporation, or S\$100,000 if the person is not a corporation.

5. SHORT SELLING

The MAS has issued the Guidelines on Short Selling Disclosure pursuant to Section 321 of the SFA. Set out below are the key points in relation to short selling that Accredited Investors and Institutional Investors should be aware of.

5.1 What is Short Selling?

- Short selling is the sale of securities that the seller does not own at the time of the sale.
- Short selling may either be “covered” or “uncovered” (also referred to as “naked” short selling).
- In “covered” short selling, at the time of sale, the seller has borrowed the securities or has otherwise made arrangements to fulfil his obligation to deliver the securities.
- In “uncovered” short selling, at the time of the sale, the seller is not in possession of securities or has not made arrangements to meet his delivery obligation.
- In Singapore, The Central Depository (Pte) Limited (“**CDP**”) mitigates short selling’s potential disruptive effects on the settlement system by purchasing securities on behalf of sellers who do not possess securities for delivery on settlement day (commonly termed the “buying-in” process). Where CDP carries out buying-in, the cost of purchase and an additional penalty is charged to the seller who failed to deliver the securities. In addition SGX-ST conducts surveillance to detect market abuse. These measures help mitigate some of the potential negative effects of short selling and ensure that market continue to function in an orderly and efficient manner.

5.2 Information on Short Selling

- International standards recommend that jurisdictions adopt enhanced and meaningful short selling reporting.
- In the case of Singapore, SGX-ST will publish aggregated short selling information, such as short sale volume and value, on the SGX website by the start of each trading day, based on short sale data collected on the previous trading day.

5.3 SGX-ST Rules on Marking of Sell Orders

- SGX-ST has introduced disclosure requirements to facilitate the marking of sell orders on its securities market. SGX-ST Trading Members may not enter a sell order unless the market participant has informed it whether an order is a short sell order.
- Market participants are expected to split partial short orders, where they do not own the full quantity of securities to be sold, into two separate orders with the short sale order marked accordingly.

- All market participants are expected to accurately disclose the nature of their sell orders for the Trading Members' compliance with SGX's rules on short selling disclosure.
- SGX-ST will provide its Trading Members with a facility to correct erroneously marked sell orders.
- Section 330(1) of the SFA provides that any person who, with intent to deceive, makes or furnishes, or knowingly and willfully authorises or permits the making or furnishing of, any false or misleading statement or report to a securities exchange, futures exchange, licensed trade repository, approved clearing house or recognized clearing house or any officers thereof relating to dealing in securities shall be guilty of an offence and shall be liable on conviction to a fine not exceeding S\$50,000, or to imprisonment for a term not exceeding 2 years, or to both.
- In applying section 330(1), the MAS will consider whether there was intent to deceive in respect of sell orders that had been inaccurately marked by Trading Members or inaccurately disclosed by market participants.

5.4 SGX-ST Rule 8A – Marking of sell orders

- SGX-ST Rule 8A deals with the marking of short sell orders. The requirement to mark short sell orders applies to all securities traded on the SGX, including structured warrants and exchange traded funds (ETFs).
- SGX-ST Rule 8A.1.1 defines “Short Sell Order” as any sell order where the seller does not own in full the quantity of the security to be sold at the time of placing the order.
- Under SGX-ST Rule 8A.2, a seller shall be deemed to own a security if he:
 - Is the legal/beneficial owner of the security, unless such ownership is pursuant to a securities borrowing agreement;
 - Has lent a security pursuant to a securities lending agreement as a result of which he is no longer the legal or beneficial owner but has a right of recall under the securities agreement; or
 - Received the delivery of the security referred to in the following scenarios in the ordinary course and before the settlement of the sale of the security:
 - o Has purchased/entered into an unconditional contract to purchase the security;
 - o Has tendered other securities for conversion/exchange or has issued irrevocable instructions to convert/exchange other securities into the security;
 - o Has a right/obligation to purchase the security under an option and such option has been exercised; or
 - o Has a right/warrant to subscribe for the security and such right/warrant has been exercised.

Marking of Sell Orders

- SGX-ST Rule 8A.3.1 requires all sell orders for securities to be marked as Short Sell Order or otherwise. Trading Members and Trading Representatives shall not enter a sell order in the Trading System if a customer has not indicated whether the sell order is a Short Sell Order.
- SGX-ST Rule 8A.3.2 requires that the requirement to mark sell orders shall include Direct Business reported through the married trade reporting system of the Trading System.

Exemptions from Marking Requirement

- SGX-ST Rule 8A.4.1 gives SGX-ST the discretion to exempt any specific security, market makers and/or specific classes of market participants from the marking requirement above.
- SGX-ST Rule 8A.4.3 further states that a Trading Member shall not be required to comply with the marking requirement if the sell orders are from market participants exempted by SGX-ST, or the sell order relates to securities exempted by SGX-ST.

Publication of Report

- SGX-ST Rule 8A.5.1 states that SGX-ST shall report before the start of each Market Day the aggregate volume of Short Sell Orders matched and executed for the preceding Market Day and in respect of each security for which marking is required.
- SGX-ST Rule 8A5.2 allows SGX-ST to report corrections made in the preceding report.

Reporting of Erroneously Marked Sell Orders

- SGX-ST Rule 8A.6.1 states that a Trading Member may submit a report of erroneously marked sell orders through such facility provided by SGX-ST.
- SGX-ST Rule 8A.6.2 further states that a Trading Member shall ensure that the report adheres to the requirements for submission established by SGX-ST, and is complete and accurate.

6. GLOSSARY OF TERMS

6.1 Matched Orders

Associated parties enter orders for the purchase/sale of securities knowing that similar or corresponding orders will be entered into by their associates with a view to moving the market between them in the form of a trading pact.

6.2 Wash Sales/Pre-arranged Trades

Wash trades are trades in which there is no change in beneficial ownership of the securities, i.e. the buyer is either also the seller of the securities or is associated with the seller of the securities. Wash trades and other pre-arranged trades may be executed for various reasons, including extending the settlement period of the transaction, artificially affecting the price of the counter or to give a false impression of investor interest in the security.

Other investors, who do not realise that the transacted prices or volumes have been manipulated, would be relying on inaccurate information.

Sections 197-198 of the SFA cover the prohibition against such wash trades and pre-arranged trades in general.

6.3 Sham Transactions

This involves transactions that are intended to give third parties the appearance of creating rights and obligations different from the actual rights or obligations actually intended to be created.

6.4 Pump and Dump

This involves transactions at successively higher prices, giving the appearance of real activity by investors then dumping or selling at highs. This can occur as a supply side manipulation as well as by making undisclosed offers for only small parcels of securities thereby inducing others to sell and allowing the manipulator to later buy a large parcel of those securities at a cheaper price.

6.5 Hype and Dump/Slur and Slurp

This involves talking up the price of securities, using false or exaggerated reports, rumours, broker recommendations and other communications. Once the price of the securities has risen, the manipulator dumps the relevant holding. Slur and slurp is the opposite of hype and dump

and occurs when the price of a security is talked down, allowing the manipulator to buy securities at lower prices.

6.6 Marking the Close

Marking the close involves buying or selling a security near the close of the day's trading, with the objective of affecting the closing price. In a bearish market, this might be done to avoid margin calls, to reduce the size of the margin call, or to support a flagging share price.

A common indicator of marking the close is trading in small parcels of the security just before the market closes or during the closing routine, which results in the buyer fixing the closing price. The buyer typically would have large positions of the security in a margin account. This is most obviously seen in thinly traded stocks whose price is under pressure.

While the buyer is using his own money to support the price of a security, the combination of factors surrounding his purchase, which includes the timing of the purchase and the small volume of the trade, means that the closing price may not be a genuine reflection of market forces. In such a situation, the closing price is potentially misleading. Investors need to understand that such conduct may be a breach of section 197 of the SFA.

6.7 Churning

This involves two or more associates acting in concert to acquire a holding in securities and then place both buying and selling orders for those securities, usually at about the same price, or at slightly rising prices, in order to build up an impression of turnover.

6.8 Devices

Instead of, or as a supplement to, round robin transactions such as churning, contractual arrangements may be put in place that have no real purpose other than to create volume and give a distorted picture of the market for a particular security. Put options may be used to create volume between associates whereby successive series of exchange traded options in underlying securities are purchased from associates and then sold back under the put. There is no genuine supply and demand.

6.9 Cornering

This occurs when one person or a group of persons buy up a majority of the total issued shares of a company, thereby significantly reducing the market liquidity for such a security. The person or persons will then be able to control the market price for that security.

6.10 Layering

This refers to the practice of putting in several orders, usually for smaller quantities, with prices which are close together in an increasing/decreasing pattern to create layering of buy/sell orders. The purpose is to move the market yet avoid detection by price filters.