Vital to boost investor confidence

THERE’S a delicate balancing act involved when trying to develop a market on the one hand while protecting the interests of investors on the other. Imposing too much regulation and companies and investors could respond by taking their business elsewhere, but not having enough safeguards in place could be equally damaging as confidence is lost.

The local regulatory regime is founded on disclosure and market-driven discipline. This approach has its merits but it should ideally be balanced with equal effort directed at protecting investors’ interests and ensuring a level playing field for participants of all sizes. Recent developments suggest this should be a priority among regulators.

For example, the results of a governance and transparency study by the NUS Business School announced this week showed that only 8 per cent of 660 companies scored 50 or more points out of a possible 143.

This preference to “hide more than they tell” among the majority is dismaying and lends even greater weight to recent calls to make adherence to the Code of Corporate Governance mandatory, together with hefty penalties for non-compliance. The faster this is done, the better it would be for investor confidence.

Another area that needs to be resolved is shareholder compensation during the mandatory delisting of companies that fail to meet Singapore Exchange’s (SGX) continuing listing requirements. Minority shareholders quite rightly are upset that although the rules state that a reasonable exit offer has to be made, the exchange lacks the teeth to enforce the rule. So when SGX forcibly delists a company, shareholders usually receive nothing.

In its defence, SGX last week pointed out that many companies it had to delist had negative equity and were probably not in a position to pay off shareholders. It has also said it lacks the legal authority to force a company to liquidate its assets. However, given that there are about 20 stocks currently suspended, including several "S-chips" or China stocks, continuing listing requirements on which the authorities must force thousands of retail investors to make up for the no-compensation deficiency.

A third area is manipulating stocks or the Straits Times Index, raising the great urgency as high-speed trading makes the occurrence of the events even more significant.

On May 31, for example, when Dow Jones Global crashed some 30 per cent, the Straits Times Index fell by 9.3 per cent, a puzzling fall that is hard to explain. Similarly, sharp declines in stocks such as June 30 and December 31, 2010, have been brushed off as “window-dressing.”

In its defence, SGX last week pointed out that many companies it had to delist had negative equity and were probably not in a position to pay off shareholders. It has also said it lacks the legal authority to force a company to liquidate its assets. However, given that there are about 20 stocks currently suspended, including several "S-chips" or China stocks, continuing listing requirements on which the authorities must force thousands of retail investors to make up for the no-compensation deficiency, raising the great urgency as high-speed trading makes the occurrence of the events even more significant.

On May 31, for example, when Dow Jones Global crashed some 30 per cent, the Straits Times Index fell by 9.3 per cent, a puzzling fall that is hard to explain. Similarly, sharp declines in stocks such as June 30 and December 31, 2010, have been brushed off as “window-dressing.”

In its defence, SGX last week pointed out that many companies it had to delist had negative equity and were probably not in a position to pay off shareholders. It has also said it lacks the legal authority to force a company to liquidate its assets. However, given that there are about 20 stocks currently suspended, including several "S-chips" or China stocks, continuing listing requirements on which the authorities must force thousands of retail investors to make up for the no-compensation deficiency, raising the great urgency as high-speed trading makes the occurrence of the events even more significant.