'WE cannot afford to have investors think the stock market is an extremely safe place where you're sure to make money. Because it's not - whatever we do, you can't ensure that.'

This was said by then-deputy prime minister Lee Hsien Loong eight-and-a-half years ago in an interview with BT. It was March, 2001. 9/11 was still a fiendish plot in the making and Enron was still on Fortune magazine's '100 Best Companies to Work for in America' list. In Singapore, the stock exchange had just been demutualised - separating it from its member owners and putting it on its feet as a for-profit company. It was incorporated in Dec 1999 and was listed - the first bourse in Asia to be so - in November the following year.

What Mr Lee was getting at was that a financial market that offers only 'sure-win' bets is actually very immature. 'It's unrealistic to list only companies that will never ever get into trouble,' says Tham Sai Choy, regional head of audit at KPMG. 'There is a trade-off between risk and reward.'

The plan was that, free from the limits imposed by its ownership structure, the Singapore Exchange (SGX) would have a free hand to chase down new listings, issue new products and open new markets.

Few doubt that it has done spectacularly well. With dividends re-invested, shareholders have been returned 42 per cent a year since 2004, according to Bloomberg data.

In 2000, there were just 470 listed companies with a market capitalisation of $560 billion. Now, there are 766 listed companies worth $605 billion, 40 per cent of them foreign, plus many different types of issuers - real estate investment trusts, investment funds, global depository receipts, as well as structured warrants and exchange-traded funds.

'I think SGX has been amazing, despite all the challenges. We have a very small domestic market, but it has been breaking new frontiers in bringing in new listings from the region and beyond,' says Lee Suet Fern, senior director of Stamford Law Corporation.

'All this has been done with no natural advantages and no natural hinterland,' says Mr Tham. 'Personally, very often, I think the media doesn't realise what an achievement this is.'

It's not hard to see why he thinks so. News headlines acknowledge the phenomenal profits that the exchange reaps year after year, but more often focus on scandals in its listed companies. In an interview last month with Pulses, SGX's official magazine, SGX chairman JY Pillay pointed to two big misconceptions about the exchange. One, its 'so-called monopoly situation'. Two, the 'apparent perceived conflict between our regulatory role and our commercial ambitions'.

Not a monopoly

SGX is not a monopoly because 'obviously there's no law which states that there will only be one exchange in Singapore,' says Mr Pillay. 'If there's only one exchange, it's probably because we're doing our job satisfactorily. Nobody else so far has sprung up to challenge us.'

But those in the industry point to the fact that fees have been going only one way - up - ever since the exchange was listed. In 2003, listing fees were hiked as much as 24 times - albeit from a fairly low base - and subsequently were doubled again in 2006. One lawyer who specialises in capital market work says that this is 'consistent with raising profits but not necessarily the best thing for Singapore'.

Terminal fees, too, have been going up, even though up till 2007, the exchange was using an antiquated computer system developed in 1990. A replacement, SGXTrade, was scrapped in 2006 because it was riddled with bugs. 'A lot of us drive big cars and we joke that the terminal fees cost a few times more than our road tax,' says one veteran dealer.
If - or when - that happens, agency brokerage Instinet. hub, they will have to open it up to more competition', says Goh Choh Tong, executive director of domestic market. While equities trading remains largely closed, 'if they want Singapore to be
The introduction of SMX is credit default swaps, interest rate swaps, even forex products,' he says.
Newedge, an agency derivatives broker, sees learning curve on which SGX
will have to upgrade their weapons - 'It is necessary to use management program known as Apama, is behind many of algorithmic trading programmes. Exchanges which can overwhelm regulators, says Giles Nelson of Progress Software, algorithmic trading - is controlled by computer programs, the power, speed, and sheer complexity of which can overwhelm regulators, says Giles Nelson of Progress Software, whose invention, an event system has failed. There is a long roll call of scandals: China Aviation Oil, China Sun Bio-Chem, China Printing & Dyeing, Oriental Century, FibreChem Technologies and Sino-Environment, to name the most recent. Critics charge that in its headlong chase for foreign listings, SGX allowed accepted companies of dubious quality in and is now seeing the consequences. Mr Tham, however, points out that blaming SGX for, say, CAO is tantamount to blaming the police for crime.

What complicates the issue more is that market mischief could get harder to spot. Lawyers say that they see much suspicious activity that seems to slip the net. And more and more of daily trading - so-called algorithmic trading - is controlled by computer programs, the power, speed, and sheer complexity of which can overwhelm regulators, says Giles Nelson of Progress Software, whose invention, an event management program known as Apama, is behind many of algorithmic trading programmes. Exchanges will have to upgrade their weapons - 'It is necessary to use a Ferrari to catch a Ferrari,' says Dr Nelson.

Growth area

Also important to SGX's future is its relatively small but rapidly growing and immensely profitable derivatives arm. It recently bought Singapore Commodity Exchange (Sicom) and plans to expand AsiaClear, its clearing house set up in 2006 for over-the-counter (OTC) derivatives. 'We are confident SGX can play a more significant role in the market for trading and clearing of commodities derivatives in Asia,' says Jeremy Ang, CEO of Sicom.

While its stable of products have been hit-and-miss in equal measure - the Joint Asian Derivatives Exchange (Jade) launched in 2006 in partnership with Chicago Board of Trade was quietly scrapped a year later - derivatives are clearly a growth area with much potential. Industry players say that SGX has been pro-active in coming out with new products and the introduction of a competing commodities exchange, the Singapore Mercantile Exchange (SMX), will only spur innovation. Julien Le Noble of Newedge, an agency derivatives broker, sees a bright future, especially for AsiaClear. 'It creates a learning curve on which SGX can leverage on in providing OTC clearing for other assets classes - credit default swaps, interest rate swaps, even forex products,' he says.

The introduction of SMX is a clue that perhaps regulators are increasingly open to competition in the domestic market. While equities trading remains largely closed, 'if they want Singapore to be a trading hub, they will have to open it up to more competition,' says Goh Choh Tong, executive director of agency brokerage Instinet.

If - or when - that happens, SGX will have to step nimbly. It has been trying to expand its offerings, with
co-trading links with Bursa Malaysia and the Australian Securities Exchange, but both initiatives have fizzled out. But new CEO Magnus Bocker, who has extensive experience in integrating cross-national exchanges in Europe, should bring in fresh ideas and expertise. And SGX will have the money to back any investments. As its share price and profitability have shown, it has done very well in 10 years. But 'past performance is not indicative of future returns', Mr Tharman said last night. 'Just like Singapore, SGX needs to continually innovate to stay ahead of the game.'