

## **Chapter 7: The SIMEX Futures Exchange -A Comparison**

### **7.1 Introduction**

Established as Asian's first financial futures exchange on 7 September 1984, the Singapore International Monetary Exchange (SIMEX) has undergone a decade of excellence during which SIMEX has built its strength and gained international recognition. As it embarks on its second decade, SIMEX will benefit from these gains, which are by no means a matter of chance.

Singapore aims to be the region's financial centre. In keeping with this objective, various measures have been introduced for the development of the financial institutions to base their operations there.

Singapore has a reputation for integrity and prudence in its financial dealings and performance. To reinforce this, the authorities have established a sound regulatory framework that meets international standards in order to provide clear rules and regulations to financial sector participants, and to protect the interests of depositors and investors.

Financial institutions, both local and foreign, are required to have strong internal controls in all areas of their operations. Singapore is, thus, a safe haven for both international

financial institutions and investors, particularly during periods of turbulence in global financial markets. Singapore's political and social stability provides a conducive environment for economic growth, and strong government support has also been a vital factor for its economic success. The government constantly reviews its economic and tax policies to ensure that they are appropriate and inline with international standards.

Additionally, Singapore has a young, skilled and well-educated workforce that provides critical support for the development of the financial sector. The government places strong emphasis on education, training and upgrading of skills at every level, so as to continually improve the productivity and value-added of the workforce. In addition the local workforce, Singapore has a pool of experienced foreign expatriates in the financial market,, made possible through the adoption of a liberal immigration policy to encourage the inflow of expertise to Singapore.

Singapore has a well developed, efficient and cost effective infrastructure; these include telecommunications and transportation networks, legal, accounting and other support services. An established judicial system promotes confidence and is a dependable backdrop for international investors to operate. Singapore also offers an excellent living environment with a high degree of social order, low crime rate, good quality housing and recreational facilities.

The government's prudent fiscal policy has resulted in budget surpluses and strong foreign reserves, and its currency is now one of the stingiest in the world. A strong and stable

currency has helped Singapore to achieve one of the lowest rates of inflation in the world in the past 20 years. This has, in turn, provided an attractive investment environment and laid the foundation for sustainable growth.

## **7.2 Global Links**

From the beginning, SIMEX recognised the importance of adopting an innovative and global approach in meeting needs, considering that Singapore's domestic economy was too small to support its development into a viable marketplace for financial futures.

On its inauguration, SIMEX pioneered the historic establishment of the world's first mutual offset system (MOS) with the Chicago Mercantile Exchange (CME). This international trading link across different time zones provides investors with benefits such as extended trading hours and opportunities, increased risk management capabilities, greater liquidity and reduced transaction costs. The success of the MOS is evident in the fact that in 1994, nearly 11.6 million eurodollar futures contracts were transferred through it, contributing to that product's dramatic growth to become the world's most actively traded futures contract.

The success of the SIMEX-CME MOS has spurred SIMEX to establish more such links. On 9 June 1995, SIMEX set another milestone in global trading links - the world's first MOS for energy, with London's International Petroleum Exchange (IPE). This MOS will provide a global trading facility for Brent Crude Oil futures, one of the most actively

traded energy contracts in the world. The MOS provides the Asia-Pacific market with access to this liquid product for about 18 hours each day.

### **7.3 Diverse Products**

When SIMEX started trading, it offered only three contracts: eurodollar, Deutschemark and gold futures. Today, SIMEX offers 17 international contracts, comprising 12 futures and 5 options contracts in interest rates, stock indices, energy, currencies, and precious metals.

SIMEX's already diverse range of products is set to broaden still in line with its aim to provide a one-stop derivatives supermarket to the international financial community. Of particular interest are interest rates, stock indices and energy which SIMEX has identified as its three core group of contracts. SIMEX is looking at the introduction of regional stock indices, in view of the anticipated increase of investor interest in the region.

With regards to energy, its potential at SIMEX is excellent, given Singapore's position as the world's third largest oil refining centre, as well as a government tax incentive scheme for approved oil traders. The Brent Crude futures contract complements the exchange's High Sulphur Fuel Oil futures to enhance SIMEX's position as an important energy market. The exchange will continue to develop further energy contracts in the future.

#### **7.4 Innovation**

Another hallmark of SIMEX is innovation. In September 1986, SIMEX made history when it launched the world's first futures contract based on the Japanese stock market, the Nikkei 225 futures contract. In February 1995, SIMEX became the first non-Japanese exchange in the world to launch futures and options on the newly created Nikkei 300 stock index. Together with the Nikkei 225 contract, the Nikkei 300 contract enables the exchange to offer global investors and traders in the Japanese equity market a wider choice of instruments for managing their portfolios.

In June 1992, SIMEX became the first exchange in the world to trade during local public holidays. This enables its international customers to manage their investment and trading positions even more efficiently, effectively and on a timely basis. With more than four-fifths of SIMEX's trade derived from overseas, the keen response from its customers was not unexpected. For instance, the four contracts traded on the first local public holiday of 11 June 1992, (Hari Raya Haji) registered an enthusiastic 26,467 lots.

On 3 March 1995 (Hari Raya Puasa), SIMEX traded a record holiday volume of 128,191 lots for the eight contracts traded that day (Eurodollar, Euroyen, and Nikkei 225 futures and options, as well as MSCI Hong Kong index and Japanese government bond futures). This record was considerably higher than SIMEX's daily average volume of about 95,000 and 113,000 contracts traded in 1994 and in March 1995, respectively.

## **7.5 International Members**

SIMEX's membership reflects its international nature. 29 out of 39 Corporate Clearing Members and 29 out of 31 Corporate Non-Clearing Members are non-indigenous firms. Also, more than 8 out of every 10 lots traded by customers last year originated from overseas.

To further understand and meet the needs of its customers, SIMEX opened representative office in New York in September 1995. With this development, customers on the other side of the world will be able to discuss market issues, receive information and channel feedback to SIMEX during their business hours.

## **7.6 Trading and Operations**

Over the years, SIMEX has developed a proven trading and operational system, giving users the assurance of not only an active futures market but also a most sound and secure marketplace that has proven itself.

The quick containment of the effects of the Barings collapse in late February 1995 proved that SIMEX's regulatory system was fundamentally sound. Within a week of Baring Futures Singapore (BFS) failing to meet its margin call on 27 February 1995, the exchange suspended BFS's operations and proceeded to close out or transfer its positions to other clearing members. This was done with minimum disruption to the market, and with no loss to SIMEX, any of its other members or their customers. Indeed, a net

balance of about USD86m remained from BFS's margins held by SIMEX after the transfer and disposal of their positions. This was turned over to the BFS judicial manager for distribution to the customers of BFS.

Nonetheless, the incident has provided some lessons on improving the system. Already, positive developments have taken place, including the appointment of a panel of international experts to advise on improving the operations of the exchange and the industry world wide. At the same time SIMEX and the Monetary Authority of Singapore (MAS) , which regulates the exchange, are jointly reviewing the operations of the exchange to enhance the monitoring of risk exposure. SIMEX has also taken steps to ensure that clearing members strengthen their internal controls and risk management system. In addition, it has appointed an expert with many years of experience in the futures industry to review SIMEX's clearing and settlement operations and its system for market surveillance of member firms. SIMEX has dealt swiftly and effectively with the Barings incident, and shall no doubt emerge stronger from it.

## **7.7 Market Confidence**

The robust trading volume and open interest levels after the incident were strong demonstrations of users' confidence in the financial soundness of the exchange. On 9 March 1995, SIMEX open interest soared to a new high of 1,082,192 contracts. Trading volume for the month of March 1995 also reached a new record of 2,560,960 contracts. This record was again broken in June 1995, when trading volume rose to 2,566,308

contracts for the month. Furthermore, total trading volume for the first six months of this year rose by 13..7% over the same period last year.

Further testifying to the continuing confidence in SIMEX were the decisions by three well established international companies to join SIMEX in the first half of this year. Cargill Investors Services (Singapore) Pte Ltd joined the exchange as a Corporate Clearing Member on 24 March, and GNI (Singapore) Pte Ltd as a Corporate Non-Clearing member on 4 May, while approval-in-principle has been granted to BNP Futures Singapore Pte Ltd to be a Corporate Non-Clearing Member.

Further evidence of investors' confidence in SIMEX is the rising price of seats. Since the first 450 seats were issued in 1984 at SGD50,000 each, Prices have risen steadily, reaching a record price of SGD425,000 transacted in the secondary market on both 11 and 19 July 1995. To meet the increasing demand for trading opportunities on SIMEX, 50 new seats were offered in early July at SGD430,000 each, bringing the number of available seats to 625.

## **7.8 International Recognition**

SIMEX's efforts at meeting the needs of its global users have paid off. It has gained international recognition as an efficient market with a broadening product range for international participants. It has been named 'International Exchange of the Year' by International Financing Review, for an unprecedented three times -in 1989,1992 and 1993.



Today SIMEX is one of the world's top 15 exchanges. Its volume has been growing consistently since its launch, now averaging more than 110,000 contracts daily, compared to about 1,600 contracts in 1984.

With its wealth of experience and its continued efforts and innovation, SIMEX is well-placed to continue its growth further.

## **7.9 Conclusion**

KLOFFE is unlikely to be a threat to the business of the SIMEX as the products offered are so different. ( *John Duggan 1996*). SIMEX has only contracts based on overseas indices and shares. It is more likely that the exchanges will complement each other.

Singapore has gained international recognition and having more than 10 years of experience in the financial futures, that it should be set as a learning partner to Malaysia rather than a rivalry in her early year in this industry.

The growth in China business has meant the emergence of need to address the local treasury issues in China, and the strategy is to build 'satellite' treasury operations that can be close to the business activities in those countries. Although Shanghai may be chosen as the centre for the Chinese activities but there is no reason that this operation should not successfully interface with the Singapore regional office or any other satellite operations that may be set up in the Asian region. Singapore has the critical mass of business that

other regional centres with the exception of Hong Kong will find it difficult to catch up with in this decade. Malaysia, still in its infancy in this industry, should concentrate in its staffing and develop its resources to cater for needs in the country and prepare itself to face challenges in future years or may be to target itself as the Financial hub for Islamic countries in time to come.