

WHO'S SPONSORING WHO?

Challenges of the Catalist Board

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INTRODUCTION

In January 2019, we released a report titled “Where To, Catalist?” based on a study of 23 companies that transferred from the Mainboard to Catalist of the Singapore Exchange (SGX) since 2015. The transferring companies had, on average, poorer corporate governance and lower growth potential than other Mainboard and Catalist companies, and lower profitability than other Mainboard companies.

Avoiding the Watch-lists on the Mainboard was the clearest benefit for companies that transferred to Catalist. About a third of the companies also benefitted from not having to seek shareholder approval for major transactions that exceeded the thresholds in the Mainboard rules following their transfer, while some companies also utilised other less stringent rules on Catalist.

About half saw their average net income worsen, and about two-thirds experienced a fall in their share price following their transfer, while the share liquidity of about half the companies also worsened. Six companies saw all three measures worsen, while only two saw all three measures improving. Therefore, in most cases, transferring to Catalist did not help the companies in terms of their performance and investability.

Over the same period, only six companies transferred from Catalist to the Mainboard. Therefore, Catalist has arguably not achieved its original objective as a platform for growth companies that will over time, transfer to the Mainboard.

Another issue about Catalist that we believe needs to be addressed is the role of sponsors. Under the Catalist regime, there are full sponsors and continuing sponsors who play important roles in the initial admission and continuing listing of an issuer. A full sponsor is responsible for “preparing a listing applicant for admission or advising an issuer in a very substantial acquisition or reverse takeover” and in doing so “must be satisfied that, having made reasonable due diligence enquiries and having considered all relevant matters, the listing applicant, or in the case of a very substantial acquisition or reverse takeover, the enlarged group, is suitable to be listed.” (Catalist Rulebook, Rule 225(1)). The rules set out specific responsibilities and detailed guidance is provided.

A continuing sponsor is required to maintain regular contact with its issuer and be available to advise on all listing rule matters and corporate governance matters (including board governance matters) or arrange for an appropriate adviser to do so. It also has to “review all documents to be released by the issuer to shareholders or to the market (including announcements, resolutions contained in notices of meetings, circulars and corporate actions) before release, to ensure that the issuer is in compliance with the Rules and makes proper disclosure.” (Rule 226(2)). In undertaking continuing sponsorship activities, it is expected to comply with guidance provided.

The Catalist rulebook requires a Catalist company to retain a continuing sponsor as long as it remains listed on Catalist.

A full sponsor can also undertake continuing sponsorship activities, while continuing sponsors, as their names suggest, are only authorised to undertake continuing sponsorship activities.

As sponsors are for-profit entities, there will inevitably be questions as to whether their commercial objectives will undermine their oversight role. Concerns about sponsors relate mostly to conflicts

of interest and their independence. The independence and quality of the work of sponsors is critical under the Catalist regime because SGX relies extensively on both full and continuing sponsors to help ensure that companies are suitable for listing and continue to comply with listing rules. The sponsor is effectively the first line of defence – or frontline regulator - on the Catalist board.

Sponsors are appointed and paid by companies they “sponsor” and can be changed by companies subject to certain minor restrictions. In this study, we find that changes in sponsors are common and some have changed sponsors multiple times.

Sponsors face conflicts given that they often provide non-sponsor services to sponsored companies or have other relationships with them. Such services may include financial advisory, corporate secretarial, share transfer agent, legal and so on, in some cases provided by affiliates of sponsors. Commercial interests may lead them to be “friendly” to companies they sponsor in order to gain other engagements. Sponsors may also be supportive of companies undertaking more transactions, including transactions that may not be in the interests of the company and minority shareholders, because they may stand to earn fees from acting as advisors for these transactions.

There may also be other relationships between the sponsors and sponsored companies, such as directors of sponsored companies serving on boards of affiliates of the sponsors or having consulting relationships with them.

Concerns have also been raised about nominated advisers (Nomads) on the Alternative Investment Market (AIM) in the UK, which are the equivalent of sponsors on Catalist. According to the website AIM-Watch (<https://aim-watch.com/>):

“By carrying out their responsibilities to the Exchange and reporting any malpractice, Nomads naturally run the course of losing out on the fees received from the listed company. Such a system, commentators have suggested, often fails to bring companies to account and therefore properly protect shareholders.

The situation is also made more complicated where the Nominated Adviser also acts as Broker and receives commission for the sums raised for the company. Such a system, you might expect, would create more than a few dilemmas – especially in situations where things are less black and white.

Nevertheless, the number of companies leaving AIM due to the resignation of their Nominated Adviser has risen across recent years, with firms appearing to decide to reduce their exposure to riskier parts of the junior market. In turn, this puts the London Stock Exchange in a difficult situation, with it having to balance improving the quality of the market whilst not driving away a large number of potential new companies from listing.”

OBJECTIVES OF THE STUDY

The current study examines all 20 Catalist sponsors but focuses on their continuing sponsorship role. In the first part of this report, we examine disclosures by Catalist companies relating to fees paid to sponsors for non-sponsor work and the amounts involved. We also look at other relationships involving sponsors or their affiliates.

We then look at changes in sponsors and how long companies tend to keep sponsors for. We also examine the corporate governance and financial performance of companies under the more active sponsors. The report also looks at the different practices of sponsors in naming registered professionals as the contact person(s) for issuers.

In the second part of the report, we present some case studies that raise questions about the effectiveness of sponsors in discharging their responsibilities.

In the third part, we discuss the rules relating to sponsors in the Catalist regime and compare them with those of sponsor-based regimes in Hong Kong, Malaysia and United Kingdom.

KEY FINDINGS

- As of May 2020, there were 215 companies listed on Catalist and 20 sponsors, with 16 full sponsors and four continuing sponsors. PrimePartners Corporate Finance Pte Ltd (PPCF), SAC Capital Private Limited (SACC) and RHT Capital Pte Ltd (RHTC) are the top 3, sponsoring 55 (~25%), 35 (~16%) and 25 (~12%) respectively
- Thirty eight companies or about 18% of Catalist issuers disclosed that they paid non-sponsor fees to their sponsor for the financial year covered, including one which disclosed non-sponsor fees paid to an affiliate. Another five issuers disclosed other fees paid to an affiliate of the sponsor which are not included in non-sponsor fees.
- For the three most active sponsors, PPCF was most commonly paid fees for non-sponsor services by companies they sponsor. Seventeen – or 30% - of their companies did so just for the one year which we considered. In most cases, the nature of the advisory services was not disclosed and even where they were, there was little specific information provided.
- The largest amount of non-sponsor fees paid was \$1.12 million to PPCF by DLF Holdings for acting as sponsor, issuer manager and placement agent. PPCF also received an additional \$0.6 million through the issue of 2,608,700 new shares with a three-month moratorium, as part of its management fee for acting as sponsor and issue manager.
- The nature of the non-sponsor services was disclosed in all cases involving large amounts paid to sponsors, except for issuers sponsored by PPCF.
- Of the 25 issuers under RHTC as of May 2019, affiliate firms of RHTC provided corporate secretarial, investor relations and/or share registrar services for 10 of them. There were also several cases of current or recent relationships between directors of the sponsored issuers and the RHT Group companies, such as directors of sponsored issuers serving on boards of RHT affiliates or providing services to them. Similar relationships were rare for other sponsors.
- 102 out of the 261 issuers included in our study, or 39%, have changed their sponsor at least once. 37 issuers have had at least three different sponsors since their listing on Catalist, with nine having four sponsors and two having five sponsors.
- Based on recent trends of termination of relationship with sponsors by issuers from January 2018 to July 2020, Novus Corporate Finance Pte. Ltd. (NCF) which was only authorised as a

sponsor in June 2018 has been most successful in signing up new clients, followed by ZICO Capital (ZICO) and SACC. These three sponsors picked up 57% of issuers which changed sponsors during this period. The percentage changes in sponsor in 2018 and 2019 are higher than the average annual change since Catalyst started.

- Issuers currently sponsored by Asian Corporate Advisors (ACA), RHTC, Stamford Corporate Services (SCS) and ZICO underperform the overall median for corporate governance and financial performance indicators. In contrast, issuers under CIMB Bank and UOB Bank outperform the median. However, we should caution that this is based on only single-year indicators.
- Six individuals are currently named as the contact person for 10 or more issuers, with the highest number being 26 issuers. Three of these six individuals are registered professionals with PrimePartners Corporate Finance, and they are named as the contact person for 26, 13 and 11 issuers. Another registered professional is named as the contact person for all 20 issuers currently sponsored by ZICO.

PROPOSALS

Some markets have different exchanges but not different boards within an exchange. Stock exchanges may also have different boards for different types of companies based on track record, size, nature of business (e.g., technology versus non-technology) and corporate governance standards. Some exchanges have a separate board that operates under a sponsor-based regime similar to Catalyst, while others do not have such a regime.

The Catalyst board is modelled after the Alternative Investment Market (AIM) in UK, which also uses a sponsor-based regime, but where the sponsor is called a nominated adviser. AIM has performed poorly since it was launched in 1995, as the title of a 2015 article in the Financial Times (June 19, 2015) “Aim – 20 years of a few winners and many losers” says it all. The article reported that research by Professors Elroy Dimson and Paul Marsh at the London Business School found that AIM’s annualised total return over the two decades from its establishment in 1995 was -1.6 percent a year. They found that over the 20 years, investors would have lost money in 72 percent of all companies to have listed on AIM.

Based on the 2,877 companies that have listed on AIM, investors would have lost at least 95 percent of their investment in more than 30 percent of the cases. Only 39 companies, or 1.4 percent, have given investors multiyear returns in excess of 1000 percent. With many more losers than winners, they argue that “the people less equipped to sort the wheat from the chaff are private investors, and the people best equipped are the professional fund managers”.

Another market which uses a sponsor-based based regime is the Growth Enterprise Market (GEM) in Hong Kong. There, companies are required to appoint a sponsor for its listing and a compliance adviser post-listing. GEM was launched in HK in November 1999 and then repositioned in July 2008 from an alternative board for emerging and growth companies to a “stepping stone” to the Main Board. In June 2017, HKEX published a consultation paper on a review of GEM, and changes to the Main Board and GEM listing rules.¹ The review was undertaken because of the

¹ HKEX, Consultation Paper: Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules, June 2017.

limited success of the “stepping stone” positioning, together with other concerns. Clearly, HKEX acknowledged that GEM was not achieving its objective and was proactive in reviewing its positioning.

For Catalist, in the 10 years between March 2010 and May 2020, the number of listings has increased from 130 to 215. Over this period, Catalist listings increased from making up 17% of all listings to 30%. Based on number of Catalist listings, it would appear that Catalist has been successful. However, there has been no published study on the performance of Catalist companies and this was not within the scope of our present study.

Looking at the Catalist issuers in our study for which the FY2019 net income is available, 121 out of 214 – or 56.5% – made losses for FY2019. Those that have been listed on Catalist for longer appear more likely to underperform. For those listed less than 7 years, about 37% are making losses. However, for those that have been listed for more than 7 years, 71% are making losses. While not conclusive, one would expect growth companies to start as relatively unprofitable companies and become more profitable over time.

We urge that a review of the Catalist board be undertaken, even though in principle, we can see the need to continue to have more than one board on SGX for different types of companies. Such a review can consider a number of issues, including some of those raised by our current study.

- How have companies listed on Catalist performed since the first listing in 2008?
- What should be the differentiator for the two boards on SGX? Should it be based on track record, size, industry, or corporate governance or environmental, social and governance (ESG) standards?
- Should Catalist companies continue to be overseen by a sponsor with respect to compliance with rules, or should they be overseen directly by SGX Regco similar to the Mainboard?
- Should Catalist companies be required to retain a sponsor or compliance adviser only for a limited period (with SGX Regco having the power to extend this period) like in HK and Malaysia?
- If the current sponsor-based regime were to continue, how can the current sponsor-based regime be improved, to address the problems raised in this report?

There are currently 16 full sponsors and four continuing sponsors on Catalist. With 216 Catalist listings as of June 2020,² this means that the ratio of Catalist issuers to sponsors is just under 11.

The latest statistics available show that there were 850 companies listed on AIM in the UK³ and 34 nominated advisers as of January 23, 2019.⁴ This means the ratio of AIM issuers to nominated advisers was 25.

² SGX, Market Statistics Report, June 2020

³ <https://www.londonstockexchange.com/raise-finance/equity/aim>

⁴ <https://aim-watch.com/project/advisers-brokers-on-aim/>

This leads to another issue that should be considered:

- Since all sponsors must meet certain minimum requirements in terms of manpower and resources to be registered as a sponsor, are there too many sponsors relative to Catalist issuers? Would this lead certain sponsors to lower their pricing and compromise quality of their work to gain more clients, or to pursue non-sponsor work with issuers under their supervision, thereby creating conflicts?

We are doubtful that the current sponsor-based regime is sustainable in ensuring a well-regulated second board primarily due to conflict of interests. A robust sponsor-based regime requires greater transparency in sponsor and non-sponsor fees; greater restrictions on other work that can be undertaken by sponsors; greater restrictions on relationships between sponsors and issuers; and additional safeguards where the fees earned from non-sponsor work by the sponsor or its affiliates are substantial. This is likely to drive up sponsor fees and for companies listing on the second board, cost is likely an important consideration. There is therefore a tension between a robust sponsor-based regime and cost of listing on a board based on such a regime – a tension that is difficult to reconcile.

PART 1: STUDY OF CATALIST SPONSORS AND ISSUERS

In this part of the report, we examine the current sponsors on Catalist, disclosures of sponsor fees and non-sponsor fees, relationships between sponsors and sponsored companies, changes in sponsors, quality of Catalist companies supervised by different sponsors and the role of registered professionals as contact persons for issuers. Our focus is on the continuing sponsorship role.

1.1. PROFILE OF SPONSORS

We first obtained the list of current Catalyst sponsors and the Catalyst issuers they sponsor from the SGX website as of 31 May, 2019. Table 1 shows that there are 20 sponsors for Catalyst, with 16 being full sponsors and four being continuing sponsors. It also shows the number of issuers each sponsored as of 31 May, 2019.

Table 1. Profiles of Sponsors

No.	Sponsor	Current Status	Date Authorised as		Number of Issuers
			Continuing Sponsor	Full Sponsor	
1	Asian Corporate Advisors Pte. Ltd. (ACA)	Continuing	04-Feb-08		10
2	CIMB Bank Berhad, Singapore Branch (CIMB)	Full		04-Feb-08	19
3	DBS Bank Ltd (DBS)	Full		04-Feb-08	2
4	Evolve Capital Asia Private Limited (ECA)	Full		15-Apr-19	0
5	Hong Leong Finance Limited (HLF)	Full		16-Feb-12	10
6	Maybank Kim Eng Securities Pte. Ltd. (MKES)	Full		05-Oct-16	0
7	Novus Corporate Finance Pte. Ltd. (NCF)	Full		21-Jun-18	4
8	Oversea-Chinese Banking Corporation Limited (OCBC)	Full		04-Feb-08	0
9	PrimePartners Corporate Finance Pte Ltd (PPCF)	Full		04-Feb-08	55
10	Provenance Capital Pte. Ltd. (PF)	Continuing	13-Jun-14		1
11	R & T Corporate Services Pte Ltd (RTCS)	Continuing	04-Feb-08		2
12	RHB Securities Singapore Pte. Ltd. (RHBS)	Full		15-Feb-18	0
13	RHT Capital Pte. Ltd (RHTC)	Full	26-Aug-11	31-Oct-16	25
14	SAC Capital Private Limited (SACC)	Full	16-Feb-09	27-Jan-14	35
15	Stamford Corporate Services Pte Ltd (SCS)	Continuing	04-Feb-08		16
16	United Overseas Bank Limited (UOB)	Full		04-Feb-08	9
17	UOB Kay Hian Private Limited (UOBKH)	Full		07-Apr-14	10
18	W Capital Markets Pte. Ltd. (WCM)	Full		05-Apr-19	0
19	Xandar Capital Pte. Ltd. (XC)	Full	08-Jul-10	30-May-16	1
20	ZICO Capital Pte. Ltd. (ZICO)	Full		08-Aug-16	18

Fifteen sponsors sponsor at least one company (“active sponsors”). Five sponsors did not sponsor any issuers at the time of data collection for this study. These were Evolve Capital Asia Private Limited, Maybank Kim Eng Securities Pte Ltd, Oversea-Chinese Banking Corporation Limited, RHB Securities Singapore Pte Ltd, and W Capital Markets Pte Ltd. Evolve Capital and W Capital Markets only became sponsors in 2019.

Active sponsors vary greatly in the number of issuers they sponsor. PrimePartners Corporate Finance Pte Ltd (PPCF), SAC Capital Private Limited (SACC) and RHT Capital Pte Ltd (RHTC) are the top 3, sponsoring 55 (~25%), 35 (~16%) and 25 (~12%) respectively.

1.2. RELATIONSHIPS BETWEEN SPONSORS AND ISSUERS

Under the Catalist rules, sponsors have to comply with extensive rules on independence and conflicts of interest, and are to have “adequate systems and resources, including controls, procedures and other safeguards to maintain its independence and avoid conflicts of interest”. The proof of independence, or absence of conflict, rests with the sponsor.

Notwithstanding safeguards that may be in place, certain relationships may, at the very least, affect the perceived independence of a sponsor.

Where a sponsor or its affiliate provides other services to a sponsored company, the sponsor may be more hesitant to take action that may jeopardise its provision of such services. If there are disclosure or compliance breaches, reporting to SGX may result in the sponsor being replaced or losing opportunities to provide other services. This is especially so as other than for the first three years after listing on Catalist, there are no restrictions regarding changing a sponsor.

Certain services may also create a self-review threat or other conflicts of interest. For instance, if an investor relations consultant or company secretary is from an affiliate firm, it would be involved in preparing announcements or documents for the sponsored issuer. These are then reviewed by the sponsor from the same group.

If a sponsor also acts as the issue manager, underwriter and placement agent for a listing, its ability to objectively evaluate the suitability of a company for listing may be affected – notwithstanding the counter-argument that the sponsor doing so may have greater incentives to ensure that the applicant is of good quality to ensure a successful listing.

Sponsors may also be more enthusiastic in supporting transactions by the sponsored issuer which present new opportunities for providing services. For example, where a sponsor acts as a financial adviser or independent financial adviser, it may be less prepared to report questionable transactions or rule breaches to SGX, or it may be more supportive of aggressive assumptions to get the deal over the line.

Finally, an affiliate of a sponsor may also have an unfair advantage in bidding to provide other services, as the issuer may feel that appointing the sponsor’s affiliate may lead the sponsor to be more lenient in overseeing its compliance with the rules.

To assess other relationships between sponsors and sponsored companies which may affect the independence of sponsors, we examine the amount of non-sponsor fees paid to sponsors and other services/relationships not captured by non-sponsor fees. We looked at the annual report of 213 issuers, excluding new listings without an annual report and those which have been suspended or delisted, and also checked announcements. Note that we only consider non-sponsor fees for a single financial year.

1.2.1. Sponsor and non-sponsor fees

The Catalist rules do not require sponsor fees to be disclosed. Only two Catalist issuers clearly disclosed sponsor fees on a voluntary basis. Since sponsor fees are not disclosed, it was not possible to compare non-sponsor fees with sponsor fees to assess the materiality of non-sponsor fees.

However, our understanding is that continuing sponsor fees typically range from \$50,000 to \$100,000 per year. Given the fee range for sponsors, it is not surprising that fees for non-sponsor services can dwarf sponsor fees.

For the single year that we reviewed, 38 or about 18% of Catalist issuers disclosed that they paid non-sponsor fees to their sponsor (one disclosed non-sponsor fees paid to an affiliate). The amount non-sponsor fees and type of non-sponsor services for these companies are shown in Table 2. Table 2 also shows that another five issuers disclosed other fees paid to an affiliate of the sponsor which are not included in non-sponsor fees.

Table 2. Non-Sponsor Fees and Other Fees Paid to Sponsors' Affiliates

Company	Sponsor	Amount of Non-Sponsor Fees	Nature of Non-Sponsor Services	Other Fees	Nature of other fees
3Cnergy	CIMB Bank	\$40,000	Not disclosed	-	-
Advancer Global	SAC Capital	\$355,475	Introducer fees for the subscription of Shares in the capital of the Company	-	-
Alpha Energy	PrimePartners Corporate Finance	\$124,013	Not disclosed	-	-
Amplefield	PrimePartners Corporate Finance	\$170,000	Mainly financial advisory services for corporate transactions	-	-
Annica	Stamford Corporate Services	\$45,000	Not disclosed	-	-
Arion Entertainment	PrimePartners Corporate Finance	\$2,500	Not disclosed	-	-
Artivision Technologies	ZICO Capital	\$105,000	IFA fees for disposal of \$70,000 and FA fees for acquisition of \$35,000	-	-
Asia Vets	ZICO Capital	\$834,000	S\$834,000 (comprising S\$437,000 in cash and S\$397,000 in shares of the Company) who acted as the Financial Adviser to the Company in respect of Acquisition	-	-
Ayondo	UOB Kay Hian	\$7,500	Not disclosed	-	-
China Kunda Technology	PrimePartners Corporate Finance	\$15,000	Not disclosed	-	-
China Real Estate Group	Stamford Corporate Services	-	-	\$79,000	Paid to affiliate, Morgan Lewis Stamford for legal services
China Star Food Group	Novus Corporate Finance	\$18,864	Professional fee of S\$15,377.08 paid to previous sponsor Prime Partners for non-sponsor related work and professional fee of S\$18,864.10 paid to Novus for non-sponsor related work	-	-
CNMC Goldmine	PrimePartners Corporate Finance	\$115,000	Not disclosed	-	-
CPH	PrimePartners Corporate Finance	\$150,000	Proposed acquisition – not borne by company	-	-

DLF	PrimePartners Corporate Finance	\$1,120,000	Not disclosed	-	-
Fortress Minerals	PrimePartners Corporate Finance	\$230,000	Not disclosed	-	-
Hatten Land	UOB Kay Hian	\$39,000	Advisory services	-	-
Hyphens Pharma	DBS Bank	\$812,600	Issuer manager, underwriter and placement agent fees	-	-
Imperium Crown	Stamford Corporate Services	-	-	\$40,727	Paid to affiliate, Morgan Stamford LLC, in connection with a proposed acquisition
International Press Softcom	PrimePartners Corporate Finance	\$43,000	Not disclosed	-	-
ISEC Healthcare	PrimePartners Corporate Finance	\$7,000	Not disclosed	-	-
Jiutian Chemical	PrimePartners Corporate Finance	\$8,000	Not disclosed	-	-
KLW	R & T Corporate Services	-	-	\$33,278	Paid to affiliate, Rajah & Tann Singapore LLP
Kori	PrimePartners Corporate Finance	\$7,200	Not disclosed	-	-
KTMG Limited	SAC Capital	\$340,000	Financial advisory services for RTO	-	-
Lasseters International	Stamford Corporate Services	-	-	\$11,400	Paid to affiliate, Zico-Stamford Corporate Services, as secretarial fee (retainer)
LHN	PrimePartners Corporate Finance	\$28,000	Advisory services	-	-
Lifebrandz	SAC Capital	\$25,000	Not disclosed	-	-
Medinex	Novus Corporate Finance	\$7,362	Not disclosed	-	-
Medtecs International	R & T Corporate Services	-	-	\$35,191	Paid to affiliate, Rajah & Tann Singapore LLP
Megachem	SAC Capital	\$6,000	Not disclosed	-	-
Miyoshi	CIMB Bank	\$108,000	Declared as non-sponsorship related fees but paid to affiliate, CGS-CIMB Securities, as placement agent	-	-

Ocean Sky	UOB Kay Hian	\$70,000	Manager for rights-cum-warrants issue	-	-
Old Chang Kee	PrimePartners Corporate Finance	\$18,000	Valuation advisory services	-	-
Plato Capital	PrimePartners Corporate Finance	\$50,000	Not disclosed	-	-
Reclaims Global	SAC Capital	\$420,000	For listing on Catalist	-	-
Rich Capital	PrimePartners Corporate Finance	\$391,916	Not disclosed	-	-
Serrano	PrimePartners Corporate Finance	\$8,000	Not disclosed	-	-
Silkroad Nickel	ZICO Capital	\$980,000	S\$980,000 (comprising S\$300,000 in cash and S\$680,000 in shares of the Company) for acting as Financial Adviser in respect of acquisition.	-	-
Sim Leisure Group	ZICO Capital	\$330,000	In connection with listing	-	-
Singapore Medical Group	CIMB Bank	\$68,000	Not disclosed	-	-
Spackman Entertainment	RHT Capital	\$28,000	Advisory services for proposed spin-off listing	-	-
TSH	SAC Capital	\$400,376	Advisory and involvement in the corporate exercises, and acting as financial adviser, including \$312,000 for RTO paid by vendors	-	-

For the three most active sponsors, PPCF was most commonly paid fees for non-sponsor services relative to the number of companies they sponsor. Seventeen – or 30% – of their companies did so just for the one year which we considered. For SACC, it was six out of 35 companies, or 17%, while for RHTC, it was only one out of 25. We do not know why PPCF is more likely to be paid non-sponsor fees compared to other sponsors.

For companies sponsored by PPCF, the nature of the advisory services was often not disclosed and even where they were, there was little specific information provided. In some cases, the amounts paid were relatively immaterial.

Some sponsors received non-sponsor fees that were many multiples of the sponsor fees based on our knowledge of market practice for sponsor fees. The largest amount of non-sponsor fees paid was \$1.12 million to PPCF by DLF Holdings. DLF did not disclose the nature of these fees in its FY2018 annual report but the offer document for its listing in July 2018 disclosed that PPCF was paid this fee for acting as sponsor, issuer manager and placement agent. The offer document also disclosed that PPCF received an additional \$0.6 million through the issue of 2,608,700 new shares – or 2.15% of the total outstanding shares after the placement – with a three-month moratorium, as part of its management fee for acting as sponsor and issue manager. This non-cash fee was not disclosed in DLF's FY2018 annual report as part of non-sponsor fees.

Recent commentaries have raised numerous concerns about the disclosures and corporate governance practices at DLF.⁵ Less than two years after it listed as a mechanical and electrical engineering services and solutions provider, it has undergone a reverse takeover and morphed into a blockchain company.

PPCF was also paid relatively large non-sponsor fees of \$391,916 by Rich Capital and \$230,000 by Fortress Minerals.

The second and third largest amounts of non-sponsor fees were \$980,000 at Silkroad Nickel and \$834,000 at Asia Vets, both to ZICO Capital (ZICO), for acting as financial adviser in an acquisition; and the fourth largest amount was \$812,600 at Hyphens Pharma to DBS Bank for issue manager, underwriting and placement agent fees.

SACC was paid non-sponsor fees of \$355,475 at Advancer Global, \$340,000 at KTMG, \$420,000 at Reclaims Global and \$400,376 at TSH (including \$312,000 paid by vendors).

The nature of the non-sponsor services was disclosed in all cases involving large amounts paid to sponsors, except for issuers sponsored by PPCF.

⁵ Mak Yuen Teen and Chew Yi Hong, "Time for 'fit and proper' tests for directors of listed companies, not just for financial institutions," Business Times, March 3, 2020; Mak Yuen Teen and Chew Yi Hong, "DLF Holdings: Searching for the spirit of good governance," March 10, 2020, governanceforstakeholders.com.

1.2.2. Other relationships

We also examined whether there were other relationships between a sponsor or sponsor group (i.e., including affiliates of the sponsor) and a sponsored company. We considered the following ten sponsors:

- Asian Corporate Advisors (ACA)
- CIMB Bank (CIMB)
- Hong Leong Finance (HLF)
- Prime Partners Corporate Finance (PPCF)
- RHT Capital (RHTC)
- SAC Capital (SACC)
- Stamford Corporate Services (SCS)
- United Overseas Bank (UOB)
- UOB Kay Hian (UOBKH)
- ZICO Capital (ZICO)

At the commencement of our study, they sponsored between nine and 55 issuers. The next most active sponsor outside these top 10 sponsored four issuers.

Other relationships are far more common for RHTC than for other sponsors and we detail these relationships in the “Spotlight” section.

Trendlines disclosed that PrimePartners Holdings was among the shareholders and partners for its Trendlines Medical Singapore incubator. At Old Chang Kee, lead independent director Tan Han Beng was a Registered Professional at PPCF from July 1, 2014 to Dec 31, 2018 prior to his appointment on July 25, 2019.

In the case of the 16 companies sponsored by SCS, five disclosed relationships with Morgan Lewis Stamford LLC for provision of legal services in the year under review or previous year. Such relationships could change from year to year. Where fees were paid, they were disclosed. At Lasseters International, it was also disclosed that Zico-Stamford Corporate Services was paid a retainer for secretarial services.

For the sponsors that are associated with banks, most of the relationships appear to be associated with banking, custodian and nominee services. To be clear, we do not consider all relationships to necessarily pose a conflict.

Spotlight: RHT Capital – A Sponsor with Many Non-Sponsor Relationships

We found that RHT affiliates often provided other services to issuers sponsored by RHTC. We also found cases of directors of RHTC-sponsored issuers who serve or have recently served on boards of RHT affiliates or do other work for RHT affiliates.

Other services

Of the 25 issuers under RHTC as of May 2019, affiliate firms of RHTC provided corporate secretarial, investor relations and/or share registrar services for 10 of them. Table 3 shows these other services and whether RHT affiliates started providing them before or after their appointment as sponsor.

Table 3. Other Professional Services Provided By RHT Group Firms to RHT Capital-Sponsored Issuers

Type of other services	Catalist issuer (year listed on Catalist)	Before/after appointment as sponsor
Investor relations	Accrelist Ltd. (11 Nov 2016)	After
Company secretary, share registrar	Asiatravel.Com Holdings Ltd (1 Oct 2012)	After
Company secretary	GKE Corporation Limited (17 Apr 2012)	After
Company secretary, investor relations	Jubilee Industries Holdings Ltd. (27 Jun 2014)	After
Share registrar, Company secretary	KOP Limited 14 May 17	Before
Share registrar	Ley Choon Group Holdings Limited (22 Feb 2017)	After (6 days later)
Company secretary, share registrar	Metech International Limited (24 Dec 2016)	Before and after (company secretary 8 days later)
Company secretary, share registrar	No Signboard Holdings Ltd (30 Nov 2017)	After (share registrar); company secretary since IPO
Company secretary, share registrar	Synagie Corporation Ltd. (8 Aug 2018)	Since IPO; company secretary ceased to be RHT-related from 1 Jan 2020
Share registrar	Y Ventures Group Ltd. (11 Jul 2017)	Since IPO

At Accrelist and Jubilee, RHT Communications and Investor Relations Pte Ltd (RCIR) was appointed as the companies’ “dedicated investor relations team to handle investors’ queries and assist on all matters related to investor relations”. At Asiatravel.com, KOP, Ley Choon, Metech, No Signboard, Synagie and Y Ventures, RHT Corporate Advisory (RCA) was appointed as share registrar. Asiatravel.com, GKE, Jubilee, KOP, No Signboard and Renewable Energy Asia

use RCA as their company secretary while Metech and Synagie procured their company secretary services from RCA until recently.

In other words, seven out of 25 RHTC-sponsored issuers chose RCA to provide share registrar services while eight of them use or have used RCA as their company secretary. In all these cases, fees for these services paid to affiliates were not disclosed as this was not required.

In May 2019, RCA, which provides corporate secretarial and share registrar services, was sold to In.Corp Global. However, the RCA name is still used. It is not known if there is any arrangement which provides financial benefits to the RHT Group should any of its sponsored companies use RCA services, or if there are any financial targets or “earn-out” in the sale to In.Corp.

Regardless, the share registrar and corporate secretarial services in the abovementioned companies were provided by RCA before it was sold to In.Corp Global. Therefore, even if conflicts no longer exist, possible conflicts existed before RCA was sold. Further, these clients of RCA would presumably have been reflected in the sale price of RCA.

In nearly all the 10 companies where RHT affiliates provided other services, the affiliate was appointed either at the time of listing (when RHTC was the full sponsor) or after RHTC was appointed as continuing sponsor. In one company, RCA was appointed as share registrar just six days after RHTC was appointed as sponsor, while in another case, RCA was appointed as company secretary just eight days after.

At No Signboard, RHTC is the sponsor, RCA is the provider of corporate secretarial and share registrar services, and RHTLaw Taylor Wessing LLP were the solicitors to the issue manager and sponsor (RHTC), and to the bookrunner, underwriter and placement agent at the IPO.⁶

Interlocking directorships

We also found current or recent relationships between directors of the sponsored issuers and the RHT Group companies.

At Asian Micro Holdings, one of the directors of the company, Mr Lee Teck Seng Stanley, is the nephew of the executive chairman, who is also the largest controlling shareholder. On August 21, 2018, the company announced the re-designation of Mr Lee from non-independent non-executive director to an independent director.

Mr Lee had held an appointment with RHT Family Office Pte Ltd, and was also a director of RHT Strategic Advisory Pte Ltd from 2014 to 2016. In fact, he was a director at RHT Strategic Advisory Pte Ltd when he was first appointed to Asian Micro’s board as a non-independent non-executive director in August 2016.

⁶ On January 24, 2020, Taylor Wessing and RHTLaw announced that they “have decided to move towards a collaborative relationship in place of our formal links” and law practice in the RHT group was renamed RHTLaw Asia LLP.

At Metech, independent director Chay Yiowmin is a director of RHT Chestertons Valuation & Advisory Pte Ltd. Another independent director, Mr Ricky Sim, was Managing Director of Chesterton Suntec International Property Consultants. A November 2017 Business Times report mentioned that he was the non-executive chairman of RHT Chestertons.

At Ley Choon, lead independent director Roy Ling Chung Yee is a consultant for RHT Strategic Advisory and RHT Academy.

Under such circumstances, would RHTC be perceived to be objective in advising on the suitability or independence of a director?

Other relationships

At Olive Tree Estates, RHTC was listed as the ninth largest shareholder, holding 2.9% of the company's shares. The shares were payment made to RHTC for acting as financial adviser in the reverse takeover. There were other companies where sponsors such as PPCF and UOB Kay Hian held shares. There are different schools of thought on sponsors accepting shares as payment for services, and the shareholdings in all these cases were all well below the ten percent limit permitted under SGX rules.

1.3. CHANGES IN SPONSORS

We next examine changes in sponsors after the listing of the issuer. Issues we examine include:

- whether sponsor relationships were prematurely terminated (i.e., before the mandatory three-year period for the initial sponsor);
- number of sponsor changes for issuers under each sponsor;
- duration of relationship between sponsored company and past sponsors; and
- recent trends of termination of relationship between sponsors and issuers and appointment of new sponsors

Data on the relationships between sponsors and issuers were obtained from the SGX website. Terminations are shown by an issuer leaving a sponsor for another sponsor, while remaining listed on Catalist.

The following methodology was used to perform data cleaning. First, we updated the names of issuers and sponsors. This controlled for name changes and mergers or acquisitions, which would otherwise be reflected as a termination of a sponsor-issuer relationship (see Appendix A). Next, we controlled for issuers that delisted or transferred to the Mainboard, because this does not constitute a premature termination. Finally, we controlled for issuers that were originally listed on SESDAQ and those that transferred from the Mainboard to Catalist. This is because these issuers could appoint continuing sponsors, instead of appointing and retaining a full sponsor for three years. For these issuers, they could change sponsors anytime after their transfer.

1.3.1 Premature Termination of Initial Sponsors

Rule 225(3) states that issuers must retain a full sponsor – which conducts introducing activities – for at least three years after it is listed on Catalist. Premature terminations must receive the approval of the Exchange, which will only be given in exceptional circumstances. No duration is specified for subsequent sponsors. The “three-year” rule does not apply to those that transferred from SESDAQ when it was replaced by Catalist, and those that transferred from the Mainboard to Catalist.

Only one Catalist issuer – ZICO Holdings, prematurely terminated its initial sponsor. ZICO Holdings is designated by SGX as a Fast Track company, and is the parent company of ZICO Capital, itself a Catalist sponsor.

PPCF was the full sponsor of ZICO Holdings and remained as continuing sponsor for about 22 months. It was then replaced by SCS in September 2016. The reason given for switching from PPCF to SCS was because ZICO and PPCF are both full sponsors and will engage in activities which are in direct competition. About 18 months later, the sponsor was changed again, to ACA in March 2018. The reason given for the change from SCS to ACA was “commercial reasons, including a preference of having a continuing sponsor with corporate finance background”. The change from SCS to ACA occurred after the minimum retention period of 36 months.

1.3.2. Changes in Continuing Sponsors

We next examine changes in continuing sponsor, including how frequently issuers terminate relationships with sponsors and duration of sponsor-issuer relationships.

Given that the sponsor is supposed to oversee the issuer, a change may be perceived negatively by the market. In a report on warning signs and red flags, a change in sponsor was identified as one of the warning signs of trouble ahead for a Catalist company.⁷ A change of sponsor may indicate disagreement between the sponsor and issuer, compliance issues with the issuer, or the sponsor being seen as too strict.

However, it is also possible that an issuer changes sponsor because the sponsor lacks the necessary competencies (for example, some continuing sponsors may lack corporate finance experience, which the issuer may value), is not doing a good job in advising the issuer or because of lower fees.

We believe that where an issuer changes its sponsor multiple times over a relatively short period, it is more likely to be an indication of underlying problems with the issuer.

Methodology

We exclude the period during which companies are not allowed under the rules to change the sponsor without approval from SGX. Therefore, for companies that listed directly on Catalist, we excluded the first three years after listing as issuers have to retain their full sponsor as the

⁷ Mak Yuen Teen and Richard Tan, *Avoiding potholes in listing companies*, CPA Australia, 2019.

continuing sponsor during this period. However, as mentioned earlier, only ZICO Holdings changed the sponsor during the first three years.

For companies that transferred from the Mainboard to Catalist and those that were listed on SESDAQ and transferred to Catalist, there is no minimum retention period for the initial sponsor. For these companies, we consider their entire listing history on Catalist.

We checked for changes in company names and mergers of sponsors. Where there is a change in company name, we used the latest company name. This is to ensure that a company with a new name but the same sponsor is not treated as having terminated its previous relationship. Where there is a merger or acquisition of sponsors, we use the name of the latest sponsor.

Results

Table 5 summarises how frequently issuers changed sponsors, by aggregating the total number of changes for all Catalist issuers. It shows that 102 out of the 261 issuers included in this analysis, or 39%, have changed their sponsor at least once.

Table 5. Frequency of changes in sponsors⁸

Number of changes	Number of issuers
4	2
3	9
2	26
1	65
0	159

Table 5 shows that 37 issuers have had at least three different sponsors since their listing on Catalist, that is, they have changed sponsor at least twice. No issuer has had more than five sponsors or changed sponsor more than four times up to June 2019. For the 11-year period covered in Table 5, there were 152 changes for the 261 issuers.

We should point out that in some cases, the company had to change the sponsor because the sponsor ceased its sponsorship business - these being KW Capital Pte Ltd, Philip Securities Pte Ltd and Shooklin Advisory Services Pte Ltd. These “forced” changes are included in Table 5 and Table 6(A). However, a change in name of sponsor or a sponsor which was acquired was adjusted for and not treated as a change in sponsor.

Table 6(A) shows that two issuers have had the most number of sponsors (five different sponsors) from the time they were listed on Catalist to June 2019. They are KLW Holdings and Vashion Group.

⁸ This table examines all Catalist issuers, including those that were delisted or transferred to the Mainboard. Therefore, the total number of issuers is 261, instead of the 217 shown in Section 3.1.

Table 6(A). Catalyst issuers with most number of sponsors

No.	Company Name	Number of Sponsors
1	KLW Holdings	5
2	Vashion Group	
3	Adventus Holdings	4
4	CWX Global	
5	EMS Energy	
6	Global Dragon	
7	P99 Holdings	
8	Pan Asian Holdings	
9	SBI Offshore	
10	Sunrise Shares Holdings	
11	Wilton Resources Corporation	3
12	3Cnergy	
13	AA Group Holdings	
14	Arion Entertainment Singapore	
15	Asia Vets Holdings	
16	Asiamedic	
17	Asian Micro Holdings	
18	Bright Orient (Holding)	
19	Chaswood Resources Holdings	
20	China Yongsheng	
21	Chinese Global Investors Group	
22	Colex Holdings	
23	Epicentre Holdings	
24	Heatec Jietong Holdings	
25	Imperium Crown	
26	KOP	
27	KTMG	
28	Libra Group	
29	Memories Group	
30	Mercurius Capital Investment	
31	Rich Capital Holdings	
32	Sincap Group	
33	Singapore Medical Group	
34	Sinjia Land	
35	Sinocloud Group	
36	Top Global	
37	ZICO Holdings	

We next look more closely at the companies that have had at least three sponsors since their listing on Catalist, which means that they changed sponsors at least twice. These are the 37 issuers included in Table 6(A).

Since issuers that have been listed for a longer period on Catalist are more likely to have changed sponsors, we look at the average duration per sponsor for these 37 issuers. Given that issuers that are still listed on Catalist may continue to retain their current sponsor indefinitely, and those that delisted or upgraded would have prematurely ended the relationship with the last sponsor, we exclude the last sponsor and its duration from this computation.

For this analysis, where an issuer was forced to change sponsor because a sponsor ceased its sponsorship business, we do not count it as a change in sponsor. In such cases, we include the duration for this sponsor and divided by the number of other sponsors used. In other words, we assume that if the sponsor had not ceased its business, the issuer would have continued with it until it changed sponsor again.

The average duration across is 38 months, with a minimum average duration of 17 months and a maximum average duration of 57 months.

Table 6(B) shows the 12 issuers with at least two previous sponsors and an average duration of relationship of less than three years with these previous sponsors. We can see that six of the issuers in Table 6(B) have now retained their latest sponsor for more than three years.

Table 6(B). Catalist issuers with shortest average relationship with their sponsors

No.	Company Name	Number of Voluntary Changes	Average Tenure per Previous Sponsor (months)	Current Sponsor	Tenure of Current Sponsor (in months, as at July 29, 2020)
1	ZICO Holdings	2	19	ACA	29
2	Sinjia Land		21	ACA	20
3	Sincap Group		26	SCS	42
4	3Cenergy		29	CIMB	65
5	Singapore Medical Group		32	CIMB	68
6	AA Group Holdings		33	SACC*	7
7	EMS Energy		35	UOBKH	63
8	P99 Holdings	3	17	NA**	NA
9	Pan Asian Holdings		24	PPCF	59
10	KLW Holdings		25	R&T	52
11	SBI Offshore		34	ZICO	22
12	Sunrise Shares Holding		35	NCF***	10

* AA Group's latest sponsor at the time of our initial data collection was SCS, which it retained for just under 52 months. It changed to SACC on 26 December 2019 and the current tenure of SACC is 7 months.

** No longer listed

*** Sunrise Shares Holdings' latest sponsor at the time of our initial data collection was ZICO Capital which they retained for just over the year. On 1 October 2019, it changed sponsor again to Novus Corporate Finance (NCF) and the current tenure of NCF is 10 months.

We further looked at the recent trends of termination of relationship with sponsors by issuers and appointment of new sponsors from January 2018 to July 2020. Excluding delistings, there were 20, 18 and four instances of issuers switching sponsors in 2018, 2019 and 2020 (up to July) respectively. There were 200, 214 and 216 Catalyst listings at the end of 2017, 2018 and 2019. If we compare the number of changes in 2018 and 2019 to the average number of Catalyst listings in each of those two years, the percentage of issuers that changed sponsor is about 9.7% in 2018 and 8.4% in 2019. These are higher than the overall annual average over the 11-year period between 2008 and June 2019 mentioned earlier.

Of these 42 changes, three sponsors stood out by signing up the most number of issuers. They are Novus Corporate Finance Pte. Ltd. (NCF), ZICO and SACC with 9 (21%), 8 (19%) and 7 (17%) respectively. These three sponsors picked up 57% of issuers which changed sponsors during this period.

As mentioned in Table 1, NCF was not even authorised for the whole period. It was authorised as a full sponsor only in June 2018. As such, NCF alone took up 29% of the market share (or 9 out of 31 changes) since its authorisation as a full sponsor. It is also observed that PPCF, despite being the largest sponsor by number of issuers, was relatively inactive in signing up issuers which were looking for new sponsors.

In addition, we looked at the sponsors that issuers switched away from during the same period. PPCF was replaced as sponsor by 12 issuers. They are followed by SCS with 6 and RHTC and SACC with 5 each. It is unsurprising that there is a correlation between the number of issuers switching away and the size of the sponsors (in terms of number of issuers).

Table 7. Changes in sponsorship from January 2018 to July 2020

Sponsor	Issuers signed up		Sponsor	Issuers lost	
Novus Corporate Finance	9	21%	PrimePartners Corporate Finance	12	29%
ZICO Capital	8	19%	Stamford Corporate Services	6	14%
SAC Capital	7	17%	RHT Capital	5	12%
RHT Capital	4	10%	SAC Capital	5	12%
Asian Corporate Advisors	3	7%	CIMB Bank	3	7%
UOB Kay Hian			ZICO Capital	3	7%
PrimePartners Corporate Finance			Asian Corporate Advisors	2	5%
Hong Leong Finance	2	5%	Hong Leong Finance	2	5%
Stamford Corporate Services			UOB	2	5%
CIMB Bank	1	2%	UOB Kay Hian	2	5%
Total	42		Total	42	

1.4. CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF ISSUERS UNDER EACH SPONSOR

We next look at the corporate governance and financial performance of the issuers under each sponsor.

The quality of corporate governance is based on the score for the 2018 Singapore Governance and Transparency Index (SGTI) published by the Centre for Governance, Institutions and Organisations (CGIO) of the NUS Business School on 6 August, 2018.

Financial performance is measured by net income and return on equity obtained from Bloomberg Professional Services as of 26 June, 2019.

We calculate the median for each of the above measures for all issuers under each sponsor, and compare each median with the overall median for that measure.

Table 8 shows the results of this analysis. The highlighted cells indicate cases where the median for issuers under a sponsor is below the overall median for all issuers for a particular measure, indicating that the issuers are under-performing its peers on that measure.

Overall, issuers sponsored by ACA, RHTC, SCS and ZICO underperform the overall median across all three indicators. In contrast, issuers under CIMB and UOB outperform the median across all indicators.

Table 8. Corporate governance and financial performance of issuers under each sponsor (highlighted cells represent values less than the median in each column)

Sponsor	N	SGTI Score (Median)	Net Income (Median)	Return on Equity (Median)
Asian Corporate Advisors	10	49.50	-1,726,000	-4.96
CIMB Bank	19	59.50	327,697	1.61
Hong Leong Finance	10	49.00	524,500	2.63
PrimePartners Corporate Finance	56	52.00	258,746	1.28
RHT Capital	25	47.00	-1,451,885	-7.27
SAC Capital	35	53.00	-694,000	-0.19
Stamford Corporate Services	16	46.00	-1,310,025	-3.02
United Overseas Bank	8	58.00	1,749,000	4.24
UOB Kay Hian	10	59.00	-826,755	-3.50
ZICO Capital	18	45.50	-2,467,000	-6.97
Overall median (all Catalist issuers)	207	52	-496,558	-1.12

The analysis of the quality of corporate governance and financial performance suggests that the issuers sponsored by ACA, RHTC, SCS and ZICO are of lower quality. However, we should caution that this is based on only single-year indicators.

Finally, table 9 shows the number of Catalist issuers that were upgraded to Mainboard, had a voluntary delisting, or a mandatory delisting. This table is presented more for completeness to rule out survivorship bias for the previous analysis which only looked at quality of only those issuers that remained listed on Catalist.

For the five Catalist issuers that were mandatorily delisted, three had been supervised by PPCF, 1 by ACA and 1 by RHTC, but PPCF also had more issuers that were upgraded to the Mainboard or had a voluntary delisting (which may or may not be at a price that minority investors viewed as fair). This could simply be the “law of large numbers” playing out as PPCF has the most issuers. Nevertheless, on these criteria, it looks like issuers under CIMB, SACC and SCS performed better.

Due to the relatively small number of issuers that have upgraded and delisted, this analysis does not significantly affect our previous findings on the corporate governance and financial performance of each sponsor.

Table 9. Number of issuers that upgraded to Mainboard, voluntarily delisted or were directed to delist under each sponsor

Sponsor	Upgrade to MB	Voluntary delisting	Mandatory delisting
Asian Corporate Advisors	1	0	1
CIMB Bank	3	1	0
Hong Leong Finance	1	0	0
PrimePartners Corporate Finance	4	4	3
RHT Capital	0	0	1
SAC Capital	3	3	0
Stamford Corporate Services	4	1	0
United Overseas Bank	0	1	0
UOB Kay Hian	0	0	0
ZICO Capital	0	0	0

1.5. TRANSPARENCY IN RESPONSIBLE REGISTERED PROFESSIONALS

Appendix 2E of the Catalist rulebook requires the annual return lodged by the sponsor with SGX to disclose the names of the Registered Professionals (RPs) involved with each issuer. It also requires the names of the RPs involved in specific transactions to be disclosed.

Rule 226(2)(b) of the Catalist Rulebook requires announcements by a Catalist company to include the full name and contact details of the contact person for the sponsor. However, the Rulebook does not explicitly say the contact person named must be a RP involved with the issuer.

Table 10 shows the 11 RPs from the top 10 sponsors who are named as the contact person for 7 or more Catalist companies as of July 26, 2020.⁹

⁹ Note that for Table 10, we use the latest information as of July 26, 2020, and therefore the number of companies sponsored by each issuer may be different from some of the earlier sections.

Table 10. Contact Persons for Most Number of Catalist Companies

Sponsor	Contact Person	Number of Companies
PrimePartners Corporate Finance	Gillian Goh	26
ZICO Capital	Alice Ng	20
PrimePartners Corporate Finance	Jennifer Tan	13
PrimePartners Corporate Finance	Joseph Au	11
UOB Kay Hian	Lance Tan	11
SAC Capital	Tay Sim Yee	10
SAC Capital	Lee Khai Yinn	9
SAC Capital	David Yeong	9
Stamford Corporate Services	Bernard Lui	8
UOB Bank	Chia Beng Kwan	7
CIMB Bank	Yee Chia Hsing	7

Based on the top 10 sponsors, six individuals are named as the contact person for 10 or more issuers, with the highest number being 26 issuers. Three of these six individuals are from PPCF, and they are named as the contact person for 26, 13 and 11 issuers. The other three are from ZICO (20 issuers), UOBKH (11 issuers) and SACC (10 issuers). Based on our observations, some sponsors, such as ZICO, name the same contact person for all the companies that they sponsor.

We understand from some sponsors that their practice is to name the responsible RP as the contact person – a practice we believe is transparent and ensures that the responsible RP is accountable and the market knows who that person is if there are breaches in rules.

For others such as PPCF and ZICO, where one RP is named as the contact person for 20 or more companies, it is unclear if that person is one of the RPs listed in the annual return as being involved with the issuer. If it is not, we do not believe that this is transparent. If it is, then it may raise concerns that those individuals may be involved in too many companies to be able to adequately discharge their responsibilities.

We believe that SGX should make clear that the contact person named in announcements is one of the RPs who is involved with the issuer. It may also need to review if some RPs are involved in too many companies.

PART 2: CASE STUDIES ON DISCHARGE OF SPONSOR RESPONSIBILITIES

In this part of the report, we examine some case studies which raise questions about whether sponsors are able to effectively perform their roles in overseeing issuers.

2.1. SPONSOR'S RESPONSIBILITIES IN ENSURING COMPLIANCE WITH RULES

Case study 1

Rule 225(1) of the Catalist Rulebook states: “A full sponsor, in preparing a listing applicant for admission or advising an issuer in a very substantial acquisition or reverse takeover, must be satisfied that, having made reasonable due diligence enquiries and having considered all relevant matters, the listing applicant, or in the case of a very substantial acquisition or reverse takeover, the enlarged group, is suitable to be listed.”

Rule 225(1)(c) requires a full sponsor to “conduct the due diligence process for the offer document or shareholders' circular” and “oversee, and be actively involved in, the preparation of the offer document or shareholders' circular and ensure compliance with any rule requirements or legal requirements”.

In July 2015, Catalist-listed Brooke Asia convened an EGM to approve the acquisition of all the shares of China Star Food Holdings (CSFH) in a reverse takeover (RTO). PrimePartners Corporate Finance (PPCF) was the financial adviser and sponsor. At the EGM, a total of 13 resolutions were put up for approval by Brooke Asia's shareholders.

Ordinary resolution 2 was as follows:

Proposed allotment and issue of (i) 840,000,000 Consideration Shares to the Vendors in satisfaction of the Purchase Consideration for the Proposed Acquisition, (ii) 3,500,000 PPCF Shares to PPCF in partial settlement of their fees and (iii) 27,500,000 Arranger Shares to the Arranger in satisfaction of the arranger fees, at the Issue Price of S\$0.20 for each Share

The EGM notice stated: *Shareholders should note that the passing of resolutions 1, 2, 3, 4, 5, 6, 7, 8 and 9 contained within this Circular are inter-conditional (“Inter Conditional Resolutions”), and the passing of resolutions 10, 11, 12 and 13 are conditional on the passing of the Inter-Conditional Resolutions. This means that if any one of the Inter-Conditional Resolutions is not approved, the other resolutions will not be passed.*

The circular did not explain why all the first nine resolutions had to be inter-conditional. The extent of inter-conditionality in Brooke Asia's case was unprecedented.

Guideline 16.2 of the Singapore Code of Corporate Governance (2012) recommends “separate resolutions on each substantially separate issue and that companies should avoid bundling resolutions except where resolutions are interdependent and linked to form one significant proposal”. [Provision 11.2 under the 2018 Code has a similar recommendation.]

In addition to the inter-conditionality of nine of the resolutions, resolution 2 bundled the proposed allotment and issue of consideration shares to the vendors with the proposed allotment and issue of shares to the financial adviser and sponsor as partial payment of their fees and also the fees to the “arranger”.

To make matters worse, the resolutions relating to the proposed appointment of six directors, including three independent directors, were all bundled into a single ordinary resolution 4 which arguably contravenes section 150(1) of the Singapore Companies Act

Are there not perception issues when the sponsor is supposed to review the contents of the notice and circular, and the resolution on payment of fees to itself is bundled and made inter-conditional with other resolutions? Further, the extreme bundling of resolutions is arguably not in compliance with the Code and, in the case of the election of the directors, also not in compliance with the Companies Act.

Did the full sponsor fulfil its responsibilities pursuant to rule 225?

Source: Mak Yuen Teen And Chew Yi Hong, A Truly Extraordinary Meeting That Raises Many Issues, Business Times, March 30, 2016.

Case study 2

At the time of the Catalist listing of SBI Offshore (SBIO) in November 2009, Prime Partners Corporate Finance (PPCF) was the manager, sponsor and sub-placement agent. In September 2016 when the dispute between the then SBIO board and requisitioning shareholders broke out, PPCF was SBIO's continuing sponsor. Two of the three substantial shareholders requisitioning for the EGM were management of SBIO at the time of the IPO – one was the executive chairman and the other an executive director.

As part of its responsibilities as a full sponsor at the time of listing, PPCF would have been required to do extensive due diligence on the directors and key officers and on the offer document. In discharging its responsibilities as continuing sponsor following the listing, PPCF would have to provide advice and oversight regarding compliance with rules.

The former executive chairman, who was one of the requisitioning shareholders, was proposed as a director and the then board had raised questions about his suitability. Given that PPCF was full sponsor and continuing sponsor when this proposed director was executive chairman, was PPCF in a position to objectively advise about his suitability as a proposed director?

Then there was the matter of contradictory sale and purchase agreements for a transaction before the IPO. PPCF's statement said that "so far as it is aware, the undated acquisition agreement is the valid one." This would imply that PPCF as full sponsor would accept undated agreements for the purpose of disclosure in prospectuses, circulars and announcements. However, the alternative would be acknowledging that they had incorrectly accepted an undated agreement. Neither alternative would have put PPCF in a good light.

These episodes raise questions of having a full sponsor acting as continuing sponsor, as subsequent breaches discovered may cast doubt on whether the sponsor has adequately discharged its full sponsorship responsibilities.

Similarly, in other cases such as DLF Holdings, No Signboard and Y Ventures, post-listing disclosures show possible problems with a company before its IPO which raise questions as to whether the full sponsor concerned had adequately discharged its responsibilities with regards to Rule 225, including the following: “conduct the due diligence process for the offer document or shareholders' circular”; “oversee, and be actively involved in, the preparation of the offer document or shareholders' circular and ensure compliance with any rule requirements or legal requirements”; and “satisfy itself that the listing applicant or enlarged group has sufficient systems, procedures, controls and resources to comply with the Rules and that its directors understand and intend to fulfil their obligations at all times for as long as the securities of the issuer remain listed on Catalist”.

Sources: Mak Yuen Teen, Stand Taken by SBI Offshore Sponsor Highly Disappointing, Business Times, September 4, 2016; Mak Yuen Teen and Chew Yi Hong, DLF Holdings: Searching For The Spirit Of Good Governance, Governanceforstakeholders.com, Mar 10, 2020; Mak Yuen Teen and Chew Yi Hong, Time For ‘Fit And Proper’ Tests For Directors Of Listed Companies, Not Just For Financial Institutions?, Business Times, March 3, 2020; Mak Yuen Teen, No Sign of Governance, Governanceforstakeholders.com, March 3, 2019.

2.2. SPONSOR’S RESPONSIBILITIES FOR ASSESSING THE SUITABILITY OF DIRECTORS AND EFFICACY OF THE BOARD

Case study 3

Rule 226(1)(b) of the Catalist Rulebook requires a sponsor taking on sponsorship of an existing issuer to “investigate and consider the suitability of each director and proposed director of the issuer and consider the efficacy of the board as a whole for the company's needs, having regard to the guidance in paragraph 3 of Practice Note 2B where applicable”. Paragraph 3 of Practice Note 2B provides further guidance on what the sponsor is supposed to do.

Rule 226(2)(d) requires a sponsor, in undertaking continuing activities for an issuer, to among other things, advise the issuer “on the suitability of directors arising from proposed changes in the issuer's board of directors”.

In practice, there is little evidence that sponsors advise on the suitability of directors and key officers, or the efficacy of the board. Even if they do, issuers are not compelled to take their advice. There have been many cases of entire slates of directors with no experience in listed companies being appointed to boards, with no evident objections raised by the sponsor. Examples include AA Group, Allied Technologies and Annica Holdings.

In some cases, relationships between sponsors and issuers may affect the sponsor’s ability or perceived ability to objectively question the suitability of directors or the efficacy of the board.

Take the case of Metech International. On March 27, 2020, the company responded to SGX's queries regarding the suitability of the newly appointed CEO and the efficacy of the board. SGX Regco also queried the sponsor, RHT Capital. The sponsor duly endorsed the NC's assessment, giving reasons such as the CEO's experience in China, working in a listed company and working with growing companies; his ability to spend enough time with the company; and the fact that he is not on the SGX Watchlist for directors and executive officers.

It also endorsed the other directors on the board citing due diligence checks and the company's future plans. However, for the other five directors on the board, the then chairman was the CEO and executive director of another struggling SGX-listed company; one director was serving notice; one has a prior criminal conviction and was serving on the boards of nine listed companies; and the other two were directors of affiliates of the sponsor. In addition, RHT Corporate Advisory, which before May 2019 was part of the RHT group, was the company secretary and share registrar for Metech.

Can all the directors truly be considered suitable and the board fit for purpose, and can the sponsor be perceived to be independent and objective in opining on this?

Sources: Mak Yuen Teen, Metech, MeWatch, Governanceforstakeholders.com, December 26, 2019; Metech International, Responses to SGX-ST Queries Dated 23 March 2020; SGXNET, March 27, 2020.

Case study 4

In September 2016, an EGM was requisitioned by three substantial shareholders of SBI Offshore (SBIO) to consider, among other matters, the proposed appointment of four new directors. The board raised questions about two of the directors. The board's views were detailed in a 40-page letter to shareholders, together with an executive summary report by one of the Big 4 accounting firms on their findings to date on certain transactions that one of these two directors was allegedly involved in when he was with the company. The board recommended that shareholders vote against the appointment of these two directors.

However, the position of the sponsor, PrimePartners Corporate Finance (PPCF), was that the allegations in the board's letter to shareholders would not prevent the appointment of the two directors. In the case of one proposed director, it merely recommended that he attends a relevant directors' training course within three months of his appointment given his lack of experience as a listed company director.

Following a supplementary letter issued by the board raising more questions about the other proposed director, the sponsor said that it would await the outcome of legal advice obtained by the board before forming its views on his suitability. It added that it would be concerned about suitability if it is subsequently confirmed that this director had been involved in "any fraud, misrepresentation or misconduct" in relation to the transactions. For the first proposed director, it now advised the board to engage "an independent and suitably qualified third-party professional firm" to review the board's allegations and that it would make its recommendation based on the

findings of the review. Further, it “would be concerned with the conduct of [this proposed director] should the independent review confirm the existence of any serious wrongdoing or misconduct...”

It appears that the sponsor was not prepared to take a position on the suitability of the two proposed directors unless they were found to be criminally liable.

Sources: Mak Yuen Teen, Stand Taken By SBI Offshore Sponsor Highly Disappointing, Business Times, September 4, 2016; Mak Yuen Teen, SBIO: Corporate Governance At The Edge, Business Times, September 22, 2016.

Case study 5

At Asian Micro Holdings, where RHT Capital is the sponsor, the nephew of the executive chairman and controlling shareholder was re-designated from non-independent non-executive director to independent director. The sponsor did not object to the re-designation which, whilst in compliance with the letter of the Code, may arguably not be in accordance with the spirit.

The director had joined the board of Asian Micro in August 2016. However, he was a director of RHT Strategic Advisory Pte Ltd from 2014 to 2016. In fact, he was a director at RHT Strategic Advisory when he was first appointed to Asian Micro’s board as a non-independent non-executive director in August 2016. In cases where directors have relationships with affiliates of the sponsor, will the sponsor be perceived to be objective in opining on their suitability as directors or about their independence?

Source: Mak Yuen Teen, Independent Directors: From Good to Ridiculous, Governanceforstakeholders.com, August 22, 2018.

Case study 6

For the planned IPO of Trans-Cab Holdings, UOB Bank was the sponsor and issue manager, underwriter and placement agent. One of the proposed independent directors was Lim Teck Chai, Danny. Mr Lim’s firm, Rajah & Tann Singapore LLP, was the solicitors to the sponsor and issue manager, underwriter and placement agent. Should Mr Lim be considered independent?

As the sponsor and issue manager, shouldn’t UOB Bank have advised the company to undertake a proper search for independent directors rather than appoint a partner from its own solicitors? In addition to questions about independence, Mr Lim was serving on the boards of five other listed companies, including holding Chairman and lead independent director roles. He also has a full-time job as a partner in a major law firm.

Has the sponsor in this case adequately discharged its responsibilities of assessing the suitability of directors?

Source: Mak Yuen Teen, Trans-Cab Holdings: Starting On The Wrong Foot Again?, Governanceforstakeholders.com, January 28, 2020.

2.3. SPONSOR'S RESPONSIBILITIES IN REVIEWING ANNOUNCEMENTS

Case study 7

Rule 226(2)(d) of the Catalist Rulebook requires the continuing sponsor to “review all documents to be released by the issuer to shareholders or to the market (including announcements, resolutions contained in notices of meetings, circulars and corporate actions) before release, to ensure that the issuer is in compliance with the Rules and makes proper disclosure.” The document must display prominently the following on the front cover:

This document has been reviewed by the Company's sponsor, [full name of sponsor]. It has not been examined or approved by the Exchange and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.

Announcements by Catalist issuers include such a statement but often with a modification. For example, a typical announcement may read as follows:

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, [full name of sponsor] for compliance with the Singapore Exchange Securities Trading Limited (the “SGX-ST”) Listing Manual Section B: Rules of Catalist. The Sponsor has not verified the contents of this announcement.

This announcement has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this announcement, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this announcement.

In other words, announcements often state that the sponsor has not verified the contents of the announcement and that the sponsor assumes no responsibility for the contents, which are not included in the statement required by SGX rules. In such cases, it is unclear what the sponsor has done in reviewing the announcement.

There have been countless cases of companies making announcements with clear errors or omissions, which continuing sponsors have failed to pick up. Sponsors have also often failed to ensure that appointment and cessation announcements are made timely, or have simply accepted the information given in such announcements even when there are clear grounds to question the information given.

Take the case of Transcorp Holdings. On December 12, 2018, Lai Hock Meng resigned as independent director and non-executive chairman of Transcorp Holdings, having joined the board just over four months earlier on August 3. The announcement cited “due to medical reasons”. His

resignation followed the earlier resignation of Wang Yingyang as CFO and company secretary on 7 December who cited “to pursue other career opportunities”. Mr Wang lasted just four days in the company. Remarkably, in both cases, the continuing sponsor Asian Corporate Advisors said that, based on enquiries made, it was satisfied that there were no reasons for the cessation other than those stated in the announcement.

In Mr Lai’s case, the cessation announcement listed 14 other current directorships in listed and private companies, including Delong Holdings which is listed on SGX. Since Mr Lai is resigning for medical reasons, it would seem reasonable to assume that he would also resign from these other directorships. He did not resign from Delong, for example. Yet the sponsor was satisfied with the “medical reason” disclosed.

Source: Mak Yuen Teen, Transcorp Holdings; Resigning for Medical Reasons?, Governanceforstakeholders.com, December 13, 2018.

2.4. SPONSOR’S RESPONSIBILITIES IN OVERSEEING CORPORATE ACTIONS

Case study 8

Rule 226(4) of the Catalist Rulebook requires a sponsor undertaking continuing activities for an issuer that is executing a corporate action to be satisfied, having made reasonable due diligence enquiries, with the following:

- (a) the suitability and competence of other professionals and consultants involved in the corporate action;
- (b) compliance with any rule requirements or legal requirements; and
- (c) that any difference in effect of the corporate action on minority shareholders compared to other shareholders, is clearly disclosed.

In April, 2016, Natural Cool Holdings (NCH) announced that it had entered into an Interested Person Transaction (IPT) with the then executive chairman and his brother, an executive director. For S\$50,000, the brothers were to acquire all the shares of Natural Cool Energy Pte Ltd (NCE), the wholly owned subsidiary that holds Loh & Sons Paint Co (S) Pte Ltd (L&S), the paint business acquired less than eight months earlier.

The disposal of L&S was governed by chapter 9 of the Catalist rulebook on IPTs and chapter 10 on acquisitions and realisations. As the value of the transaction relative to NTA was determined by the company to be only 1.86 per cent, it did not require immediate announcement or shareholder approval under chapter 9. Since the relative figure was less than 3 per cent, there was also no opinion from the audit committee or an independent financial adviser.

In terms of chapter 10, the profit test was not relevant because L&S was loss-making and the transaction was “non-discloseable” under chapter 10. The numbers were not verified by the sponsor or by another independent party, based on the information provided.

If the board had taken certain alternative actions, the transaction would have crossed the 5 per cent limit for IPTs and required the appointment of an independent financial adviser.

The speed and the manner of the proposed disposal of L&S was puzzling because less than eight months earlier, L&S was acquired and was said to “result in better synergy for the group” and provide NCH with “additional revenue stream”. In the 2015 Annual Report issued soon after in mid-April 2016, the chairman and CEO had noted in the Letter to Shareholders that “...we believe it (L&S) has untapped growth potential”. About a week later, the company had changed its mind and decided to sell it through an IPT.

Eventually, the transaction was aborted after a commentary was published.

Did the sponsor discharge its responsibilities effectively with respect to rule 226?

Source: Chew Yi Hong And Mak Yuen Teen, Burning Issues At Natural Cool Holdings, Business Times, June 24, 2016

Case study 9

There have been cases of Catalist companies undertaking a series of questionable corporate actions, with no apparent intervention by sponsors. Examples include the series of transactions or proposed transactions at Allied Technologies between April 2017 and April 2019 or at Transcorp Holdings following its transfer from the Mainboard to Catalist in October 2015.

On 21 December 2015, Transcorp announced that it had decided to venture into the automobile industry with the purchase of Regal Motors, an automobile importer. The vendors of Regal Motors became the second and third largest shareholder of Transcorp.

Transcorp said it anticipated a growth in demand for cars between 2015 and 2019 when it acquired Regal Motors. However, in 2016, Regal Motors recorded a loss of S\$1.5 million and the entire goodwill of more than S\$6 million was fully impaired. Regal Motors continued to bleed losses.

In February 2016, the then managing director of the company resigned citing “retirement”. In May 2016, Transcorp sold several subsidiaries to him. No shareholder approval was required as it was not deemed a major transaction or an interested person transaction.

Transcorp changed its sponsor from Stamford Corporate Services to Asian Corporate Advisors on 1 September 2017.

In October 2017, Transcorp entered into a Memorandum of Understanding (MOU) with its controlling shareholder and Dongshan Dibao to undertake a property development project in Dongshan County. As the controlling shareholder was the sole owner of Dongshan Dibao, the MOU was an interested person transaction.

Transcorp proposed to take up a 51% stake in the project and agreed to pay a “good faith” fully refundable deposit of just over S\$6 million to Dongshan Dibao. To secure the deposit, Transcorp was provided with a charge over the shares of the controlling shareholder in both Dongshan Dibao and Transcorp.

However, Transcorp recorded an impairment loss of more than S\$3 million for the refundable deposit in 2018. In February 2019, the board decided to terminate the MOU. However, as of May 2019, Transcorp had not yet received the refund.

Meanwhile, Transcorp’s subsidiary, Regal Motors, had also been attempting to recover S\$2.6 million in advanced deposits paid to one of its suppliers, for which Transcorp’s former Executive Chairman was a deemed shareholder.

The board has now signalled going concern issues for Transcorp and the Commercial Affairs Department is looking into the Regal Motors transaction.

Did the sponsors in this case adequately discharge their responsibilities with respect to rule 226(4)?

In some cases, sponsors responsible for overseeing corporate actions may have vested interests because they may be acting as financial adviser or independent financial adviser.

Sources: Mak Yuen Teen, When Poor Governance Meets Liberal Rules, Business Times, June 4, 2019; Mak Yuen Teen (ed.), Transcorp: Teeing Off Into Trouble, Corporate Governance Case Studies Volume 8, CPA Australia, October 2019.

PART 3: REGULATION OF SPONSORS

In this part of the report, we summarise the Catalist rules concerning the eligibility criteria and obligations of sponsors and registered professionals, along with the Singapore Exchange's review measures. In certain areas, we also compare the Catalist rules against the rules of other sponsor-supervised regimes – AIM in London, ACE in Malaysia and GEM in Hong Kong.

3.1. OVERALL REGULATORY FRAMEWORK FOR CATALIST SPONSORS

The overall regulatory framework for Catalist sponsors is set out in Chapter 2 of the Catalist Rules, which covers the following:

- a) Authorisation of Sponsors
- b) Registration of Registered Professionals
- c) Application Process
- d) Rights and Obligations of Sponsors and Registered Professionals
- e) Review by the Exchange
- f) Advisory Committee
- g) Liability

Practice Notes 2A, 2B and 2C contain additional guidelines for sponsors relating to eligibility criteria, preparing a listing application for admission, and expectations of continuing sponsors respectively.

Appendices 2A and 2B provide forms for registering as a sponsor and registered professional respectively; Appendix 2C is a form for change of sponsor; Appendix 2D contains additional requirements on sponsor independence; and Appendix 2E is the annual return to be submitted by a sponsor.

Catalist Sponsor Compliance Guidelines, which are published on a topic by topic basis, supplement the requirements of the Listing Manual and aim to provide greater clarity and guidance to sponsors and registered professionals on their duties and obligations under the listing rules.

After entry, SGX will review the performance and procedures of the sponsors to ascertain the quality of their work against the standards set in the rules.

In carrying out the review, SGX may

- Review the work submitted by sponsors
- Conduct interviews with sponsors and registered professionals
- Audit sponsors' documents and procedures
- Require regular reporting to the Exchange

From our understanding, SGX may undertake offsite or onsite reviews.

SGX also holds regular dialogue sessions with sponsors and registered professionals. These dialogue sessions involve discussions on case studies to provide guidance to sponsors and registered professionals on rule interpretation and application when handling similar situations.

3.2. ROLES AND RESPONSIBILITIES OF SPONSORS

According to Rule 224, all sponsors are obliged to cooperate with the Exchange on relevant matters regarding their issuers; have sufficient manpower, systems and documentation resources; and have a duty of care in dealing with issuers.

Full sponsors undertake both introducing and continuing activities for issuers, while continuing sponsors only undertake continuing activities. With introducing activities, full sponsors prepare applicants for a listing on Catalist. Rule 225 concerns these activities, and duties include performing due diligence on applicants and preparing their offer documents.

On the other hand, Rule 226 states that obligations under continuing activities include advising issuers on matters such as compliance with listing rules, reviewing their documents before their release, and making due diligence enquiries. Further, Rule 747 stipulates that sponsors are also intermediaries for all dealings between the Exchange and issuers.

Under Rule 746, Catalist issuers are required to have a sponsor as long as they are listed, and must retain their full sponsor for at least three years after admittance. Issuers must also seek the advice of their sponsors for any material matter about its listing, securities and compliance, as provided by Rule 753. These consultations must be documented and retained for no less than six years.

3.2.1. Comparison with Other Markets

In general, the other three bourses have similar requirements to Catalist Rules 224, 225 and 226 regarding the roles and responsibilities of sponsors. For instance, sponsors or their equivalents are required to maintain adequate resources, perform due diligence on issuers, and review their documents and announcements.

Hong Kong differs slightly from the other bourses, in that sponsors are involved in preparing a new applicant's listing documents (Rule 6A.11 of the HKEX GEMS regulations for Sponsors and Compliance Advisers), while compliance advisers are responsible for the continuing obligations of issuers (Rule 6A.19).

The four bourses have different requirements with regard to how early the sponsor involved in preparing a company for listing must be appointed, whether or how long the initial sponsor must be retained for, and how long an issuer must continue to retain a sponsor after listing.

GEM in Hong Kong requires a sponsor to notify the Exchange in writing of its appointment as soon as practicable, regardless of whether a listing application has been submitted, and likewise if it ceases to act and the reasons. The sponsor must be appointed at least two months before the submission of the listing application. It would seem that this is to ensure that the sponsor has enough time to understand the listing applicant and undertake the necessary due diligence. Other exchanges do not specifically mention how early the sponsor or equivalent must be appointed.

For AIM in UK, the nominated adviser (Nomad) - the equivalent of a sponsor - must submit an early notification of its appointment to the Exchange as soon as reasonably practicable, while an applicant for listing on AIM must submit the necessary information to the Exchange at least 10 business days before the expected date of admission, and 20 days in the case of a quoted applicant.

However, it does not specify any minimum period of appointment of the Nomad prior to the listing application.

Similarly, Catalist requires the sponsor to lodge the preliminary offer document at least 15 calendar days before registration day, which is at least four market days before trading begins. Again, it does not specify any minimum period of appointment before the application. ACE in Malaysia similarly does not specify any minimum period of appointment.

For Catalist, a full sponsor must be retained as the continuing sponsor for the first three years of an issuer's listing, and an issuer must have a continuing sponsor for as long as an issuer remains listed on Catalist.

AIM in UK does not specify any specific duration for the Nomad to be retained following the listing but requires a Nomad to be appointed to guide an issuer through the listing process and a Nomad to be retained for as long as an issuer remains listed on AIM.

In HK, a compliance adviser is to be retained for the first two years of an issuer's listing on GEM (Rule 6A.19). However, the HKEX may require certain issuers to appoint a compliance adviser at any time after the fixed two-year period (Rule 6A.20).

In Malaysia, the sponsor who submitted the application for listing must be retained for at least one year after an issuer lists on the ACE Market (Rule 4.18). An ACE Market issuer must continue to have a sponsor for at least three full financial years after listing or at least one full financial year after it has generated operating revenue, whichever is later. An issuer needs only to retain a sponsor for one full financial year after listing on the ACE Market if the sponsor confirms that the issuer meets the quantitative criteria for admission to the Main Market.

The bourses also differ in their requirement for sponsors to retain documentation of their correspondences with issuers, with AIM being the most stringent. Rule 25 of the AIM Rules for Nominated Advisers requires Nomads to maintain these records for the entire duration of their relationship with a company, and for at least three years thereafter. In Singapore, Rule 224(3)(f) of the Catalist rules states that sponsors must retain the past six years of their correspondence with and advice to issuers.

In contrast, for Malaysia, Rule 4.14 of the ACE Market Listing Requirements require sponsors to maintain these records but do not specify a duration, while the GEM Listing Rules in Hong Kong make no mention of a requirement to keep records for sponsors and compliance advisers.

3.3. ELIGIBILITY CRITERIA

A sponsor may be authorised by SGX to act as a full sponsor or as a continuing sponsor. To become a full or continuing sponsor on Catalist, firms must meet the eligibility criteria under Rule 204 or Rule 205 respectively.

Full sponsors may engage in:

- **Pre-listing Activities:** i.e. activities related to bringing an applicant to list on Catalist.
- **Continuing Activities:** i.e. activities relating to sponsorship of issuers that are already listed on Catalist.

Continuing sponsors are only authorised to undertake Continuing Activities.

As full sponsors take on more activities and responsibilities, the eligibility criteria for them are more stringent than those for continuing sponsors.

The criteria have three differences. Firstly, full sponsors must have a higher minimum base capital than continuing sponsors – \$500,000 compared to \$250,000. Secondly, full sponsors are required to have greater expertise than continuing sponsors. Full sponsors must have experience as lead issue managers by previously preparing companies for listing, while continuing sponsors are only required to have experience in either corporate finance or compliance advisory work. Thirdly, full sponsors are subject to stricter manpower requirements than continuing sponsors. Full sponsors are required to employ more registered professionals, with these employees having advised listings in recent years. In contrast, continuing sponsors can recruit employees who only have work experience pertaining to corporate finance advisory, accounting or finance.

Unlike sponsors, registered professionals are subject to identical eligibility criteria stated in Rule 212 – regardless of whether they are employed by full or continuing sponsors. These include having a clean disciplinary record in the past 2 years, possessing relevant qualifications, and meeting the corporate experience specified by Rules 204 and 205.

These eligibility criteria must be met on an ongoing basis. Notwithstanding the above criteria, the Exchange retains absolute discretion in authorising or rejecting prospective sponsors and registered professionals.

The Exchange may grant evergreen waivers for sponsors or registered professionals who do not meet certain criteria, and it has granted waivers to allow some firms to be full sponsors.

3.3.1. Comparison with Other Markets

AIM refers to sponsors as “Nominated Advisers” (Nomads) and to their registered professionals as “Qualified Executives”. While Catalist distinguishes between full and continuing sponsors, AIM does not adopt a similar tiered system for its Nomads.

In the AIM Rules for Nomads, Rule 2 spells out the criteria for eligibility, which are similar to the requirements for full sponsors on Catalist. Nomads on AIM must have at least two years of corporate finance experience and have conducted three Relevant Transactions. This is akin to Catalist requiring full sponsors to have experience as lead issue managers, as Relevant Transactions are defined by AIM as transactions within the European Economic Area (EEA) that require a Prospectus or that involve a takeover of a public company.

AIM and Catalist differ in their base capital and manpower requirements for sponsors. While AIM states that a Nomad should have appropriate financial and non-financial resources without quantifying specific base capital requirements, Catalist quantifies the base capital requirements for its sponsors (see previous section).

Also, AIM requires Nomads to employ at least four Qualified Executives, all of whom have corporate finance advisory experience within the last three years and have acted in a lead corporate finance role in at least three Relevant Transactions within that period. In contrast, Catalist Rule 204(7) requires full sponsors to employ three registered professionals with corporate finance experience, only one of whom must have had the lead role in at least five listings in the past 10 years.

AIM rules specifically state that the Nomad should have practised as its principal business the provision of corporate finance advice, such as that relating to public market fundraising. Provision of legal advice or accounting services relating to corporate finance transactions would not qualify. Therefore, it is clear that Nomads in AIM have strong corporate finance experience. Nomads tend to be investment banks, corporate finance firms or accountancy firms.

AIM rules also emphasise that the overriding principle in approving Nomads and qualified executives is the preservation of the reputation and/or the integrity of AIM. **Interestingly, among the matters considered is the commercial and regulatory performance of clients to whom it has given corporate finance advice, insofar as it is relevant.**

In contrast, Catalist emphasises corporate finance experience and experience as lead issue manager for full sponsors, but continuing sponsors can have experience in corporate finance or compliance advisory work.

Another interesting feature of AIM is that the firm and its proposed qualified executives are subject to a gazetting period of a minimum of 14 days, before formal approval as Nomad and addition to the Nomad register. This gives notice to the public of the application and allow market participants an opportunity to comment.

If the applicant operates mainly outside of UK, the Exchange may issue a newspaper advertisement in a major domestic financial newspaper at least 14 days before the decision in the applicant's country of registration or operation in order to invite objections.

For the ACE market in Malaysia, the rules state that a sponsor must be "a person set out in the Approved List of Principal Advisers" on the Securities Commission of Malaysia's website. For GEM in Hong Kong, Sponsors (and Compliance Advisers) mean "any corporation or authorised financial institution licensed under the Securities and Futures Ordinance for Type 6 regulated activity and permitted under its license or certificate of registration to undertake work as a Sponsor...or Compliance Adviser" (6A.01(1) in Chapter 6 of GEM Listing Rules).

3.4. SPONSOR INDEPENDENCE

Independence requirements for sponsors on Catalist are covered in Rules 204(8), 205(8), 224(3)(g) and 224(4)(d) and Appendix 2D of the Catalist Rulebook.

Rules 204(8) and 205(8) require that full and continuing sponsors, once authorised, have no conflicts of interest with the entities it sponsors.

Rule 224(3)(g) requires sponsors to have adequate systems and resources to discharge their obligations under the Rules, including “controls, procedures and other safeguards to maintain its independence and avoid conflicts of interest, including complying with the requirements set out in Appendix 2D”.

Rule 224(4)(d) requires sponsors to act properly at all times in dealings with listing applicants or issuers, including being independent of the listing applicant or issuer and avoiding conflicts of interest, including complying with the requirements in Appendix 2D.

Part I para 2 of Appendix 2D states: “A sponsor, its partners, directors, officers, registered professionals and employees must be able to demonstrate independence from the issuer at all times. The proof of independence, or absence of conflict, rests with the sponsor.”

While there are some prohibitions on relationships between a sponsor and the sponsored company, most of these requirements emphasise having proper safeguards in place to address conflicts. Appendix 2D of the Catalist rules on Sponsor Independence states that “the sponsor should have adequate procedures to avoid any conflict of interest that may arise from sponsor activities and other business activities (if undertaken by the sponsor or its parent, related or associated entity).” It also specifies the following as the minimum that should be in place:

- “(a) Separation between the functions undertaking sponsor activities and other relevant business activities.
- (b) Separate reporting lines for the functions undertaking sponsor activities and other relevant business activities.
- (c) Restriction of communication and information flow between sponsor activities and other activities to avoid leakage of sensitive information, including procedures to ensure that its officers, registered professionals and employees do not divulge any confidential information to any person who is not entitled to receive the information, and to ensure that they exercise due care to prevent any leakage of confidential information.
- (d) Restriction of access into the function(s) undertaking sponsor activities to authorised officers, registered professionals and employees.
- (e) Satisfy the Exchange that proper safeguards are in place if a sponsor wishes to act as both the sponsor and reporting auditor and/or ongoing auditor of an issuer.
- (f) Where the sponsor is not a trading member of SGX-ST, notify the Exchange in writing at least 14 days before it establishes a business function which may create a conflict of interest with sponsor activities, including research, broking and market-making. The sponsor must supply the Exchange with information regarding the proposed function and the procedures in place to avoid any conflict of interest with sponsor activities.”

There are also the following specific prohibitions:

- (a) A sponsor should not advise other parties in a transaction, including any acquisition or takeover, involving its sponsored issuers, other than the issuer itself.
- (b) A sponsor, or a partner or director of a sponsor, or associate of any such partner or director, or employee may not either individually or collectively, have an interest either directly or indirectly of more than 10% in the securities of a sponsored issuer. If the limit is breached, the sponsor must immediately inform the Exchange and use its best endeavours to sell down to within the guidelines as soon as practicable. (However, with proper safeguards, an asset management business operated by the sponsor is not subject to this limit. Again, what these safeguards might be are not spelt out).
- (c) No partner, director or employee of a sponsor, or associate of any such partner, director or employee, may deal in the securities or any related financial product of a sponsored issuer during any closed period of that issuer.
- (d) No partner, director, employee of a sponsor or associate of any such partner, director or employee may hold the position of a director of a sponsored issuer.

Other than (a) above, there are currently no restrictions on the type of work that may be undertaken by a sponsor.

However, there are disclosure and reporting requirements relating to non-sponsor fees paid by sponsored companies to sponsors.

Rule 1204(21) requires the annual report of the sponsored company to disclose the amount of non-sponsor fees paid to the sponsor, and to make an appropriate negative statement if there is none. **However, as there is no requirement to disclose sponsor fees, it is not possible to evaluate the materiality of the non-sponsor fees relative to sponsor fees, as is typically done in the case of external auditors. Further, fees earned by affiliates of the sponsor are not specifically covered.**

Appendix 2E of the Catalist Rulebook also requires sponsors in their annual return to SGX to provide “details of fees earned from each issuer for non-sponsor work (including the type of work performed), where such fees are in excess of 100% of the fees earned from sponsor work”. There is, however, no limit on how much a sponsor can be paid for non-sponsor work, in absolute terms or relative to fees they earn from their work as sponsor. It also does not explicitly require fees earned by affiliates of the sponsor to be included in the annual return.

The possible conflicts that sponsors face can be compared with those faced by external auditors. In the case of external auditors, there are extensive requirements governing the provision of other services, and certain services are specifically prohibited in the Code of Professional Conduct and Ethics. Network firms are also covered. The Code also states that where the amount of annual non-audit fees to audit fees from the audit client is 50 percent or more, the audit firm is to disclose this to those charged with governance of the audit client and discuss the safeguards it will apply to reduce the threat to an acceptable level. Given the responsibilities of sponsors, threats to independence from the provision of other services and high non-sponsor fees are arguably just as critical, if not more so.

3.4.1. Comparison with Other Markets

Like Catalist, the sponsor-based regimes in Hong Kong, Malaysia and UK require sponsors or their equivalent to be independent of the issuers they oversee.

One of the differences between Catalist and the AIM market is that a Nomad or its partner, director or employee or the latter's associate can be a substantial shareholder holding 3% or more interest (and not more than 10%) in an AIM company for which it is the Nomad provided there are adequate safeguards in place. For Catalist, such safeguards apply where the interest is 5% or more and the sponsor is allowed to have up to a 10% shareholding interest.

In terms of safeguards against conflict of interests, SGX provides a list of minimum safeguards while AIM does not, merely stating Chinese walls or similar safeguards.

In terms of non-sponsor work, AIM states that a Nomad should not act as the reporting accountant or auditor of an AIM company that it advises unless it has satisfied the Exchange that there are appropriate safeguards. SGX does not specifically mention the provision of reporting accountant/audit services by the sponsor.

GEM in HK is the most prescriptive and comprehensive in prohibiting relationships between a sponsor and sponsored company. First, the rules in Chapter 6A cover relationships between the sponsor group and the sponsored company. The sponsor group includes the sponsor; its holding company; any subsidiary of its holding company; and any controlling shareholder and associate of the sponsor or its holding company.

Second, an extensive set of circumstances existing between the time of submission of the listing application and the date of listing which will cause a sponsor not to be independent is set out. These circumstances cover shareholding and other economic interests between the sponsor and applicant; relationship with close associate or core connected person of the applicant; current business relationship; and being auditor or reporting accountant of the applicant.

When it comes to the Compliance Adviser which is retained after listing, Chapter 6A merely states that it should perform its duties with impartiality but does not include similar detailed rules that apply to sponsors. However, it would appear that this is because the Compliance Adviser appointed after listing is an adviser to the GEM company on compliance with listing rules but does not perform the same frontline oversight role post-listing, unlike a Nomad on AIM or a sponsor on ACE and Catalist.

In fact, a HKEX Guidance Letter in July 2018 on assessment of a sponsor's independence states that a compliance adviser should not be appointed as the sponsor if a GEM company applies for transfer to the Mainboard because it may not be perceived to be objective in assessing the company's compliance records for the period when it was the compliance adviser. HKEX therefore seems to consider the roles of the pre-listing sponsor and the post-listing compliance adviser to be quite distinct.

This raises another issue with the other sponsor-based regimes where the pre-listing sponsor is retained as the post-listing sponsor. If issues are discovered after listing, would the sponsor be

inclined to ensure full disclosure of these issues since it may raise questions about the quality of its work pre-listing?

It is interesting that while Catalist requires the disclosure of fees for non-sponsor work (but not sponsor fees itself), none of the other exchanges require any disclosure in relation to fees for sponsor or non-sponsor work. We find this puzzling because while there are strict guidelines on independence for sponsors in all the countries, most take the position that fees do not need to be disclosed. Perhaps the exchanges feel that the oversight they provide over the sponsors is sufficient for addressing concerns about independence, but we do not see why disclosure of fees for sponsors should be treated any differently from disclosure of fees for external auditors, especially if they perform a frontline oversight role for listed companies.

3.5. REVIEWS AND DISCIPLINARY ACTIONS

In Singapore, the Exchange will review the actions of sponsors to ensure that their work meets the standards of the listing rules. If sponsors or their registered professionals do not comply with these rules, the Exchange can implement various disciplinary measures, ranging from milder actions such as reprimands and restrictions – as mentioned under Rules 234 and 235 – to harsher penalties such as fining a sponsor or cancelling its authorisation – as stated in Rule 317.

A sponsor or registered professional who fails to comply with the rules may be charged before a Disciplinary Committee comprising relevant external professionals.

Penalties that Sponsors may be subject to:

- Revocation of authorisation
- Suspension of authorisation
- Fine of up to \$250,000 for each breach of the Catalist rules
- Restrictions or conditions on activities
- Reprimand
- Education program

Penalties that Registered Professionals may be subject to:

- Cancellation of registration
- Suspension of registration
- Fine of up to \$100,000 for each breach of the Rules
- Restrictions or conditions on activities
- Reprimand
- Education program

3.5.1. Comparison With Other Markets

Three of the four bourses specify rules regarding a review by the Exchange, of which the Catalist rules are the most thoroughly-worded. These rules range from the type of assistance a sponsor must provide during a review by the Exchange, to the actions that the Exchange may take against Sponsors (see previous section and Rules 230 to 237 of the Catalist listing rules).

For AIM, Rule 26 provides for the Exchange to conduct a formal review into Nomads, while Rule 29 lists several possible disciplinary actions – including the removal of a Nomad. In Malaysia, Rule 4.24 of the ACE Market states that the Exchange may take action if it reviews a sponsor and deems it to have been unsatisfactory in performing its duties (Rule 4.24). However, no details of the possible disciplinary actions are included.

Lastly, GEM in Hong Kong does not mention reviews by the Exchange and disciplinary measures. However, the HK SFC has in recent years, and especially in 2019, imposed significant fines and other sanctions on a number of international banks for failures in their responsibilities as sponsors.

Appendix A

Name changes, mergers and acquisitions among Sponsors

Sponsor Name	Sponsor Type	Date of Authorisation	Changes
Asiasons WFG Capital Pte Ltd	Continuing Sponsor	08-Jul-10	Name changed to Xandar Capital Pte Ltd from 30 May 2016
Canaccord Genuity Singapore Pte. Ltd	Full Sponsor	04-Feb-08	Name changed to SAC Advisors Pte Ltd from 1 July 2016, following acquisition by SAC Capital Pte Ltd
CNP Compliance Pte Ltd	Continuing Sponsor	04-Feb-08	Name changed to PrimePartners Corporate Finance Pte Ltd from 1 July 2014, following acquisition by PrimePartners
Collins Stewart Pte Limited	Full Sponsor	04-Feb-08	Name changed to Canaccord Genuity Singapore Pte Ltd from 26 March 2012, following acquisition by Canaccord Financial Inc.
SAC Advisors Private Limited	Continuing Sponsor	13-Sep-16	Wholly-owned subsidiary of SAC Capital. Ceased to be a Sponsor from 1 October 2017