Call for changes to Catalist and regulatory framework

Study cites risk of 'debilitating effect on the overall quality of Catalist' and harm to liquidity and valuations of companies listed on it

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IT is time for changes to be made to Singapore's Catalist board and the portion of the regulatory framework that supports it, says a new report, which has identified developments that could be potentially debilitating for the overall quality of the board, its listings and its investors.

The report, *Where to, Catalist?*, is a study of the board aimed at growth companies since its inception in 2008. Published on Tuesday, the study was led by corporate governance advocate and NUS associate professor of accounting Mak Yuen Teen and carried out by final-year NUS accountancy honours student Mark Lai.

In particular, the report focused on the transfer of companies between the Singapore Exchange's (SGX) mainboard and Catalist; it examined the differences between the two boards – in terms of admission criteria and process, listing rules and the characteristics of companies listed on them – and looked at whether the performance and liquidity of companies that transferred from the mainboard to Catalist improved or deteriorated.

It discovered developments that "may have a debilitating effect on the overall quality of Catalist and harm liquidity and valuations of companies listed on it (which,) in the longer term, may also make the Catalist board unattractive for genuine growth companies".

Among other things, the study found that more companies have transferred from the mainboard to Catalist than the other way around, in spite of Catalist's aim to be a platform that catalyses the growth of young companies.

According to the report, a total of 24 mainboard-listed companies have transferred to Catalist since 2014, compared to six Catalist companies that transferred to the mainboard in the same period and a total of 21 Catalist companies that have transferred to the mainboard since 2008.

Currently, 11 per cent of all Catalist listings are companies that have moved from the mainboard.

The study also found that 23 companies that transferred from the mainboard to Catalist from 2015 were either already on SGX's Watch-list for chalking up successive years of losses or having a low share price, or at risk of being placed on the Watch-list.

> "The study raises the question of whether Catalist should be strictly reserved for growth companies, or if the platform should also be supportive even when companies have fallen on hard times and are seeking an opportunity to rebound or recover."
>
> **SGX spokesman**

"Avoiding the Watch-list was the clearest benefit to the companies that transferred to Catalist," Prof Mak said.

The report also noted that a sizeable portion of the companies that transferred from the mainboard to Catalist have used the more liberal Catalist rules to undertake transactions they would not have been permitted to under mainboard listing rules.

These include: not having to seek shareholder approval for major transactions that would have exceeded the thresholds in mainboard rules, and exceeding the limits for share or share-option schemes specified for mainboard listings.

Prof Mak said his concern is that other companies that have transferred from the mainboard to Catalist may also utilise the more liberal Catalist rules in due course.

The study also found that, more often than not, the net-income and share-price performance, as well as share liquidity, of the companies that moved from the mainboard to Catalist worsened after their transfer.

"Transferring to Catalist did not generally help the companies, may not benefit shareholders, and may harm the overall quality of the Catalist board," Prof Mak said.

Based on their findings, the authors of the report are suggesting some changes: first, they believe SGX should consider disallowing companies from transferring from the mainboard to Catalist; if allowed, transfers should only be on an exceptional basis after a thorough review by SGX.

"If (the) transferring companies tend to have poorer corporate governance, giving them access to more liberal rules on Catalist may be harmful to shareholders.

"After transfer, directors and management may also feel less pressure to improve the fortunes of the company since there is no more threat of a delisting due to failure to exit the Watch-list, no more deadlines and no more requirement to provide quarterly updates," Prof Mak said.

The companies that are allowed to transfer from the mainboard to Catalist should be closely monitored after their transfer, with areas of scrutiny including their financial performance, corporate governance and utilisation of more flexible Catalist rules.

"SGX should continue to maintain direct oversight of these companies for some time after their transfer, instead of relying on continuing sponsors," Prof Mak said.

The authors are also recommending that transferring companies be required to continue to comply with applicable mainboard rules for a reasonable specified period, with exemptions granted only on an exceptional basis.

They said SGX should also review whether differences between the mainboard and Catalist continuing listing obligations are justified, while bearing in mind the need to balance greater flexibility for growth companies and investor protection.

"SGX relies significantly on full sponsors and continuing sponsors under the sponsor-based regime of Catalist. While there are strict rules in place, there is some anecdotal evidence raising questions about the independence and effectiveness of some sponsors.

"There is also little evidence that sponsors are held accountable for the quality of listings they bring to the market or for their ongoing supervision of these listings. We hope to publish a further report later this year on the sponsors and issues relating to them," Prof Mak added.

In response to the study, an SGX spokesman told *The Business Times*: "The study raises the question of whether Catalist should be strictly reserved for growth companies, or if the platform should also be supportive even when companies have fallen on hard times and are seeking an opportunity to rebound or recover.

"We believe a balance needs to be struck to take into account the long-term interests of shareholders, throughout the life cycle of a company. We will review the findings and recommendations in this light."

The full report can be found at www.governanceforstakeholders.com.

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