

**REPORT OF THE  
DISCLOSURE AND ACCOUNTING  
STANDARDS COMMITTEE**

**SEPTEMBER 2001  
SINGAPORE**

# **REPORT OF THE DISCLOSURE AND ACCOUNTING STANDARDS COMMITTEE**

## **Summary of Recommendations**

### **Recommendation 1:**

The Committee recommends that primary legislation should contain a general obligation for all listed companies to make such continuous disclosures as are necessary to enable investors to arrive at an informed decision. Details of specific requirements could be set out either in the secondary legislation and/or in the form of guidelines to be issued by non-statutory bodies such as the Singapore Exchange.

### **Recommendation 2:**

Compliance with prescribed accounting standards should be legislated. Deviations from accounting standards would be allowed if and only if such deviations are necessary in order to present a “true and fair” set of financial statements, in which event full and detailed disclosure of the nature, financial effect and justification for such deviations should be made in the financial statements. Auditors’ confirmation of their agreement to the deviations is also required. In the case of listed companies, such disclosure should be made in all announcements of the listed company’s financial results and financial position.

### **Recommendation 3:**

The Committee recommends that Singapore should adopt the standards issued by the International Accounting Standards Board. The standards which are adopted would be the prescribed accounting standards and be termed “Financial Reporting Standards (Singapore)” or “FRS(S)”. For listed Singapore-incorporated companies, the Committee recommends that they be permitted to use alternative standards allowed by the Singapore Exchange, without the need for reconciliation to FRS(S), if they are also listed on foreign exchanges that require these standards. All other Singapore-incorporated companies must use FRS(S) unless otherwise approved by the Registry of Companies and Businesses. Compliance with the prescribed accounting standards should be mandated for financial years commencing on or after 1 January 2003.

**Recommendation 4:**

In line with the practices in leading jurisdictions, the Committee recommends that the Government establishes an independent panel, comprising representatives from businesses and organisations such as the Association of Banks in Singapore, the Institute of Certified Public Accountants of Singapore, Investment Management Association of Singapore, Law Society, Singapore Business Federation, Singapore Exchange, Securities Investors Association of Singapore and Singapore Institute of Directors. This panel, whose members should be appointed by the Minister for Finance, would undertake the prescription of accounting standards in Singapore. Where necessary, the panel could issue guidance in the application of specific standards. The independent panel should also assist the Government in the review and enhancement of corporate governance and disclosure practices on a continuous basis.

**Recommendation 5:**

The Committee recommends that the monitoring and enforcement of compliance with reporting and disclosure standards be undertaken by the relevant regulatory agencies such as the Registry of Companies and Businesses and the Monetary Authority of Singapore.

**Recommendation 6:**

The Committee recommends that all listed companies with financial years commencing on or after 1 January 2003 be required to make interim financial announcements, which are not required to be audited, on a quarterly basis for financial periods commencing on or after 1 January 2003. Such quarterly announcements should be made within 60 days of the quarter end. Listed companies are encouraged to adopt quarterly financial announcements earlier if they are able to do so. The Committee also recommends that the 60-day timeframe be reduced to 45 days for financial years commencing on or after 1 January 2004.

**Recommendation 7:**

The Committee recommends that all listed companies with financial years commencing on or after 1 January 2003 be required to make their final annual financial announcements within 60 days of the financial year-end. Listed companies are encouraged to announce their final annual financial announcements within 60 days if they are able to do so earlier. The Committee also recommends that the 60-day timeframe be reduced to 45 days for financial years commencing on or after 1 January 2004.

**Recommendation 8:**

The Committee recommends that all listed companies should promptly issue profit warnings where their performance is expected to vary significantly (whether favourable or unfavourable) from previous estimates.

**Recommendation 9:**

The Committee recommends that all listed companies with financial years commencing on or after 1 January 2003 should present their annual reports to their shareholders at their annual general meetings that are to be held within 120 days of the financial year-end. Listed companies are encouraged to adopt this recommendation earlier if they are able to do so.

**Recommendation 10:**

Current legislation should be changed to allow companies to release their financial results and annual reports through other media, such as the Internet. The Committee recommends that listed companies which release their results via the Internet should do so via the Singapore Exchange website. The Committee further recommends that all listed companies should have their own websites to facilitate more effective and timely dissemination of information. Companies should also be allowed to use web-casts and dial-ins to disclose information.

**Recommendation 11:**

The Committee recommends that the SGX reviews Clause 1205(3) of the Listing Manual on the disclosure of material information. The review should take into account recent global trends on fair disclosure.

**Recommendation 12:**

The Committee recommends that more regular reviews be undertaken to ensure that the reporting template is modified regularly and on a timely basis to reflect changes in disclosure and accounting standards. Reporting templates for the prescribed accounting standards and other allowed alternative standards should be made available to listed companies.

**Recommendation 13:**

The Committee recommends that a single common template be used for interim as well as final results. This will help listed companies to prepare for the release of their financial results.

**Recommendation 14:**

The Committee recommends that where consolidated financial statements are prepared and presented, the parent company should not be required to present unconsolidated statement of its financial performance, although its financial statements should still be audited. The Committee further recommends that the parent company should present its balance sheet so that users can assess its financial position. This recommendation should also apply to both interim and final results announcements of listed parent companies.

**Recommendation 15:**

The Committee recommends removing the requirements of Section 201 of the Act in connection with the preparation and presentation of the directors' report in the annual report. For listed companies, the Committee recommends that the directors and management be required to prepare and present a detailed discussion and analysis of the financial performance, state of affairs and business operations for presentation to the shareholders. Information relating to interests of directors in shares should continue to be disclosed in the annual report. The Committee further recommends that the Statement by Directors, required under Section 201(15) of the Act, should be retained.

**Recommendation 16:**

In line with the recommendation of the Committee to require companies to comply with prescribed accounting standards, the Committee recommends that provisions relating to financial reporting and disclosure requirements be removed from corporate legislation. These requirements should be left to the private sector market intermediaries to develop in the light of the changing needs of the market place.

**Recommendation 17:**

The Committee recommends that for listed companies, certain additional information should be disclosed in the annual reports. The additional information would include: (i) the cash flow statement; (ii) management discussion and analysis of the company's financial performance, state of affairs and business operations; (iii) analysis of the business outlook; (iv) prospectus-type information relating to background of directors and key management staff, risk management policies and processes; and (v) corporate governance practices and processes. However, items (i) to (iii) should also be disclosed in the listed company's interim and final results announcements.

**Recommendation 18:**

The Committee recommends that the current rules be amended to prohibit "Covered Persons" from having any economic interest (such as shareholding interests, loans, bonds and other financial instruments held directly and indirectly) in a client company and all its subsidiaries and associates. All other public accountants and staff in the accounting firm should not have, in aggregate, such economic interests exceeding 5% of the equity share capital of the audit client and each of its subsidiary and associate. These rules should apply equally to auditors of both public and private companies. The Committee further recommends that any economic interest or changes to such interest should be fully disclosed in the auditors' report on an annual basis.

**Recommendation 19:**

The Committee recommends that the rules on auditors' independence be amended to prohibit the following employment relationships:

- (a) An immediate family member of a public accountant and the staff directly involved in the audit is employed by the audit client in an accounting or financial reporting oversight role;
- (b) A former partner or professional employee is employed by an audit client in an accounting or financial reporting oversight role unless the former partner or employee has severed his or her financial ties with the firm; and
- (c) A former employee of an audit client becomes a partner of the auditing firm and participates in the audit of the audit client. This does not apply if the former employee has left the audit client for more than three years.

**Recommendation 20:**

The Committee recommends that the auditors of public companies should be prohibited from providing their audit clients with book-keeping or other services relating to the audit clients' accounting records or financial statements. A transition period of up to the end of calendar year 2002 should be given before total prohibition comes into effect to enable auditors of public companies to make the necessary arrangements with their audit clients. During the transition period, details of the prohibited non-audit service provided during the financial year should be fully disclosed in the public company's annual report.

**Recommendation 21:**

The Committee recommends the removal of the requirement under Section 207(2)(b) of the Companies Act for auditors to give an opinion on whether the statutory registers have been properly kept.

**Recommendation 22:**

The Committee recommends that the Boards of Directors and Audit Committees of unlisted and listed companies respectively should undertake a review of all non-audit services provided by their auditors with the view to determine whether the provision of such non-audit services would impair the independence of the auditors. In undertaking the review, the Boards of Directors or the Audit Committees may wish to consider obtaining confirmation of independence from their auditors. The annual reports of listed companies should include a statement by the Audit Committee that it has undertaken the necessary review and that the provision of the non-audit services by the auditors would not, in its opinion, affect the independence of the auditors.

## **INTRODUCTION**

1. The Ministry of Finance together with the Monetary Authority of Singapore ("MAS") and the Attorney-General's Chambers ("AGC") have set up three committees to undertake a broad study of the issues relating to corporate regulation and governance. The Disclosure and Accounting Standards Committee ("the Committee") was one of the three committees set up with the following terms of reference:
  - (a) To review the process by which accounting standards are set, maintained and regulated in Singapore, compared with overseas jurisdictions, taking into account the role and function of the Institute of Certified Public Accountants of Singapore ("ICPAS");
  - (b) To review the Singapore Statements of Accounting Standards ("SASs") with a view to aligning them with the International Accounting Standards ("IASs"), or higher, as a matter of policy except where there are special reasons to deviate; and
  - (c) To review the approach, development and promotion of best practices in disclosure requirements amongst publicly listed companies in Singapore.
2. Details of the members of the Committee are set out in Appendix I to this report.
3. The Committee, in the course of its deliberations, solicited views from representatives from the Singapore Exchange Limited ("SGX"), Singapore Institute of Directors ("SID"), Securities Investors Association of Singapore ("SIAS"), and ICPAS and would like to acknowledge the assistance and views provided by these bodies.
4. Recognising the importance of seeking views and ideas from the public, the Committee issued a Public Consultation Paper on 6 December 2000 inviting interested parties to provide their comments and to give feedback on the preliminary views of the Committee. Comments were received from a total of 48 respondents. As the Committee had made significant changes to a few of its recommendations, it decided to publish its revised draft report for a second round of public consultation on 21 May 2001. Feedback was received from 99 respondents for the second round of public consultation. The Committee held a meeting with the respondents to its second consultation paper on 21 August 2001. This meeting was attended by 84 respondents. The Committee would like to take this opportunity to express its appreciation and gratitude to all respondents for their comments. The Committee has deliberated on all the feedback received and the pertinent points have been incorporated in the report. A list of the respondents from both rounds of public consultation is attached as Appendix II.
5. Following the report of the Corporate Finance Committee ("CFC") issued in October 1998, significant changes were made to the regulatory philosophy underlying the capital market in Singapore. The CFC, inter alia, believed that the market has developed to a stage of maturity and sophistication and recommended moving towards a predominantly disclosure based system of regulation. This will enable Singapore to have a securities

market with greater transparency, a high standard of disclosure, and a market friendly regulatory regime. The Committee agrees with and supports the views and recommendations of the CFC that a disclosure based regulatory regime will work effectively only if there is a strong regulatory framework to protect the integrity of the securities market and the interests of the investors. A strong regulatory framework is also necessary to raise the standard of disclosure, increase the transparency and certainty of rules and to provide for remedies and enforcement.

6. A high standard of disclosure and the application of accounting standards that are internationally benchmarked would align our market to international standards and best practices, which in turn would better position Singapore as one of the key international financial centres. Information disseminated should not only be adequate and complete, but also relevant and timely.

## **REGULATORY FRAMEWORK**

### **Obligation To Disclose**

7. The Committee endorses the views and recommendations of the CFC contained in its report published in October 1998 to move towards a predominantly disclosure based system of regulation. Under this system, the onus would be on the listed companies to be open and forthright in their announcements regarding their businesses, financial performance and prospects. Hitherto, disclosure rules and guidelines have been, in a large part, either contractual (via listing rules) or voluntary. Experience has shown that voluntary "obligation" to disclose has not yielded the desired results. Although the Companies (Amendment) Act 2000 imposes a requirement for public offering documents to disclose all relevant information to meet the needs of investing public, there is currently no statutory obligation for listed companies to continue with such disclosure on an on-going basis. The Committee is of the view that for the proper and effective functioning of the disclosure-based regime, where listed companies are to provide sufficient information to enable investors to form an informed judgement on the merits of a transaction, there must be a statutory obligation on the part of all listed companies to make such disclosures on a continuing basis. This would also ensure a consistent and level playing field for all listed companies.
8. Countries such as Australia, the United Kingdom ("UK") and the United States ("US") impose a general statutory obligation for all listed companies to disclose such information as is necessary to enable an investor to make an informed decision on the performance of the companies. Currently, in Singapore, whilst there are statutory requirements to make disclosure of specific items as required by the Companies Act ("the Act"), there is no statutory obligation for companies to disclose all material information on a continuing basis. The SGX Listing Manual imposes certain additional disclosure requirements on a specific basis. With a fast moving and rapidly changing business environment, such an approach (i.e. a checklist approach) may no longer be appropriate. Accordingly, the Committee is of the view that in order to achieve consistent and high standards of disclosure, primary legislation should only contain a general obligation for all listed companies to make such continuous disclosures as are necessary to enable the investors to

arrive at an informed decision. A statutory obligation rather than a contractual or voluntary obligation will emphasise to the listed companies and their directors and advisers the importance of making adequate disclosures to the market on a continuous and timely basis. A statutory obligation is also necessary if investors and securities regulators are to have the basis to enforce such disclosure requirements.

9. The Committee is of the view that the need for directors of listed companies to exercise judgement as to the nature, timing, frequency and extent of any such disclosures would be required on an on-going basis, regardless of whether or not such obligations are statutorily required. In arriving at such decisions, the directors must necessarily consider and weigh the value of such information not only to the company but also to the public shareholders and the investing community.
10. The Committee recognises the dynamics of the business environment and that any statutory obligations should be capable of keeping up with such changes. Hence, primary legislation should only contain a general (rather than specific) obligation on the part of listed companies to make such continuous disclosures. Indeed, the Committee is of the view that any specific and itemised obligation is not the way forward and that any guidelines that are to be issued by non-statutory bodies such as the SGX must necessarily be outside of the primary legislation. In this respect, the Committee envisages a 3-tier structure where the primary legislation should only contain a general obligation for such disclosures; the secondary legislation would contain a minimum, non-exhaustive list of disclosure items; and the third tier would consist of guidelines on additional disclosure issued by bodies such as the SGX. The Committee believes that such a structure would be better able to meet with the demands of the fast changing business environment and will secure the relevance of the requirements for enhanced disclosures on a continuing basis.
11. The Committee acknowledges that a transition period may be required before the implementation of this recommendation and that listed companies may require guidance from the relevant authority to assist them in complying with such requirements.

### **Recommendation 1:**

**The Committee recommends that primary legislation should contain a general obligation for all listed companies to make such continuous disclosures as are necessary to enable investors to arrive at an informed decision. Details of specific requirements could be set out either in the secondary legislation and/or in the form of guidelines to be issued by non-statutory bodies such as the Singapore Exchange.**

**Compliance With Accounting Standards**

12. Section 201 of the Act requires all companies to draw up audited financial statements that give a "true and fair view" of the financial results and state of affairs of the companies. In addition, the Act also requires that the financial statements comply with the requirements of the Ninth Schedule to the Act.
13. There is presently no statutory requirement for companies' financial statements to comply with accounting standards, although the Preface to the SASs emphasised that for a set of financial statements to be "true and fair", compliance with SASs is necessary. The Preface, however, allows for departure from a standard if compliance with that standard would render the financial statements not true and fair, in which event, such departure together with the reason(s) for the departure must be disclosed and the concurrence of the auditors is required.
14. Under the UK Companies Act 1985, financial statements of companies are required to give a true and fair view and to comply with certain detailed prescriptions. In particular, they are to state whether the financial statements have been prepared in accordance with applicable accounting standards. In cases where there are material departures, the particulars and reasons for such departures must be disclosed. In Australia, the directors of a company are required, under its Corporation Law, to prepare financial statements that comply firstly, with the regulations relevant to financial statements, and secondly, with applicable standards. If compliance with both the regulations and the standards would not otherwise give a true and fair view, then disclosure of additional information and explanations that would enable the financial statements to give a true and fair view is required. The Companies Ordinance of Hong Kong, however, requires the companies' financial statements only to give a true and fair view and to comply with certain detailed requirements.
15. In Singapore, the statutory provisions are similar to those of Hong Kong, in that there is no statutory requirement for financial statements to comply with accounting standards. Compliance with accounting standards and its enforcement presently rest with ICPAS, whose practising members are regulated by the Public Accountants Board ("PAB"). ICPAS uses its self-regulatory powers over the auditors of companies, who are its practising members, to enforce compliance with accounting standards.
16. In line with other leading jurisdictions, the Committee is of the view that compliance with prescribed accounting standards should be legislated. In this respect, the Committee noted that currently all companies that are required to prepare and present audited financial statements under the provisions of the Act are presenting them in accordance with SASs. There is therefore no differentiation on whether the company is public or private, listed or unlisted, active or dormant, large or small. The Committee, however, noted an exception where certain unlisted companies are exempted from preparing and presenting Cash Flow Statements under SAS 7. Having considered the basis for and the requirements of SAS 7, the Committee is of the view that compliance with SAS 7 by unlisted companies does not impose an undue burden on such companies and should not result in any substantial increase in compliance costs. Indeed, the Committee feels that cash flow statements

provide useful information to all shareholders and, where applicable, to other users of the financial statements. The Committee is of the view that the cash flow statements should be prepared and presented by all companies whose financial statements are statutorily required to be audited.

17. Among the models considered are those of the UK and Australia. Whilst the UK model, which seems to focus on the relevance of the financial statements, allows deviations from accounting standards where such deviations are required in order to present a “true and fair” set of financial statements (“the ‘True and Fair’ Override”), the Australian model favours consistency and comparability by requiring compliance with relevant legislation and accounting standards in the first instance. The Committee feels that as it is very rare for financial statements to not give a “true and fair view” if a company complies fully with prescribed accounting standards, both models would achieve the same desired result from the practical standpoint. However, from the users’ perspective, the “true and fair” financial statements may be more relevant and useful to them. Notwithstanding this, the Committee feels that it is equally important to have high standards of disclosures and comparability of financial information. The Committee is of the view that the “True and Fair” Override should be allowed but the deviations from prescribed accounting standards should be fully disclosed (together with confirmation from the auditors that they agree to such deviations) in the financial statements. In the case of listed companies, the deviations should also be fully disclosed in all announcements of the listed company's financial results and financial position. Details of the disclosure should include the nature, financial effect and justification for the deviations.
18. The Committee would like to clarify that non-compliance with prescribed accounting standards arising from invoking the ‘True and Fair’ Override would not constitute a violation of the law, as long as full and detailed disclosure of the deviation is made together with confirmation from the auditors that they agree to the deviation.

### **Recommendation 2:**

**Compliance with prescribed accounting standards should be legislated. Deviations from accounting standards would be allowed if and only if such deviations are necessary in order to present a “true and fair” set of financial statements, in which event full and detailed disclosure of the nature, financial effect and justification for such deviations should be made in the financial statements. Auditors’ confirmation of their agreement to the deviations is also required. In the case of listed companies, such disclosure should be made in all announcements of the listed company’s financial results and financial position.**

**Prescribed Accounting Standards**

19. In 1995, in an agreement between the International Accounting Standards Committee ("IASC") (reconstituted as the International Accounting Standards Board ("IASB") in April 2001) and the International Organisation of Securities Commissions ("IOSCO"), the latter agreed to consider endorsing IASs for cross-border capital raising and listing purposes in global markets once the core set of standards have been completed. IASC completed the major components of the core set of standards in 1998. These core standards provide for a comprehensive basis of accounting covering all the major areas of importance to general businesses. They are of high quality and will result in achieving transparency and comparability of financial information and statements. The IOSCO has officially endorsed the application of IASs for cross-border listing in May 2000 and, with the exceptions of the US and Canada, many stock exchanges now allow foreign companies listing on their exchanges to use IASs.
20. Many countries have already endorsed the IASs as their own national standards either without any amendments or with minor modifications. Important developments have also taken place in Europe, where legislation has been passed to allow certain companies to use IASs for domestic reporting purposes. In addition, the European Commission has stated in June 2000 that it will require all EU companies listed on a regulated market to prepare consolidated financial statements in accordance with IASs at the latest from 2005 onwards. This has led to the increasing recognition of the IASC as the global accounting standard setting body.
21. The current applicable accounting standards for all Singapore incorporated companies (i.e. private, public, listed, unlisted) are the SASs promulgated by the ICPAS. The SASs are based almost entirely on the IASs issued by the IASC. As ICPAS has initiated the process of totally aligning SASs with IASs, the two standards are identical in almost all instances. In the few instances where there are differences, these are fairly minor. This being the case, compliance with SASs would to a large extent mean compliance with IASs. The Committee noted that the IASC, following its member bodies approval for its restructuring in May 2000, has been reconstituted as the IASB with effect from April 2001. The standards issued by IASB would be known as International Financial Reporting Standards ("IFRSs"). The existing international standards will continue to be known as IASs until they are adopted or withdrawn by the IASB.
22. The Committee is of the view that the IASs and the IFRSs issued by IASB should be adopted as the accounting standards for Singapore. Such a change should not increase compliance costs since the SASs are substantially identical to the international standards. Each international standard issued by the IASC/IASB should be carefully considered and a deliberate decision made to adopt the standard for Singapore. The standards which are adopted would be the prescribed accounting standards and be termed "Financial Reporting Standards (Singapore)" or "FRS(S)". This renaming from SAS to FRS(S) is reflective of the shift from "accounting standards" to "financial reporting standards" and which is the trend in various parts of the world. Although not expected, there could be occasions where a particular international standard is deemed to be unsuitable for Singapore, for example, in terms of having sufficient transition time. In such an instance, there could be

a delay or deferral in the adoption of the international standard as FRS(S). However, such a delay in adoption should only be in exceptional circumstances and for the shortest possible time.

23. The Committee also deliberated whether other globally accepted standards, such as US GAAP, could be allowed. To illustrate, as the US capital market is by far the world's largest and most developed, companies with global operations could not ignore the US market as an important source of capital. Increasingly, we can expect more Singapore companies to be listed in the US. Today non-Singapore incorporated companies which are already listed in the US are allowed listing on SGX without having to reconcile their US GAAP financial statements to Singapore accounting standards. The question is whether Singapore-incorporated companies which are listed in the US should similarly be allowed SGX listing without reconciliation. The Committee is of the view that it would be unnecessarily burdensome on such a Singapore company to continue to have to prepare one set of financial statements in accordance with FRS(S), and an additional set in accordance with US GAAP. Such a requirement would add to business costs and would discourage companies from incorporating or listing in Singapore.
24. The Committee deliberated whether it would be acceptable not to require financial statements prepared, for example, under US GAAP be reconciled with FRS(S) or to at least require disclosure of material differences. The Committee noted that there are fundamental differences between IASs/IFRSs and US GAAP such that reconciliation (either in full or with disclosure of material differences) between the two standards could be costly. The Financial Accounting Standards Board ("FASB") in the US and the IASC develop their standards according to different conceptual frameworks. US GAAP places greater emphasis on reliability and is therefore more prescriptive than the IASs/IFRSs. The IASs/IFRSs, on the other hand, place greater emphasis on relevance and therefore allow a greater degree of judgement to be applied to specific business conditions.
25. For Singapore to grow as a world-class business and financial centre, we need to attract companies to incorporate and list in Singapore. As business cost is an important factor, our rules should not add unnecessary costs to companies. At the same time, we have to ensure that investors' interests are protected. In particular, investors should always be able to obtain relevant advice from investment managers who can make appropriate analysis and comparisons of corporate performance. The Committee recognises that the SGX is already allowing foreign listed non-Singapore incorporated companies to use alternative accounting standards, provided these standards are approved by the SGX. For listed Singapore-incorporated companies, the Committee is of the view that they be permitted to use alternative standards allowed by the SGX, without reconciliation with FRS(S), if they are also listed on foreign exchanges that require these standards. For such dual listed companies, analyst reports should be available for investors to compare the company with other companies in that industry. For example, if US GAAP were allowed by the SGX, companies that are dual listed in Singapore and the US would be permitted to use US GAAP without the need for reconciliation to FRS(S). Investors could rely on reports from US analysts to compare such companies with other US listed companies. Such an approach would balance the need to attract companies to incorporate and list in Singapore with the need to protect investors' interests. For unlisted Singapore-incorporated

companies, the Registry of Companies and Businesses (“RCB”) may permit them (subject to conditions) to use alternative standards that are allowed by the SGX, without the need for reconciliation to FRS(S). The Committee is of the view that companies which comply with IASs/IFRSs would be deemed to be in compliance with FRS(S).

26. The Committee acknowledges that certain companies may require time to modify or enhance their information systems to comply with the prescribed accounting standards. The Committee would therefore recommend that full compliance with prescribed accounting standards should only be mandated for financial years commencing on or after 1 January 2003. Companies are encouraged to fully comply with the prescribed accounting standards earlier if they are able to do so.

### **Recommendation 3:**

**The Committee recommends that Singapore should adopt the standards issued by the International Accounting Standards Board. The standards which are adopted would be the prescribed accounting standards and be termed “Financial Reporting Standards (Singapore)” or “FRS(S)”. For listed Singapore-incorporated companies, the Committee recommends that they be permitted to use alternative standards allowed by the Singapore Exchange, without the need for reconciliation to FRS(S), if they are also listed on foreign exchanges that require these standards. All other Singapore-incorporated companies must use FRS(S) unless otherwise approved by the Registry of Companies and Businesses. Compliance with the prescribed accounting standards should be mandated for financial years commencing on or after 1 January 2003.**

### **Accounting Standards Setting Process**

27. The Accounting Standards Committee (“ASC”) of ICPAS is currently the body involved in the review of all accounting standards before they are issued by ICPAS. The ASC would undertake a review of the exposure draft of a proposed accounting standard issued by the IASC and make such representations as it considers appropriate to the IASC. Upon the issue of a standard by the IASC, the ASC would then recommend that the standard be issued as an SAS exposure draft. Any response on the exposure draft would be considered by the ASC before it recommends to ICPAS Council for adoption as an SAS, with or without modifications. There was thus a timing difference of between 1 and 2 years before an IAS is issued as an SAS. This was the process in the past. The Committee noted that the ICPAS has since August 2000 been issuing exposure drafts for SASs almost immediately after the release of the IASC exposure drafts. This, together with the shortening of the comment period and the adoption of quarterly operative dates for new SASs, has reduced the time required before an IAS is adopted as an SAS.
28. Consistent with the Committee's recommendation that compliance with accounting standards be made a legal requirement, there is a need to review our accounting standards setting process. As companies would be required by law to comply with accounting standards, the accounting standard setting authority should not reside with ICPAS, which is a professional organisation for accountants. In leading jurisdictions, accounting standards are not decided by the accounting profession alone but by independent bodies

comprising members from businesses, professional organisations, academic institutions and government. The examples from US, UK and Australia are shown below:

Country	Authority that decides on accounting standards
US	Financial Accounting Standards Board (FASB)
UK	Accounting Standards Board (ASB)
Australia	Australian Accounting Standards Board (AASB)

29. In line with the practices in leading jurisdictions, the Committee recommends that the Government establishes an independent panel, comprising representatives from businesses and organisations such as the Association of Banks in Singapore ("ABS"), ICPAS, Investment Management Association of Singapore ("IMAS"), Law Society, Singapore Business Federation ("SBF"), SGX, SIAS and SID. This panel, whose members should be appointed by the Minister for Finance, would undertake the prescription of accounting standards in Singapore. Where necessary, the panel could issue guidance in the application of specific standards. The panel may tap on the technical expertise from ICPAS to manage the process of receiving feedback on the proposed standards during the exposure draft stage. Such feedback would be considered by the panel, which would then decide whether there are any good reasons why an IAS/IFRS should not be adopted as a prescribed accounting standard in Singapore. This mechanism should apply to all the IASs/IFRSs before they are adopted as FRS(S). To ensure timeliness, the panel should as a norm decide on the prescription of an accounting standard within 3 months from the issue of the corresponding standard by IASB.
30. The independent panel should also make recommendations to the Government on the review and enhancement of corporate governance and disclosure practices on a continuous basis. With the rapid changes in technology and business environment, accounting standards and disclosure guidelines often lag behind business dynamics. There will therefore be occasions when there are no IASs/IFRSs and/or guidelines for the recognition, accounting or disclosure of specific business activities or transactions. The Committee felt that, under these circumstances, transparency and financial integrity of financial statements would be enhanced with appropriate guidance from the panel.

#### **Recommendation 4:**

**In line with the practices in leading jurisdictions, the Committee recommends that the Government establishes an independent panel, comprising representatives from businesses and organisations such as the Association of Banks in Singapore, the Institute of Certified Public Accountants of Singapore, Investment Management Association of Singapore, Law Society, Singapore Business Federation, Singapore Exchange, Securities Investors Association of Singapore and Singapore Institute of Directors. This panel, whose members should be appointed by the Minister for Finance, would undertake the prescription of accounting standards in Singapore. Where necessary, the panel could issue guidance in the application of specific standards. The independent panel should also assist the Government in the review and enhancement of corporate governance and disclosure practices on a continuous basis.**

**Monitoring and Enforcement of Reporting and Disclosure Standards**

31. The monitoring and enforcement mechanisms adopted by leading capital markets vary from country to country. In the UK, the role of monitoring and enforcement of reporting and disclosure standards is undertaken by the Financial Reporting Review Panel ("FRRP") under the Financial Reporting Council ("FRC"). FRRP, with its legislative power, can seek an order from the court to require companies to reissue their annual accounts in cases of serious non-compliance. However, in the US, the securities regulator, the Securities and Exchange Commission ("SEC"), takes on the role of monitoring and enforcement of reporting and disclosure standards. SEC can take enforcement actions against listed companies and impose sanctions, which serve to deter improper financial reporting. The Australian model is similar to that of the US where the monitoring and enforcement role is carried out by the securities regulator, the Australian Securities and Investment Commission ("ASIC"). ASIC regulates the disclosure of financial products and services to the public so that they would have adequate information to make informed decisions.
32. In Singapore, these functions are currently undertaken, in varying degrees, by various bodies such as the MAS, SGX and ICPAS (through its Financial Statements Review Committee). The review by ICPAS covers financial statements and offering documents issued by listed companies, and the scope is restricted to the practising members of ICPAS in their capacity as auditors of these companies. As ICPAS has no authority over companies, it is unable to monitor and enforce compliance with reporting and disclosure requirements by the companies.
33. The Committee is of the view that the effective monitoring and enforcement of reporting and disclosure standards is a very essential element in a disclosure-based regulatory environment. Accordingly, the Committee would recommend that the monitoring and enforcement of compliance with reporting and disclosure standards be undertaken by the relevant regulatory agencies such as RCB and MAS.

**Recommendation 5:**

**The Committee recommends that the monitoring and enforcement of compliance with reporting and disclosure standards be undertaken by the relevant regulatory agencies such as the Registry of Companies and Businesses and the Monetary Authority of Singapore.**

## **REPORTING REQUIREMENTS**

### **Interim Reporting**

34. The Internet revolution has brought about dramatic changes to the business world. Adequate and timely information is needed to enable management to make effective decisions to compete in this dynamic environment. On this basis, investors also require timely information to make investment decisions. The current rules of the SGX require listed companies to announce interim results on a half-yearly basis. The Committee considers this frequency to be insufficient in the current environment. The Committee noted that the CFC had, in its report, encouraged listed companies to report their results on a quarterly basis. Since the publication of the CFC's report in October 1998, only about a handful of companies have adopted the quarterly reporting of their financial results. The US and Canada have long adopted the quarterly reporting requirement. In Asia, China, Thailand and Malaysia have already adopted the quarterly reporting of interim financial results for listed companies. The Committee is of the view that all listed companies in Singapore should be required to make interim financial announcements on a quarterly basis.
35. With more regular and frequent releases of financial results, investors would have access to updated information to assist them in formulating their investment decisions. Such updated information should also be disseminated promptly and effectively to prevent any "leakage" of price sensitive information. Current SGX rules require that interim and final financial results of listed companies be announced within 90 days of the end of the relevant period. The Committee is of the view that listed companies should announce their interim quarterly financial results within 60 days of the quarter end. This timing should be in due course brought in line with other markets (i.e. down to 45 days). In the US, listed companies are required to make such announcements within 45 days of the quarter end. The Stock Exchange of Thailand requires all listed companies to submit quarterly financial statements reviewed by the auditors within 45 days of the quarter end. Semi-annual and/or annual financial statements are to be submitted within 3 months of the end of each accounting period.
36. The Committee recommends that all listed companies with financial years commencing on or after 1 January 2003 be required to make interim financial announcements on a quarterly basis for financial periods commencing on or after 1 January 2003. Such quarterly announcements should be made within 60 days of the quarter end. Listed companies are encouraged to adopt quarterly financial announcements earlier if they are able to do so. To encourage companies to make quarterly announcements in 2002, the Committee further recommends that for companies having difficulty in determining the quarterly comparatives for the quarterly periods in calendar year 2001, such comparatives could be presented on a half-yearly basis. By way of illustration, assuming that the financial year of a company begins on 1 January 2001, this company would announce its results to 30 June 2001 and 31 December 2001. In making its quarterly announcements in 2002, this company could use the results to 30 June 2001 as the comparatives for both its quarterly announcements to 31 March 2002 and 30 June 2002. Similarly, for the quarterly

announcements to 30 September 2002 and 31 December 2002, the comparatives could be the results to 31 December 2001.

37. The Committee recognises that the more frequent reporting would necessarily require the streamlining of the reporting systems within the listed companies and that this could increase the costs initially. However, the Committee believes that the initial increase in costs would be outweighed by the benefits that the listed companies would derive from a more timely release of financial information, as investors would generally gravitate towards a more transparent company. The Committee would also like to highlight that the quarterly financial reports are not required to be audited. The Committee believes that audit costs could in fact be reduced as the workload of the auditors are more evenly spread out over the year and hence, audit firms would not need to staff themselves to meet the demands of the “peak” periods nor to bear the costs of being over-staffed during the “slack” periods.

#### **Recommendation 6:**

**The Committee recommends that all listed companies with financial years commencing on or after 1 January 2003 be required to make interim financial announcements, which are not required to be audited, on a quarterly basis for financial periods commencing on or after 1 January 2003. Such quarterly announcements should be made within 60 days of the quarter end. Listed companies are encouraged to adopt quarterly financial announcements earlier if they are able to do so. The Committee also recommends that the 60-day timeframe be reduced to 45 days for financial years commencing on or after 1 January 2004.**

#### **Final Reporting**

38. In respect of the last quarter of the financial year, the results should also be announced within 60 days of the end of the financial year. For listed companies, if their performance is expected to vary significantly (whether favourable or otherwise) from previous estimates, profit warnings may help level the playing field for all investors. The Committee recommends that all listed companies should promptly issue profit warnings where their performance is expected to vary significantly (whether favourable or unfavourable) from previous estimates.

#### **Recommendation 7:**

**The Committee recommends that all listed companies with financial years commencing on or after 1 January 2003 be required to make their final annual financial announcements within 60 days of the financial year-end. Listed companies are encouraged to announce their final annual financial announcements within 60 days if they are able to do so earlier. The Committee also recommends that the 60-day timeframe be reduced to 45 days for financial years commencing on or after 1 January 2004.**

**Recommendation 8:**

**The Committee recommends that all listed companies should promptly issue profit warnings where their performance is expected to vary significantly (whether favourable or unfavourable) from previous estimates.**

39. The Companies (Amendment) Act 2000 requires all listed companies to hold annual general meetings within 5 months of their financial year-ends. With the Committee's recommendation that all listed companies should announce quarterly interim financial results within 60 days of the quarter and financial year-end, this would mean that shareholders could be adopting the annual report for the previous financial year at the annual general meeting after the announcement of the first quarter's results of the current financial year. Thus, the purpose and usefulness of the annual report to the shareholders would not be achieved. The Committee is therefore of the view that all listed companies with financial years commencing on or after 1 January 2003 should present their annual reports to their shareholders at their annual general meetings that are to be held within 120 days of the financial year-end.

**Recommendation 9:**

**The Committee recommends that all listed companies with financial years commencing on or after 1 January 2003 should present their annual reports to their shareholders at their annual general meetings that are to be held within 120 days of the financial year-end. Listed companies are encouraged to adopt this recommendation earlier if they are able to do so.**

40. Technological advancements have revolutionised capital markets. Strategic alliances and mergers of national stock exchanges are setting the stage for increased global trading of securities across geographical boundaries and time zones. Information flow becomes even more critical in a round-the-clock global trading environment. A delay in the printing process may affect the timeliness of the release of financial information to investors worldwide. The power of technology should therefore be harnessed to more effectively disseminate information to investors. The Committee is of the view that current laws should be changed to allow companies to release their financial results and annual reports through other media, such as the Internet. The Committee recommends that listed companies who wish to release their results via the Internet should post their announcements on the SGX website.

41. With the globalisation of the capital markets and geographic diversity of investor base, the Committee is of the view that all listed companies should have their own websites to facilitate a more effective and timely dissemination of information. The websites should contain information such as prospectuses, annual reports, announcements and other information relating to the companies, their group and operations. These sites could also be used for web-casting and dial-ins during press and analysts' briefings. This would not only result in faster and more effective dissemination of information to shareholders and the investing public, it would also significantly reduce the costs for the companies. The

Committee further recommends that the required legislative amendments be studied as part of the Company Legislation & Regulatory Framework Committee's work.

**Recommendation 10:**

**Current legislation should be changed to allow companies to release their financial results and annual reports through other media, such as the Internet. The Committee recommends that listed companies which release their results via the Internet should do so via the Singapore Exchange website. The Committee further recommends that all listed companies should have their own websites to facilitate more effective and timely dissemination of information. Companies should also be allowed to use web-casts and dial-ins to disclose information.**

**Selective Disclosure**

42. In the US, a new SEC rule (Regulation for Fair Disclosure) went into effect recently. This rule is aimed at ensuring that all investors have equal access to material financial information. US companies must publicise all potentially market-moving data simultaneously. If there is an unintentional release of information, the company must follow up with a formal release within 24 hours or before the beginning of the next trading day. No selective disclosure of data should be made to certain analysts or big investors before the information is released to the public.
43. The Committee noted that under Clause 1205(3) of the SGX Listing Manual, selective disclosure of material information by listed companies is prohibited. The Clause provides that when material information is inadvertently disclosed on the occasion of any meetings with analysts or others, it must be publicly disseminated as promptly as possible. In view of SEC's issue of Regulation for Fair Disclosure, the Committee recommends that the SGX should review Clause 1205(3), to determine whether the existing clause needs to be modified or amended.

**Recommendation 11:**

**The Committee recommends that the SGX reviews Clause 1205(3) of the Listing Manual on the disclosure of material information. The review should take into account recent global trends on fair disclosure.**

**Reporting Template**

44. The format for the release of interim financial information is currently prescribed by SGX. Whilst efforts have been taken to update the template on a regular basis, it has not kept up with the introduction of new accounting standards. The Committee recommends that more regular reviews should be undertaken to ensure that the reporting template is modified regularly and on a timely basis to reflect changes in disclosure and accounting standards.

### **Recommendation 12:**

**The Committee recommends that more regular reviews be undertaken to ensure that the reporting template is modified regularly and on a timely basis to reflect changes in disclosure and accounting standards. Reporting templates for the prescribed accounting standards and other allowed alternative standards should be made available to listed companies.**

45. There are currently 2 separate templates prescribed by the SGX - one for half-yearly results and the other for the final annual results. As the financial information requirements of investors are the same for both types of results, the Committee is of the view that a single common template be used for interim as well as final results. This will also help listed companies to prepare for the release of their financial results.

### **Recommendation 13:**

**The Committee recommends that a single common template be used for interim as well as final results. This will help listed companies to prepare for the release of their financial results.**

## **Content**

### **(A) Changes To Requirements Under The Act**

46. As companies increasingly tap into the global market to expand their operations, most parent companies have been transformed into pure investment holding companies to facilitate joint ventures and global strategic alliances and for legal and fiscal purposes. Financial information, especially those in respect of financial performance, relating to such parent companies on their own is not reflective of the overall financial performance. Such information may even be misleading to some investors, who may mistake the financial statements of the parent company for the consolidated financial statements of the group as a whole. The consolidated financial information of the group (i.e. the parent company and its investee companies) would more appropriately reflect its overall performance. The UK and US do not require parent companies to present unconsolidated statements of financial performance. However, in Singapore, the Act requires the preparation and presentation of the financial statements of the parent company in addition to the preparation and presentation of consolidated financial statements. The Committee is of the view that where consolidated financial statements are prepared and presented, the parent company should not be required to present unconsolidated statement of financial performance, although its financial statements should still be audited. The Committee further recommends that the parent company should present its balance sheet so that users can assess its financial position. This recommendation should also apply to both interim and final results announcements of listed parent companies.

**Recommendation 14:**

**The Committee recommends that where consolidated financial statements are prepared and presented, the parent company should not be required to present unconsolidated statement of its financial performance, although its financial statements should still be audited. The Committee further recommends that the parent company should present its balance sheet so that users can assess its financial position. This recommendation should also apply to both interim and final results announcements of listed parent companies.**

47. Section 201 of the Act currently requires all companies to include a report by the directors, requiring them to confirm the information contained in the financial statements. The Committee feels that these confirmations do not add any value to the information in the financial statements and are therefore superfluous. Accordingly, the Committee is of the view that the requirement for such confirmations be removed. In the case of listed companies, the Committee believes that it would be more meaningful for a listed company to present its management discussion and analysis of the financial performance, state of affairs and business operations of the entities within the listed group. Information relating to corporate governance matters such as interests of directors in shares should continue to be disclosed in the annual report. The Committee would like to highlight that the Statement by Directors, required under Section 201(15) of the Act, should be retained as it requires directors to specifically confirm the truth and fairness of the financial statements as presented to the shareholders and of the solvency of the company.

**Recommendation 15:**

**The Committee recommends removing the requirements of Section 201 of the Act in connection with the preparation and presentation of the directors' report in the annual report. For listed companies, the Committee recommends that the directors and management be required to prepare and present a detailed discussion and analysis of the financial performance, state of affairs and business operations for presentation to the shareholders. Information relating to interests of directors in shares should continue to be disclosed in the annual report. The Committee further recommends that the Statement by Directors, required under Section 201(15) of the Act, should be retained.**

48. The need for financial reporting standards to keep pace with the dynamics of the business environment would require constant changes and updates to be made to such reporting standards. It would not be appropriate therefore to have such requirements embodied in legislation. The Act should therefore not contain provisions relating to financial reporting and disclosure requirements. These requirements should be left to the private sector market intermediaries to develop in the light of the changing needs of the market place.

**Recommendation 16:**

**In line with the recommendation of the Committee to require companies to comply with prescribed accounting standards, the Committee recommends that provisions relating to financial reporting and disclosure requirements be removed from corporate legislation. These requirements should be left to the private sector market intermediaries to develop in the light of the changing needs of the market place.**

**(B) Additional Information Requirements**

49. The primary objective for financial reporting is to provide users with adequate, complete and relevant information. The current prescriptive approach adopted by the SGX and the Act has unintentionally resulted in the mere compliance with the requirements by preparers and providers of such information. The Committee is of the view that in addition to the prescribed requirements, private sector intermediaries should continuously promulgate best disclosure practices. The Committee believes that listed companies should disclose the following additional information in the annual reports. However, items (i) to (iii) should be disclosed in the listed company's interim and final results announcements.

- i) Cash flow statement;
- ii) Management discussion and analysis of the company's financial performance, state of affairs and business operations;
- iii) An analysis of the business outlook;
- iv) Prospectus-type information relating to background of directors and key management staff, risk management policies and processes and;
- v) Corporate governance practices and processes (e.g. details of functions, responsibilities and composition of board committees).

**Recommendation 17:**

**The Committee recommends that for listed companies, certain additional information should be disclosed in the annual reports. The additional information would include: (i) the cash flow statement; (ii) management discussion and analysis of the company's financial performance, state of affairs and business operations; (iii) analysis of the business outlook; (iv) prospectus-type information relating to background of directors and key management staff, risk management policies and processes; and (v) corporate governance practices and processes. However, items (i) to (iii) should also be disclosed in the listed company's interim and final results announcements.**

## **INDEPENDENCE OF PUBLIC ACCOUNTANTS**

50. In deliberating the process by which disclosure standards could be enhanced especially for listed companies in Singapore, the Committee feels that there is a need to address the issue of auditor independence. A distinguishing feature of the accountancy profession is the acceptance of its responsibility to the public who rely on the objectivity and integrity of public accountants in their capacity as company auditors. This reliance imposes a public interest responsibility on the accountancy profession. Indeed, a public accountant's responsibility is not exclusively to satisfy the needs of his clients. Public accountants have an important role in society. The investing public relies on public accountants for sound financial accounting and reporting.

51. The principles of auditor independence are an important feature in leading jurisdictions such as the US, UK and Australia. As noted in the SEC's report on auditor independence, the independence requirement serves two related, but distinct, public policy goals -

*“One goal is to foster high quality audits by minimizing the possibility that any external factors will influence an auditor's judgements. The auditor must approach each audit with professional skepticism and must have the capacity and the willingness to decide issues in an unbiased and objective manner, even when the auditor's decisions may be against the interests of management of the audit client or against the interests of the auditor's own accounting firm.*

*The other related goal is to promote investor confidence in the financial statements of public companies. Investor confidence in the integrity of publicly available financial information is the cornerstone of our securities markets. Capital formation depends on the willingness of investors to invest in the securities of public companies. Investors are more likely to invest, and pricing is more likely to be efficient, the greater the assurance that the financial information disclosed by issuers is reliable.”*

52. The report noted that the two goals above – objective audits and investor confidence that the audits are objective – overlap substantially but are not identical. It noted that as objectivity rarely can be observed directly, investor confidence in auditor independence rests in large measure on investor perception. In its revision to the final rule, the SEC commented that *“it is the auditor's opinion that furnishes investors with critical assurance that the financial statements have been subjected to a rigorous examination by an objective, impartial and skilled professional, and that investors, therefore, can rely on them”*.

53. The Committee's recommendations are based on a review of the rules in leading jurisdictions. The Committee, having reviewed these rules, is of the view that the circumstances and conditions as applied to auditors in these other jurisdictions are not significantly different from the circumstances and conditions in Singapore. Notwithstanding this, the Committee has made modifications to such rules, where appropriate, before arriving at its recommendations set out below.

**Economic Interests**

54. Under the rules of the Hong Kong Society of Accountants, no partner (or a person closely connected with a partner) of the audit firm could have any direct or indirect interest in its audit client. In addition, any audit staff cannot be involved in an audit client where the audit staff (including a person closely connected with the staff) has a direct or indirect interest in that audit client. There is also a similar provision in the rules of the Institute of Chartered Accountants in England and Wales prohibiting a principal or anyone closely connected with a principal of the audit firm from having any beneficial interest in an audit client. In the US, the American Institute of Certified Public Accountants has very similar rules except that in the case of indirect interest, the interest has to be material. In Australia, the rules of the Institute of Chartered Accountants of Australia are somewhat different in that a firm cannot have, as an audit client, a company in which any person in the firm, or a near relative of any person in the firm, is the beneficial owner of shares forming a material part of the equity share capital of the company or forming a material part of the assets of that person. In Singapore, the current rules of the PAB and ICPAS prohibit a public accountant or his firm from having a company as an audit client if the public accountant or his immediate family holds direct and indirect beneficial interest of 5% or more of the equity share capital of a public company or 20% or more of the equity share capital of a private company, unless such ownership is approved by the PAB.
55. The Committee reviewed the current rules and is of the view that auditors must not only be independent but they must also be seen to be independent. Having a financial interest in an audit client would, prima facie, be seen to be an impairment of auditor independence. The Committee recommends that the current rules should be amended to prohibit any economic interest (such as shareholding interests, loans, bonds and other financial instruments held directly and indirectly) in an audit client by the public accountant and all the staff who are directly involved in the audit of that company. This prohibition would also extend to the members of their immediate family<sup>1</sup> who are financially dependent on the public accountant or the staff directly involved in the audit (the public accountant, the staff and their financially dependent immediate family members are collectively referred to as "Covered Persons"). All other public accountants and staff in the firm should not have, in aggregate, such economic interest exceeding 5% of the equity share capital of the audit client. The Committee further recommends that any economic interest and changes to such interest should be disclosed in the auditors' report on an annual basis.
56. The Committee feels that there is no reasonable basis for any differentiation to be made between public and private companies, since auditing standards should be consistently applied in all cases where audits are required. Furthermore, private companies could one day become public companies and may even be listed on the stock exchange. There could also be occasions where private companies could be non-wholly owned subsidiaries or associates of a publicly listed company. The Committee has also considered whether total prohibition on non-Covered Persons might be appropriate. It is of the view that total

---

<sup>1</sup> As defined in the SGX Listing Manual to mean the spouse, child, adopted child, step-child, brother, sister and parent.

prohibition on non-Covered Persons would have been too stringent and believes that with the recommendation to fully disclose the interest of non-Covered Persons together with any changes thereto would be sufficient to achieve the desired results.

57. The Committee is of the view that in addition to the audit client, Covered Persons should also be prohibited from holding any economic interests in all subsidiaries and associates of the audit client. All other public accountants and staff in the firm should not have, in aggregate, economic interest exceeding 5% of the equity share capital of each subsidiary and associate of the audit client. Any such economic interest and changes to such interest should be disclosed in the auditors' report on an annual basis. To illustrate, suppose the audit client (company A) has two subsidiaries (companies B and C) and an associate (company D). The Covered Persons would be prohibited from holding any economic interest in companies A, B, C and D. All other public accountants and staff in the firm should not collectively own more than 5% of the equity share capital of *each* of these companies. The auditor's report for company A should also disclose the economic interest of non-Covered Persons in each of the four companies. The Committee would like to clarify that, subject to existing legal prohibition, the auditor of a subsidiary would not be prohibited from holding economic interest in the parent company unless he is also the auditor of the parent company.
58. As public accountants are now allowed to form accounting corporations, the Committee is of the view that the rules applicable to an unincorporated audit entity should apply equally to an incorporated audit entity. Hence, all Covered Persons in an accounting corporation should be prohibited from holding any interest in an audit client company. All other members, directors and staff of the accounting corporation would be subject to the 5% rule enumerated above.

### **Recommendation 18:**

**The Committee recommends that the current rules be amended to prohibit “Covered Persons” from having any economic interest (such as shareholding interests, loans, bonds and other financial instruments held directly and indirectly) in a client company and all its subsidiaries and associates. All other public accountants and staff in the accounting firm should not have, in aggregate, such economic interests exceeding 5% of the equity share capital of the audit client and each of its subsidiary and associate. These rules should apply equally to auditors of both public and private companies. The Committee further recommends that any economic interest or changes to such interest should be fully disclosed in the auditors’ report on an annual basis.**

### **Employment Relationships**

59. As with the financial relationships of the auditor and his audit client, there could be certain employment relationships between immediate family members and the audit client that could affect auditor independence. Situations where the immediate family members occupy positions which can influence the audit client's financial records would impair the audit firm's independence. Further, the Committee felt that an audit firm would not be independent when the following employment relationships exist:

- (a) An immediate family member of a public accountant and the staff directly involved in the audit is employed by the audit client in an accounting or financial reporting oversight role;
- (b) A former partner or professional employee is employed by an audit client in an accounting or financial reporting oversight role unless the former partner or employee has severed his or her financial ties with the firm; and
- (c) A former employee of an audit client becomes a partner of the auditing firm and participates in the audit of the audit client. This does not apply if the former employee has left the audit client for more than three years.

**Recommendation 19:**

**The Committee recommends that the rules on auditors' independence be amended to prohibit the following employment relationships:**

- (a) An immediate family member of a public accountant and the staff directly involved in the audit is employed by the audit client in an accounting or financial reporting oversight role;**
- (b) A former partner or professional employee is employed by an audit client in an accounting or financial reporting oversight role unless the former partner or employee has severed his or her financial ties with the firm; and**
- (c) A former employee of an audit client becomes a partner of the auditing firm and participates in the audit of the audit client. This does not apply if the former employee has left the audit client for more than three years.**

**Non-Audit Services**

60. The Committee is of the view that it is important to highlight the principles by which independence of public accountants could be determined. The Committee feels that it would not be possible to provide an exhaustive list of non-audit services that could impair auditors' independence. Instead, the Committee has identified certain non-audit services which, in its view, would inherently impair auditor independence. The Committee would like to highlight that its recommendations in this section relate only to the provision of certain non-audit services by an auditor to its audit clients. Auditors are allowed to provide any non-audit services to non-audit clients.
61. A recent review was conducted by the SEC, in which the SEC sets out four principles on auditor independence. A public accountant is deemed not independent when the relationship or the provision of a service:
- (a) Creates a mutual or conflicting interest between the public accountant and the audit client;

- (b) Places the public accountant in the position of auditing his or her own work;
- (c) Results in the public accountant acting as management or an employee of the audit client; and
- (d) Places the public accountant in a position of being an advocate for the audit client.

These principles are consistent with those in other leading jurisdictions. The Committee, having reviewed the above principles, recommends that these principles be adopted in formulating the rules and regulations relating to auditors' independence in Singapore.

62. Against the principles set out above, the Committee has undertaken a review of the report of the SEC which sets out numerous non-audit services and the extent to which such non-audit services, if provided by an auditor to its audit client, would impact auditor independence. The Committee would draw attention to the fact that the arguments put forth by the SEC in its report under the caption "Independence Concerns Warrant Restrictions on the Scope of Services Provided to Audit Clients" are applicable and relevant to Singapore.
63. In Singapore, all companies are required by the Act to have their financial statements audited. Except for exempt private companies, all companies must file their financial statements with RCB. Whilst the principles of auditor independence should apply to auditors of all companies, auditor independence is especially important when the company is statutorily required to file its financial statements because these statements would become public information. Among the companies that are required to file their audited financial statements with RCB, the Committee is of the view that greater emphasis should be placed on auditor independence in respect of the auditors of public companies as these companies can raise capital from the general public.

#### Book-keeping and other services relating to the audit clients' accounting records or financial statements

64. When an accounting firm or an entity controlled directly or indirectly by an accounting firm/its partners or an entity where an accounting firm/its partners has/have significant direct or indirect economic interests provides book-keeping services for an audit client, the provision of such services would place the auditor in the position of later having to audit its own work and would identify the auditor too closely with the audit client. It would be asking too much of an auditor who keeps the financial books of an audit client to expect the auditor to be able to audit those same records with an objective eye. Indeed, it would be true where finding an error would raise questions about the adequacy of the book-keeping services provided by the accounting firm. Further, keeping the books is a management function, the performance of which leads to an inappropriate mutuality of interests between the auditor and the audit client.
65. The Committee recommends that the auditors of public companies should be prohibited from providing their audit clients with book-keeping or other services relating to the audit clients' accounting records or financial statements. This is also the practice in UK, Australia and Hong Kong. The Committee recognises that, from a practical standpoint, it may not be possible for accounting firms to unwind the existing arrangements

immediately. The Committee recommends that auditors of public companies should cease to accept such engagements from their audit clients. Existing engagements should be terminated as soon as possible but no later than the end of calendar year 2002. During the transition period, details of the prohibited non-audit service provided during the financial year should be fully disclosed in the public company's annual report.

66. The Committee recognises that there may be occasions when the auditor may be required to provide book-keeping or other related services to its audit clients. For example, where due to the unexpected resignation of a company's financial controller at the end of the financial year, the auditor is called upon to provide assistance in closing the books and the auditor did not make any managerial decisions or undertake any managerial actions. In such event, the prohibition should not apply. The Committee recommends that the relevant authority, in reviewing and amending the existing rules to prohibit the provision of book-keeping and other related services by auditors to their audit clients, considers the extent to which exceptions to the rule should be given including, for example, the amount of fees received by the auditors for such services in relation to the audit fees. The SEC restricts the total fees for such non-audit services that are provided to the entire group of companies to an amount not exceeding one percent of the consolidated audit fee or US\$10,000, whichever is greater.

### **Recommendation 20:**

**The Committee recommends that the auditors of public companies should be prohibited from providing their audit clients with book-keeping or other services relating to the audit clients' accounting records or financial statements. A transition period of up to the end of calendar year 2002 should be given before total prohibition comes into effect to enable auditors of public companies to make the necessary arrangements with their audit clients. During the transition period, details of the prohibited non-audit service provided during the financial year should be fully disclosed in the public company's annual report.**

#### Corporate secretarial services

67. On the provision of corporate secretarial services, the Committee notes that Section 207(2)(b) of the Act requires an auditor appointed under the Act to state in its report on "*whether ..... the registers required by this Act to be kept by the company ..... have been, in his opinion, properly kept in accordance with this Act*". Further, section 207(3)(b) of the Act states that "*it is the duty of an auditor of a company to form an opinion as to ..... whether proper accounting and other records, including registers, have been kept by the company as required by this Act ..... and he shall state in his report particulars of any deficiency, failure or short-coming in respect of any matter referred to in this subsection*".
68. In view of Section 207(2)(b) of the Act, the auditor is required to form an opinion on whether the statutory registers are properly kept. The Committee understands that the US and UK do not have a requirement that is similar to Section 207(2)(b). The Committee has considered whether Section 207(2)(b) could be removed from the Act. As RCB

would soon be implementing an electronic filing system, the public would be able to access a company's registers online. Hence, companies may not need to maintain separate sets of registers at their premises. In view of these factors, the Committee recommends the removal of the requirement under Section 207(2)(b) of the Act for the auditor to give an opinion on whether the statutory registers have been properly kept.

**Recommendation 21:**

**The Committee recommends the removal of the requirement under Section 207(2)(b) of the Companies Act for auditors to give an opinion on whether the statutory registers have been properly kept.**

69. The Committee has also undertaken a broad review of the other non-audit services provided by auditors to their audit clients. The Committee felt that a number of these non-audit services could impact auditor independence. Whilst it is desirable for auditors not to provide such non-audit services to their audit clients, the Committee feels that the nature of such services is such that it would not be practical for the Committee to make specific recommendations to prohibit them at this stage. Neither would it be appropriate for the SEC's rules in these areas to be adopted in their entirety. The Committee recommends that the Board of Directors and Audit Committees of unlisted and listed companies respectively should undertake a review of all non-audit services provided by their auditors (in particular the two examples below) with the view to determine whether the provision of such non-audit services would impair the independence of the auditors. In undertaking the review, the Boards of Directors or the Audit Committees may wish to consider obtaining confirmation of independence from their auditors. The Boards of Directors and Audit Committees should also consider the principles of auditor independence set out in paragraph 61 above. The annual reports of listed companies should include a statement by the Audit Committee that it has undertaken the necessary review and that the provision of the non-audit services by the auditors would not, in its opinion, affect the independence of the auditors.

**i) Financial information systems design and implementation**

Designing or implementing a hardware or software system that aggregates source data underlying the financial statements or generates information that is significant to the audit client's financial statements, taken as whole, may create a mutual interest between the client and the auditor in the success of that system, supplant a fundamental business function, or result in the auditor auditing its own work. However, advising on internal accounting systems and controls and risk management would not impair the auditors' independence as these services would be a direct result of the audit function.

**ii) Internal audit services**

The internal audit function is basically an arm of management and internal auditors are part of a company's internal accounting control system. Companies sometimes "outsource" internal audit functions by contracting with an outside source to perform

all or part of their audits of internal controls. Since the external auditor generally will rely, at least to some extent, on the internal control system when conducting the audit of the financial systems, the auditor would be relying on a system it helped to establish and/or maintain. There also may well be a mutuality of interest where management and external auditor may become partners in creating an internal control system and share the risk of loss if that system proves to be deficient. This does not include non-recurring evaluations of discrete items or programs that are not in substance the outsourcing of the internal audit function. It also does not include operational internal audits unrelated to the internal and accounting controls, financial systems, or financial statements.

**Recommendation 22:**

**The Committee recommends that the Boards of Directors and Audit Committees of unlisted and listed companies respectively should undertake a review of all non-audit services provided by their auditors with the view to determine whether the provision of such non-audit services would impair the independence of the auditors. In undertaking the review, the Boards of Directors or the Audit Committees may wish to consider obtaining confirmation of independence from their auditors. The annual reports of listed companies should include a statement by the Audit Committee that it has undertaken the necessary review and that the provision of the non-audit services by the auditors would not, in its opinion, affect the independence of the auditors.**

**DISCLOSURE AND ACCOUNTING STANDARDS COMMITTEE****LIST OF MEMBERS**

Members	Title
1. Mr. Ng Boon Yew (Chairman)	CEO, Bismac Consultants Pte Ltd and Corporate Adviser, Singapore Technologies Pte Ltd
2. Mr. Eric Ang	Managing Director and Joint Head, Investment Banking Group, DBS Bank
3. Mr. Boon Swan Foo	Executive Chairman, NSTB Holdings Pte Ltd
4. Ms Chua Geok Wah	Accountant-General, Accountant-General's Department
5. Mr. David Gerald Jeyasegaram	President and CEO, Securities Investors Association of Singapore
6. Mr. John Koh	Managing Director, Goldman Sachs (Singapore)
7. Mr. John Lim	Director, Pan United Corporation Ltd
8. Mr. Ng Keh Long	Chief Financial Officer, Creative Technology Ltd
9. Mr. Sim Yong Nam	VP Head, Clearing, Settlement & Accounts Dept, Securities Clearing & Depository Division, Singapore Exchange
10. Mr. Tan Boen Eng	President, Institute of Certified Public Accountants of Singapore
11. Ms Eleana Tan	Consultant, Singapore Technologies Engineering Ltd
12. Associate Professor (A/P) Gillian Yeo	Dean (Accountancy), Nanyang Business School, Nanyang Technological University (NTU)

## Secretariat

1. Miss Serena Hoo - Registry of Companies and Businesses
2. Miss Tan Suan Ee - Registry of Companies and Businesses
3. Ms Balbir Kaur - Public Accountants Board
4. Miss Lau Wan Yen - Public Accountants Board

**DISCLOSURE AND ACCOUNTING STANDARDS SUB-COMMITTEES****(I) REVIEW OF STANDARDS-SETTING PROCESS**

Members	Title
1. Mr. Ng Keh Long (Chairman)	Chief Financial Officer, Creative Technology Ltd
2. Mr. Ng Boon Yew (Co-Chairman)	CEO, Bismac Consultants Pte Ltd and Corporate Adviser, Singapore Technologies Pte Ltd
3. Dr Ernest Kan Yaw Kiong	Partner, Deloitte & Touche, Singapore
4. Mr. Quek See Tiat	Partner, PricewaterhouseCoopers, Singapore
5. Mr. Tan Boen Eng	President, Institute of Certified Public Accountants of Singapore
6. Ms Margaret Tay	Council Member, Singapore Institute of Directors

**(II) REVIEW OF ACCOUNTING STANDARDS**

Members	Title
1. A/P Gillian Yeo (Chairman)	Dean (Accountancy), Nanyang Business School, NTU
2. A/P Chan Yoke Kai	Nanyang Business School, NTU
3. A/P Kung Gek Neo, Jennifer	Nanyang Business School, NTU
4. A/P Lee-Chin Foong Tow, Marina	Nanyang Business School, NTU
5. A/P Lee Lip Nyeon, Peter	Nanyang Business School, NTU
6. Asst Prof Lim Chee Yeow	Nanyang Business School, NTU
7. A/P Ng Eng Juan	Nanyang Business School, NTU
8. A/P Ong-Sia Poh Wah	Nanyang Business School, NTU
9. A/P Asheq Rahman	Nanyang Business School, NTU
10. A/P Tan Hock Neo, Pearl	Nanyang Business School, NTU
11. A/P Tan Mui Siang, Patricia	Nanyang Business School, NTU

**(III) REVIEW OF BEST PRACTICES IN DISCLOSURE REQUIREMENTS**

Members	Title
1. Mr. John Lim (Chairman)	Director, Pan United Corporation Ltd
2. Mr. Eric Ang	Managing Director and Joint Head, Investment Banking Group, DBS Bank
3. Mr Christopher Cheong	Vice President, Securities Investors Association of Singapore
4. Mr. Gan Chee Yen	Group Financial Controller, Singapore Technologies Pte Ltd
5. Dr Mak Yuen Teen	Assoc Professor, Deputy Head, Dept of Finance and Accounting, National University of Singapore
6. Mr. Sim Yong Nam	VP Head, Clearing, Settlement & Accounts Dept, Securities Clearing & Depository Division, Singapore Exchange
7. Ms Eleana Tan	Consultant, Singapore Technologies Engineering Ltd

**(IV) REVIEW OF AUDITORS' ROLE AND EFFECTIVENESS IN ENSURING COMPLIANCE WITH ACCOUNTING STANDARDS AND DISCLOSURE REQUIREMENTS**

Members	Title
1. Mr. Boon Swan Foo (Chairman)	Executive Chairman, NSTB Holdings Pte Ltd
2. Mr. John Koh	Managing Director, Goldman Sachs (Singapore)
3. Mr. N. Sreenivasan	Council Member, Law Society of Singapore
4. Mr. Tan Boen Eng	President, Institute of Certified Public Accountants of Singapore

**LIST OF RESPONDENTS**

First Consultation

- (1) Arthur Andersen, Singapore
- (2) Association of Chartered Certified Accountants
- (3) Avimo Group Limited
- (4) Bob Low Siew Sie, M/s Bob Low & Co
- (5) Cheam Heng Teng, M/s Cheam H T & Co
- (6) Chung Siang Joon, M/s S J Chung & Co
- (7) David Mason
- (8) David Peh Teng Lip, M/s David Peh & Co
- (9) Deloitte & Touche, Singapore
- (10) Ernst & Young, Singapore
- (11) Foo Kon Tan Grant Thornton
- (12) Foong Daw Ching, M/s Teo, Foong & Wong
- (13) Francis Chin Yoke Lan, M/s Y L Chin & Co
- (14) Gerald Loong, M/s L C Loong & Co
- (15) HBM Print Limited
- (16) Institute of Certified Public Accountants of Singapore
- (17) Jerry Lee Kian Eng, M/s Ng, Lee & Associates – DFK
- (18) Keppel Corporation Limited
- (19) Kevin
- (20) Khoo Ee Bin , M/s E B Khoo & Co
- (21) KPMG, Singapore

- (22) Lee Chee Wung, M/s Lee Chee Wung & Co
- (23) Leong Kwong Tat, M/s K T Leong & Co
- (24) Lim Lian Soon, M/s Lee Yeok Chai & Co
- (25) Lim Meng Eng, M/s M E Lim & Co
- (26) Low Aik Har, M/s A H Low & Co
- (27) Nanyang Technological University
- (28) Navamani John, M/s John Navamani & Co
- (29) Ong Sin Huat, M/s Ong Yong & Partners
- (30) Paul Thompson
- (31) PricewaterhouseCoopers, Singapore
- (32) Quek Chuwi Chu, M/s Quek & Co
- (33) Real Estate Developers' Association of Singapore
- (34) Sandy Lam
- (35) Second Chance Property Ltd
- (36) Singapore Exchange Ltd
- (37) Singapore Institute of Directors
- (38) Standard Chartered Bank
- (39) Tan Lye Heng Paul, M/s Tan, Teo & Partners
- (40) Tay Eng Huat, M/s Tay Tong & Co
- (41) Teo Meng Hua, M/s M H Teo & Co
- (42) The Association of Banks in Singapore
- (43) The Law Society of Singapore
- (44) Wee Koon San, M/s Wee Koon San & Co
- (45) William Loong, M/s W L Loong & Co

- (46) Wing Tai Holdings Limited
- (47) Wong Sook Yee, M/s Wong Sook Yee & Co
- (48) Yip Yan Hoi, M/s Y H Yip & Co

Second Consultation

- (1) Agnes Low, M/s K. C. Low & Co.
- (2) Alfred Cheong
- (3) Andrew Hunter Hoahing & Co
- (4) Anthony J Twohill & Co
- (5) Arthur Andersen, Singapore
- (6) Bob Low & Co.
- (7) C. C. Yang & Co.
- (8) Chandra Mohan
- (9) Chia Beng Huat
- (10) Chia Kok Hwa, M/s K. H. Chia & Co.
- (11) Chieng Leong Kwong, M/s Yap Boh Pin & Co.
- (12) Chong, Lim & Partners
- (13) Chow Chuen Wei William, M/s C. W. Chow & Co.
- (14) C. H. Teo & Co.
- (15) Chung Siang Joon, M/s S. J. Chung & Co.
- (16) Clement Tan, M/s Clement Tan & Co.
- (17) Deloitte & Touche, Singapore
- (18) E. B. Khoo & Co.
- (19) EFRS Consultants
- (20) Ernst & Young, Singapore
- (21) Fadhillah Goh , M/s Fadhillah Goh & Co.

- (22) Foo Kon Tan Grant Thornton
- (23) Frankie Chia Soo Hien, M/s Chia, Wong & Partners
- (24) G. A. Lee & Associates
- (25) Goh Ngiap Suan, M/s Goh Ngiap Suan & Co.
- (26) H. T. Khoo & Co.
- (27) H. Wee & Co
- (28) Institute of Certified Public Accountants of Singapore
- (29) Sim Hang Khiang and Chan Soh Seng, M/s Jee Ah Chian & Co.
- (30) Jonathan Tan, M/s Tan C. H. & Co.
- (31) John Navamani & Co.
- (32) JPL Wong & Co.
- (33) Keppel Corporation Limited
- (34) KK Tham & Associates
- (35) Kong, Lim & Partners
- (36) KPMG, Singapore
- (37) K. Y. Chiang & Co
- (38) K. Y. Chik & Associates
- (39) K.Y.Chiu & Co
- (40) Lai Seng Kwoon
- (41) Lee Chee Wung, M/s Lee Chee Wung & Co.
- (42) Lee Kay Beng
- (43) Lee Kok Poh, M/s Lee Kok Poh & Co.
- (44) Lee Seng
- (45) Lee Soon Sin Jason, T. S. Tay & Associates
- (46) Lei Chi Him, M/s C. H. Lei & Co.

- (47) Lim Fon Kui
- (48) Lim Kim Huat Keith, M/s Keith Lim & Co.
- (49) Lim Lian Soon, M/s Lee Yeok Chai & Co.
- (50) Lim Meng Eng, M/s M. E. Lim & Co.
- (51) Lo Hock Ling & Co
- (52) Low Aik Har, M/s A. H. Low & Co.
- (53) Low, Yap & Associates
- (54) Mazars, Singapore
- (55) Menon & Associates
- (56) MGI Chan-Ma & Co.
- (57) M. H. Teo & Co.
- (58) Michelle Loong Li Yen, M/s ASH Loong & Co.
- (59) Ng Cher Yan, M/s C. Y. Ng & Co.
- (60) Ng Lee & Associates - DFK
- (61) Ong Eng Joo, M/s E. J. Ong & Co.
- (62) Ong Poh Hong, M/s Lim, Ong & Partners
- (63) Ong Sin Huat, M/s Ong Yong & Partners
- (64) Phillip T G Siew and Allen Tan Shou Wei, M/s Tan Choon Chye & Co.
- (65) PricewaterhouseCoopers, Singapore
- (66) P. T. Lim & Co.
- (67) Quek Chuwi Chu, M/s Quek & Co.
- (68) Robin Chia & Co.
- (69) Singapore Association of the Institute of Chartered Secretaries and Administrators
- (70) S L Chua & Co.
- (71) Seow Fong Wan, M/s Seow Fong Wan & Co.

- (72) Singapore Institute of Directors
- (73) S. P. Ng & Co.
- (74) S. Y. Wong & Co.
- (75) Tan, Chan & Partners
- (76) Tan Chiang Hung
- (77) Tan Peck Leng Irving, M/s Irving Tan & Co.
- (78) Tan, Teo & Partners
- (79) Tay Tong & Co.
- (80) Teo Boon Tieng, M/s Teo Boon Tieng & Co.
- (81) Teo Eng Tian & Co.
- (82) Teo Liang Chye & Co.
- (83) The Association of Banks in Singapore
- (84) The Law Society of Singapore
- (85) T. H. Heng & Co.
- (86) T. W. Ong & Co.
- (87) Vivian Kwee, M/s L. H. Kwee & Co.
- (88) V. P. Kumaran & Co.
- (89) Wee Koon San & Co
- (90) Wee Yhih Terk, M/s Barry Wee & Co.
- (91) William C. Hutchison
- (92) Willie Tay Kwang Lip, T. S. Tay & Associates
- (93) W. L. Wong & Co.
- (94) Wong Hong Koon & Co
- (95) Wong Partnership
- (96) Yeo Yew Swee & Co.

- (97) Y. H. Yip & Co.
- (98) Yit Chee Wah, M/s C. W. Yit & Associates
- (99) Yong Cherng Nan & Co