

January 31, 2020

## Introduction

On 9 January 2020, the Singapore Exchange Regulation (SGX RegCo) released an announcement concerning the changes being brought about with respect to, amongst other things, the quarterly reporting (QR) requirements. The changes reflect the adoption of a new approach to QR, which currently applies to all listed companies that meet a certain minimum market capitalisation, by introducing a risk-based approach in determining if the listed company will need to continue to report financials on a quarterly basis.

The changes to the Mainboard Rules of the SGX-ST Listing Manual (Listing Manual), which will encompass the new approach to QR and the enhancements to the continuous disclosures requirements, will be effective from 7 February 2020.

## Current approach to QR

With respect to QR, the Listing Manual currently provides that a listed company must announce the financial statements for each of the first three (3) quarters of its financial year if:

- a. its market capitalization exceeded S\$75 million as at 31 March 2003; or
- b. it was listed after 31 March 2003 and its market capitalization exceeded S\$75 million at the time of listing (based on the Initial Public Offering issue price); or
- c. its market capitalization is S\$75 million or higher on the last trading day of each calendar year commencing from 31 December 2006 (with a grace period of a year to prepare for QR for companies in this category (c)).

Any listed company that falls within any of the above categories is required to comply with the QR obligations, even if its market capitalization subsequently decreases below S\$75 million.

## New approach to QR

Under the new approach, a listed company will have to continue with QR if:

- a. it has received a disclaimer of opinion, adverse opinion or qualified opinion from its auditors on its latest financial statements;
- b. its auditors have expressed a material uncertainty relating to going concern on its latest financial statements; or

- c. SGX RegCo has regulatory concerns with the company, for example if it has had material disclosure breaches or where it faces issues that have material financial impact.

For listed companies that do not fall within any of the aforementioned categories, the requirement will be to carry out semi-annual reporting, although such companies are encouraged to consider providing voluntary business updates to shareholders in between their half-yearly financial reports.

## Additional changes being brought in to continuous disclosure requirements

In addition to the changes to the QR requirements, SGX RegCo is strengthening continuous disclosures requirements in areas that have been determined to be of high investor interest. These regulatory areas include interested person transactions (IPTs), significant financial assistance, significant transactions and secondary fund-raising.

The following will, amongst other changes, be implemented:

- a. SGX RegCo will have powers with respect to IPTs to deem a person or entity an “interested person”. SGX RegCo will also be empowered to aggregate separate IPTs entered into during the same financial year and treat them as if they were one transaction, in appropriate circumstances.
- b. There will be a requirement for a competent and independent valuer to be appointed for significant asset disposals.
- c. There will be additional disclosure for rights issues, including a statement by the board of directors on why the rights issue is in the company’s interest, particularly if the company conducts a rights issue within one (1) year from its previous equity fund-raising.
- d. There will be an extension on the need for disclosure and shareholders' approval for the provision, to third parties, of significant financial assistance, which is not part of the company’s ordinary course of business.

Further, SGX RegCo has made it explicit that disclosure obligations apply not just to materially price-sensitive information but also “trade-sensitive information”, which is information that must be disclosed to avoid the establishment of a false market in the company’s securities.

SGX RegCo has also set out its expectations on companies’ handling of material information, including making immediate announcements where there is a change in the issuer’s near-term earnings prospects or where there are ongoing developments.

## Snapshot of some of the proposed amendments

Proposed amended provisions of the Listing Manual	Comments
<b>Part III Equity Securities — Periodic Reports</b>  <b>Financial Statements</b>  <b>705</b>  (2) An issuer must announce the financial statements for	These provisions reflect the proposed changes to the quarterly reporting requirements. The minimum market capitalisation approach will be replaced with a “ <i>risk-based approach</i> ”.  It should be noted that companies that fall within

each of the first three quarters of its financial year (as set out in Appendix 7.2) immediately after the figures are available, but in any event not later than 45 days after the quarter end if:—

- a. [Deleted]
- b. [Deleted]
- c. [Deleted]
- d. its auditors have issued an adverse opinion, a qualified opinion or a disclaimer of opinion on the issuer's latest financial statements; or
- e. its auditors have stated that a material uncertainty relating to going concern exists in the issuer's latest financial statements.

one of the new categories that triggers the QR requirements will have “a *grace period of one year to comply with the requirement*”.

(2A)

Unless otherwise determined by the Exchange, an issuer that is required to announce its financial statements under Rule 705(2) will have a grace period of one year to comply with the requirement, such grace period commencing on the date on which the condition in Rule 705(2) is met. An issuer must continue to comply with Rule 705(2) for so long as any condition in Rule 705(2) is met.

## Part II Definitions

### 904

For the purposes of this Chapter, the following definitions apply:—

(4A) The Exchange may deem any person or entity to be an interested person if the person or entity has entered into, or proposes to enter into: (a) a transaction with an entity at risk; and (b) an agreement or arrangement with an interested person in connection with that transaction.

## Part III General Requirements

### 905

(5) While transactions below \$100,000 are not normally

The Exchange will reserve express powers to deem a person or party an “*interested person* in appropriate cases even if the technical definition is not met. In addition, while transactions below S\$100,000 were not previously aggregated, the Exchange will now reserve the right to require such transactions entered into in the same financial year to be treated as “*one transaction*”.

Proposed amended provisions of the Listing Manual	Comments
aggregated under Rule 905(3), the Exchange may aggregate any such transaction entered into during the same financial year and treat them as if they were one transaction in accordance with Rule 902.	

## Part II Definitions

### 1002

Unless the context otherwise requires:—

(1) "transaction" refers to the acquisition or disposal of assets, or the provision of financial assistance, by an issuer or a subsidiary that is not listed on the Exchange or an approved exchange, including an option to acquire or dispose of assets. It excludes a transaction which is in, or in connection with, the ordinary course of its business or of a revenue nature. It also excludes the provision of financial assistance to the issuer, or its subsidiary or associated company.

The introduction of “*the provision of financial assistance*” to Chapter 10 of the Listing Manual means that loans and guarantees provided in favour of third parties will now be subject to the same rules as for significant acquisitions or disposals, which, should the relevant thresholds be met, may require an immediate announcement and shareholders’ approval.

We would highlight that the above extracted “new provisions” of the Listing Manual will only come into effect on 7 February 2020. In addition, due to the substantial number of changes being made to the Listing Manual, we have only set out certain changes that we believe to be of interest.

## Final Thoughts

The general consensus is that the changes to the QR requirements will be welcomed by the market, with the new rules bringing the SGX-ST in line with other global markets, including Hong Kong, Australia, the United Kingdom and other European Union countries. This represents the culmination of public consultations in which the opinion has been that the current approach to QR is “*too arbitrary and not meaningful in targeting companies that should be doing more frequent reporting*”.

While introducing more relaxed QR requirements, SGX RegCo has sought to highlight that disclosures should be immediate, rather than waiting for milestones such as the end of each quarter. This approach is further exemplified by the tightening of continuous disclosure obligations. By taking a targeted approach to continuous disclosure, this will allow SGX RegCo to focus on disclosures of the greatest concern.

As such, continuous disclosure requirements will be strengthened in areas such as IPTs, significant financial assistance, significant transactions and dilutive secondary fund-raising, and these amendments will serve to safeguard investors’ interests in these key areas.

In addition to the changes to the QR requirements and the strengthening of certain continuous disclosures requirements, SGX RegCo has also recently issued a news release outlining the proposals for strengthened oversight of audits by requiring all listed companies to appoint an auditor that is registered by the Accounting and Corporate Regulatory Authority. Further, SGX RegCo would also be empowered to direct the appointment of an additional auditor in “*exceptional circumstances*”. It is currently seeking consultation of the aforementioned proposals, and it remains to be seen what direction SGX RegCo takes on these new measures.

## Your Key Contacts



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