



Monetary Authority of Singapore

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**Shares & Debentures Guidelines 2**

**GUIDELINES ON DISCLOSURE OF FINANCIAL  
INFORMATION IN PROSPECTUSES**

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Issued on 15 October 2005

## OFFERS OF INVESTMENTS (SHARES AND DEBENTURES)

### Guidelines on Disclosure of Financial Information in Prospectuses

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#### I Purpose

1 These Guidelines are issued by the Monetary Authority of Singapore (the "Authority") pursuant to section 321 of the Securities and Futures Act (Cap. 289) ["SFA"]. They aim to clarify the Authority's regulatory objectives in respect of certain provisions in the Securities and Futures (Offers of Investments)(Shares and Debentures) Regulations 2005 ["SFR"] relating to the disclosure of financial information in prospectuses.

2 The *Guidelines on Disclosure of Financial Information in Prospectuses* issued on 17 September 2003 are revoked.

3 Specifically, these Guidelines provide guidance on:

#### Audited Financial Information

- (a) the presentation of audited financial information in tabular form;
- (b) when financial statements prepared in accordance with accounting standards other than those prescribed in the SFR may be included in a prospectus;
- (c) how to deal with a change in the name of a body of accounting standards prescribed in the SFR;

#### Pro Forma Financial Information

- (d) the auditors' opinion to be provided in respect of pro forma financial information where there have been changes in accounting policies;
- (e) how the requirement to disclose the quantitative impact of a material change in accounting policies may be complied with;

#### Interim Financial Information

- (f) when and for which period interim financial statements should be included in a prospectus;
- (g) the review by auditors of interim financial statements and the interim comparative figures to be provided when such financial information is included in a prospectus;

*Trend Information and Profit Forecast*

- (h) the disclosure of the scope of engagement and work by an expert who has been engaged to provide a statement on the reasonableness of the assumptions underlying a profit forecast;
- (i) the minimum period that should be covered by a discussion on trends and prospects;
- (j) what would constitute a profit forecast; and
- (k) the period to be covered by a profit forecast.

## **II Interpretation**

4 In these Guidelines:

- (a) a reference to a particular Schedule is a reference to that Schedule to the SFR;
- (b) a reference to the sub-section on “*Audited Financial Information*”, “*Pro forma Financial Information*” or “*Change in Accounting Policies*” is a reference to that sub-section in the Fifth to Seventh and Tenth Schedules to the SFR unless otherwise stated; and
- (c) a reference to the sub-section on “*Interim Financial Information*” or “*Trend Information and Profit Forecast or Profit Estimate*” is a reference to that sub-section in the Fifth and Seventh Schedules to the SFR unless otherwise stated.

## **III Statutory Requirements**

5 Section 243(1)(a) of the SFA requires a prospectus to contain all the information that investors and their professional advisers would reasonably require to make an informed assessment of, among other things, the financial position, performance, and prospects of the entity that is to issue or has issued the securities.

6 Section 243(1)(a) of the SFA is supplemented by section 243(1)(b), which requires the prospectus to contain all the matters prescribed by the Authority. The Authority has prescribed specific disclosure requirements in the Fifth to Seventh and Tenth Schedules. In particular, the disclosure requirements pertaining to financial information are contained mainly in the sub-sections on “*Audited Financial Information*”, “*Pro forma Financial Information*”, “*Interim Financial Information*”, “*Change in Accounting Policies*” and “*Trend Information and Profit Forecast or Profit Estimate*”.

## IV Audited Financial Information

### Presentation of audited financial information in tabular form

7 The sub-section on "*Audited Financial Information*" does not prescribe how the audited financial statements that are to be included in a prospectus should be presented. Where the audited financial information is presented in tabular form, the information should be extracted in full from the annual audited financial statements of the relevant entity and not on a selective basis.

8 Where the audited financial information presented in tabular form is extracted from the annual audited financial statements of the relevant entity without material adjustments<sup>1</sup>, there is no need for an auditor to report on the financial information in the table. The prospectus should include a statement that the information has been extracted from the annual audited financial statements of the relevant entity without material adjustments and the auditors' reports on the annual audited financial statements of the relevant entity should be included in the prospectus as required under the sub-section on "*Audited Financial Information*".

9 The sub-section on "*Change in Accounting Policies*" requires disclosure of the quantitative impact of any material change in accounting policies on the financial results of the relevant entity or the group, where applicable, for each of the 3 most recent completed financial years. Where the audited financial information is presented in tabular form, such disclosure should be made by way of footnotes to the table.

### Financial statements prepared in accordance with accounting standards other than those specified in the Fifth to Seventh and Tenth Schedules

10 The sub-section on "*Audited Financial Information*" has been amended to provide that the annual audited financial statements may be prepared in accordance with accounting standards other than the Financial Reporting Standards ("FRS"), International Financial Reporting Standards ("IFRS") or US Generally Accepted Accounting Principles ("US GAAP"), provided that these annual financial statements are accompanied by an opinion from the auditors that no material adjustments<sup>2</sup> would be required to re-state the annual financial statements to be in accordance with the FRS, IFRS or US GAAP.

11 In addition, the Authority has the discretion to approve on a case-by-case basis the inclusion of annual financial statements prepared in accordance with such other bodies of accounting standards other than those referred to in paragraph 10. In considering an application for approval, the Authority will take into account, among other things, the views of the securities exchange on which the securities being offered will be listed for quotation or quoted.

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<sup>1</sup> When judging the materiality of an adjustment, issuers and their advisers may wish to consider the guidance provided by the Institute of Certified Public Accountants of Singapore in the Statement of Auditing Practice 2: "The Interpretation of 'Material' in Relation to Accounts".

<sup>2</sup> Please refer to footnote 1.

## V Change in Accounting Policies

12 The sub-section on “*Change in Accounting Policies*” requires the prospectus to disclose the quantitative impact of a material change in accounting policies on the financial results of the relevant entity or where the relevant entity is the holding entity of a group, the group, for the last 3 financial years.

13 The Authority would generally consider this provision to have been complied with if the financial position and net profit and loss of the relevant entity or where the relevant entity is the holding entity of a group, the group, based on the old accounting policies are disclosed against the corresponding information based on the new accounting policies. Further, the Authority is of the view that this requirement extends to an intended change in accounting policies, including where the relevant entity intends or will be required to adopt a new accounting standard that has been issued but has not come into effect. In the event that the quantitative impact of a material change or intended change in accounting policies is not reasonably determinable, this fact should be disclosed.

## VI Interim Financial Information

### When and for which period interim financial statements should be included in the prospectus

14 To provide investors with more current financial information on the issuer, the sub-sections on “*Interim Financial Information*” in the Fifth and Seventh Schedules have been amended to require the prospectus to include a 3-month interim period if it is lodged after 6 months but before the end of 9 months from the end of the most recent financial year for which financial statements have been provided (the “Last Financial Year End”).

15 For the same reason, a prospectus that is lodged more than **12 months but less than 15 months** after the Last Financial Year End will now be required to contain interim financial statements covering at least 9 months (of which the first 3 months must be audited).

16 Appendix 1 illustrates how the revised requirements in relation to the provision of “*Interim Financial Information*” may be applied, assuming that the financial year-end is 31 December.

### Auditors’ review of interim financial statements

17 The sub-section on “*Interim Financial Information*” requires a review of the interim financial statements by the auditors of the relevant entity where the interim financial statements provided in the prospectus are not audited.

18 A review by the auditors provides assurance to investors that the interim financial statements have been properly prepared.

19 Hence, even for interim financial statements which are included in a prospectus on a voluntary basis, the Authority expects the prospectus to include a review of those interim financial statements by the auditors of the relevant entity.

20 The sub-section on “*Interim Financial Information*” requires any interim financial statements included in a prospectus to include comparative figures for the same period in the previous financial year. Where such comparative figures are not audited or reviewed by the auditors of the relevant entity, this fact should be disclosed.

## **VII Trend Information and Profit Forecast**

### Expert’s opinion on reasonableness of underlying assumptions of a profit forecast

21 Where a profit forecast is included in a prospectus, the sub-section on “*Trend Information and Profit Forecast or Profit Estimate*” requires the prospectus to include, among other things, a statement by an expert that:

- (a) the profit forecast has been stated by the directors or equivalent persons of the relevant entity after due and careful enquiry and consideration; or
- (b) no matter has come to his attention which gives him reason to believe that the assumptions do not provide reasonable grounds for the profit forecast.

22 An expert giving the statement referred to in paragraph 21 should disclose the scope of its engagement and the extent and nature of its enquiries.

23 For auditors who are engaged as experts, guidance on the required statement referred to in paragraph 21 is provided in the Singapore Standard On Auditing 27: “The Examination of Prospective Financial Information” (“SSA 27”) issued by the Institute of Certified Public Accountants of Singapore. The Authority would generally accept a statement by the auditors that the examination of the profit forecast has been carried out in accordance with the Singapore Standards on Auditing applicable to the examination of prospective financial information as appropriate disclosure of the scope of its engagement and the extent and nature of its enquiries.

### Discussion of trends and prospects

24 The sub-section on “*Trend Information and Profit Forecast or Profit Estimate*” requires a prospectus to include a discussion of:

- (a) the business and financial prospects of the relevant entity;
- (b) any significant recent trends in production, in sales and inventory, and in the costs and selling prices of products and services, for at least the current financial year;

- (c) the state of the order book, since the end of the most recent period for which annual or interim financial statements have been provided; and
- (d) any other known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on net sales or revenues, profitability, liquidity or capital resources, or that would cause financial information disclosed in the prospectus to be not necessarily indicative of future operating results or financial condition.

25 The required discussion referred to in paragraph 24 does not constitute a requirement for a profit forecast to be included in the prospectus. In order not to be regarded as a profit forecast, the discussion should avoid a form of words which (taken together with the rest of the prospectus) would provide sufficient information for a person to calculate an approximate figure for future profits, such as:

- (a) a statement that “profits for the second half of the current financial year are expected to be similar to those earned in the first half” when the interim results for the first half of the current financial year have been included in the prospectus;
- (b) a revenue forecast together with a statement that “profit margins for the past financial year or years are expected to be maintained in the current financial year”; and
- (c) a dividend forecast together with an estimate as to dividend cover.

26 The discussion may include quantitative information (e.g. quantitative information relating to industry growth, movements in costs and selling prices, and the state of the order book) as long as such information, taken together with the rest of the prospectus, would not provide sufficient information for a person to calculate an approximate figure for future profits.

27 A form of words which explicitly puts a floor on profits (e.g. “Profits will be better than last year”) would constitute a profit forecast. The Authority will not generally regard a form of words which puts a ceiling on profits (e.g. “Profits are expected to be lower than last year”) as a profit forecast to which the requirement mentioned in paragraph 21 applies, provided that such profit ceiling is not higher than the profit achieved in the most recent completed corresponding financial period disclosed in the prospectus. For example, if the profit for the most recent completed financial year was \$2 million, a statement that the profit for the current financial year would not be higher than \$10 million will be regarded as a profit forecast.

28 The required discussion mentioned in paragraph 24 should cover at least the whole of the current financial year including the period after the date to which any interim financial statements were drawn up. A review of interim financial performance, where interim financial statements are included in the prospectus, would not be sufficient for the purposes of complying with the requirement mentioned in paragraph 24.

Period to be covered by a profit forecast

29 Where a profit forecast is included in a prospectus, the Authority would generally expect the period covered by such forecast to be a period for which the financial results of the relevant entity will be publicly announced.

30 In exceptional cases, where it is necessary to include in the prospectus a profit forecast covering a period affected by cyclical or seasonal factors or income support guarantees that will expire after such period, the prospectus should not mislead readers about how representative the period is likely to be.

31 If there are specific considerations that affect a selected period, the prospectus should disclose those considerations and why the particular period was selected. In exceptional cases where the selected period is not a period for which the financial results of the relevant entity will be publicly announced, the Authority expects the prospectus to include a statement that the results covering the selected period will be announced in due course.

**Financial Information Requirements (assuming issuer with financial year ending 31 Dec)**

