



Monetary Authority of Singapore

Shares & Debentures Guideline 2

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

OFFERS OF INVESTMENTS (SHARES AND DEBENTURES)

Guidelines on Disclosure of Financial Information in Prospectuses

I Purpose

1 These Guidelines are issued by the Monetary Authority of Singapore ("MAS") pursuant to section 321 of the Securities and Futures Act (Cap. 289) ["SFA"]. They aim to clarify MAS' regulatory objectives in respect of certain provisions in the Securities and Futures (Offers of Investments)(Shares and Debentures) Regulations 2002 ["SFR"] relating to the disclosure of financial information in prospectuses. They also provide interim guidance to issuers and their advisers on compliance issues that have emerged since the SFR came into force in July 2002, pending MAS's review of the SFA and SFR in 2004.

2 Specifically, these Guidelines provide guidance on:

Audited Financial Information

- a) the presentation of audited financial information in tabular form;
- b) when exemption from the requirement to provide the audited financial information of a previous holding company may be granted;
- c) the provision of audited financial information of the previous holding company of corporations, business divisions, or assets and undertakings that were acquired by the pro forma group prior to the offer of securities;
- d) when financial statements prepared in accordance with accounting standards other than those prescribed in the SFR may be included in a prospectus;
- e) how to deal with a change in the name of a body of accounting standards prescribed in the SFR;

Pro Forma Financial Information

- f) the auditors' opinion to be provided in respect of pro forma financial information where there have been changes in accounting policies;
- g) how the requirement to disclose the quantitative impact of a material change in accounting policies may be complied with;
- h) the inclusion in a prospectus of pro forma balance sheets as at dates that are earlier than the end of the most recent financial year;

Interim Financial Information

- i) when and for which period interim financial statements should be included in a prospectus;
- j) 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 or Estimate

- k) the disclosure of the scope of engagement and work by an expert who has been engaged to provide an opinion on the reasonableness of the assumptions underlying a profit forecast or estimate;
- l) the minimum period that should be covered by a discussion on trends and prospects;
- m) what would constitute a profit forecast or estimate; and
- n) the period to be covered by a profit forecast or estimate.

II Interpretation

3 In these guidelines:

- a) a reference to a particular Schedule is a reference to that Schedule of 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 Eighth Schedules 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 unless otherwise stated.

III Statutory Requirements

4 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 corporation that is to issue or has issued the securities.

5 Section 243(1)(a) is supplemented by section 243(1)(b), which requires the prospectus to contain all the matters prescribed by MAS. MAS has prescribed specific disclosure requirements in the Fifth to Eighth 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

6 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. MAS has received requests to present such audited financial information in tabular form on the ground that this would facilitate comparison of the financial information between the financial years.

7 MAS agrees with this view. The audited financial information to be presented in tabular form should be extracted in full from the underlying audited financial statements. Information should not be extracted on a selective basis.

8 Where the audited financial information presented in tabular form was extracted from the underlying audited financial statements without material adjustments¹, there is no need for an auditor to report on the financial information in the table given that the underlying financial statements have been audited. The prospectus should include a statement that the information has been extracted from the underlying audited financial statements without material adjustments. The auditors' reports on the underlying financial statements should also 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 corporation 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.

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

Audited consolidated financial statements of previous holding company

10 The sub-section on “*Audited Financial Information*” requires a prospectus of a corporation (the “Relevant Corporation”), which is the holding company of a group, to include the annual audited consolidated financial statements of the previous holding company² (“PHC”) of the group if—

- a) the Relevant Corporation has been incorporated for less than 3 completed financial years; and
- b) the absolute amount of the net assets (liabilities) or profit (loss) before tax stated in the annual audited consolidated financial statements of the PHC accounted for 75% or more of the absolute amount of the net assets (liabilities) or profit (loss) before tax of the pro forma group.

MAS has received requests to clarify the objective and application of this requirement.

11 The purpose of providing financial information which has been audited is to give investors reasonable assurance that the financial information is free from material mis-statement. Where an issuer is a recently incorporated listing vehicle and therefore does not have audited financial statements, MAS requires to be included in the prospectus other audited financial statements (e.g. those of the PHC) that are reasonably representative of the financial position and results of the pro forma group.

12 Applying this principle, where:

- a) a subsidiary (the “First Subsidiary”) of the Relevant Corporation was a holding company of some or all of the other subsidiaries of the Relevant Corporation; and
- b) the absolute amount of the net assets (liabilities) or profit (loss) before tax stated in the annual audited consolidated financial statements of the First Subsidiary accounted for 75% or more of the absolute amount of the net assets (liabilities) or profit (loss) before tax of the pro forma group,

MAS would normally regard the First Subsidiary as the PHC.

13 Where the annual audited consolidated financial statements of the PHC are not reasonably representative of the financial position and/or results of the pro forma group (e.g. where only some of the subsidiaries of the PHC are or will be part of the pro forma group), MAS would normally grant an exemption from the requirement mentioned in paragraph 10 subject to such conditions as MAS may determine. In cases where there are annual audited consolidated financial statements of a

² PHC is defined in the Schedules as “a company which was the holding company of the group immediately before the Relevant Corporation became the holding company”.

corporation (other than the PHC) that are reasonably representative of the financial position and results of the pro forma group, MAS would usually require such audited financial statements to be provided in the prospectus as a condition to the exemption.

14 The requirement mentioned in paragraph 10 to provide the annual audited consolidated financial statements of a previous holding company for the 3 most recent completed financial years should be complied with as long as the condition mentioned in paragraph 10(b) is met in any of the 3 most recent completed financial years.

15 Although the requirement mentioned in paragraph 10 does not cater for a situation where the Relevant Corporation has acquired business divisions or assets and undertakings (rather than shares in corporations), the annual audited financial statements of the corporation whose business divisions or assets and undertakings were acquired should be included in a prospectus if the annual audited financial statements of the corporation whose business division or assets and undertakings are acquired are reasonably representative of the financial position and results of the pro forma group and it is not unduly burdensome for the issuer to include such financial statements in the prospectus. This is to comply with the spirit of the requirement mentioned in paragraph 10 and with section 243(1)(a) of the SFA.

Financial statements prepared in accordance with accounting standards other than those specified in the Fifth to Eighth Schedules

16 The sub-section on “*Audited Financial Information*” requires the annual audited financial statements to be prepared, or otherwise re-stated, in accordance with Singapore Statements of Accounting Standards (“SAS”), International Accounting Standards (“IAS”) or US Generally Accepted Accounting Principles (“US GAAP”) or such other accounting standards as may be approved in any particular case by MAS. MAS has received queries on when financial statements prepared in accordance with accounting standards other than those prescribed may be included in a prospectus without re-statement.

17 MAS would normally approve the inclusion of financial statements prepared in accordance with accounting standards other than those prescribed, if they are accompanied by a statement from the auditors that no material adjustments³ would be required to re-state the financial statements in accordance with SAS, IAS or US GAAP. In considering an application for approval, MAS will also 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.

³ Please refer to footnote 1.

Change in name of accounting standards

18 MAS recognises that from time to time there may be a change in the name of a particular body of accounting standards (e.g. where a new accounting standard-setting authority assumes the standard-setting responsibilities of its predecessor and adopts a new name for the body of accounting standards that it issues). Where there is a change in the name of those accounting standards specified in the SFR, any reference made in the SFR to the old name should be deemed as a reference to the new name. Accordingly, when complying with the SFR, MAS would expect reference to be made to the new name.

V Pro forma Financial Information

Change in accounting policies

19 The sub-section on “*Pro forma Financial Information*” requires the prospectus to include an opinion from the auditors as to whether the pro forma financial statements have been properly prepared in a manner consistent with the accounting policies of the relevant corporation. Some issuers and advisers have queried how this provision should apply where the relevant corporation has not yet adopted any accounting policies or has changed its accounting policies during the period under review.

20 Where the relevant corporation has not yet adopted any accounting policies (e.g. because the relevant corporation has not previously prepared any annual financial statements), the opinion mentioned in paragraph 19 should be given with reference to the accounting policies that the relevant corporation intends to adopt.

21 Where the relevant corporation has switched or intends to switch to another body of accounting standards for preparing its annual financial statements, the opinion mentioned in paragraph 19 should be given with reference to the new body of accounting standards that the relevant corporation has adopted or intends to adopt. Adjustments should be made retrospectively to reflect the new body of accounting standards in the pro forma financial statements unless the amount of adjustment is not reasonably determinable. If it is impracticable to apply the new accounting standards retrospectively for preparing the pro forma financial statements, this fact should be disclosed.

22 Where the relevant corporation has changed its accounting policies⁴, the opinion mentioned in paragraph 19 should be given with reference to the new accounting policies. Adjustments should be made retrospectively to reflect the new accounting policies in the pro forma financial statements unless the amount of adjustment is not reasonably determinable or the relevant corporation has adopted a new accounting standard that does not allow retrospective application of the standard. If it is impracticable to apply the new accounting policies retrospectively for preparing the pro forma financial statements, this fact should be disclosed.

23 Separately, 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 pro forma group for the last 3 financial years. Some issuers and advisers have sought guidance on how to comply with this requirement.

24 MAS would normally consider this provision to have been complied with if the financial position and net profit and loss of the pro forma group based on the old accounting policies are disclosed against the corresponding information based on the new accounting policies. Further, MAS is of the view that this requirement extends to an intended change in accounting policies, including where the relevant corporation 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.

Pro forma balance sheet

25 The sub-section on “*Pro forma Financial Information*” requires the pro forma balance sheet to be as of the date to which the latest annual pro forma profit and loss statement was made up. For example, if the latest annual pro forma profit and loss statement covers the financial year ended 31 December 2002, the pro forma balance sheet must be as of 31 December 2002. Some issuers and advisers have asked whether pro forma balance sheets for earlier years can be provided.

26 The provision does not preclude the inclusion of pro forma balance sheets for earlier years in a particular case as long as this would not result in the information presented in the prospectus being false or misleading.

⁴ In addition to the situation described in paragraph 21, other circumstances that may give rise to a change in accounting policies include:

- a) where the relevant corporation has changed its accounting policies pursuant to a critical re-examination of such policies by its directors and auditors or other advisers; or
- b) where the relevant corporation has adopted any new or revised standards that have been issued under that body of accounting standards adopted by the relevant corporation for preparing its annual financial statements.

27 Where pro forma balance sheets for earlier years are included in a prospectus, MAS is of the view that paragraphs 16, 19 and 20 in the sub-section on “*Pro forma Financial Information*” in the Fifth Schedule and paragraphs 17, 20 and 21 in the sub-section on “*Pro forma Financial Information*” in the Seventh Schedule concerning annual pro forma financial statements would apply to the pro forma balance sheets for earlier years.

VI Interim Financial Information

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

28 The sub-section on “*Interim Financial Information*” requires the prospectus to include interim financial statements (which need not be audited) covering at least the first 6 months of the current financial year if the prospectus is lodged more than 9 months after the last financial year for which audited or pro forma financial statements were prepared (the “Last Financial Year”). MAS has received requests to clarify how the provision should apply.

29 The requirement mentioned in paragraph 28 applies where the prospectus is lodged more than 9 months **but within 12 months** after the Last Financial Year.

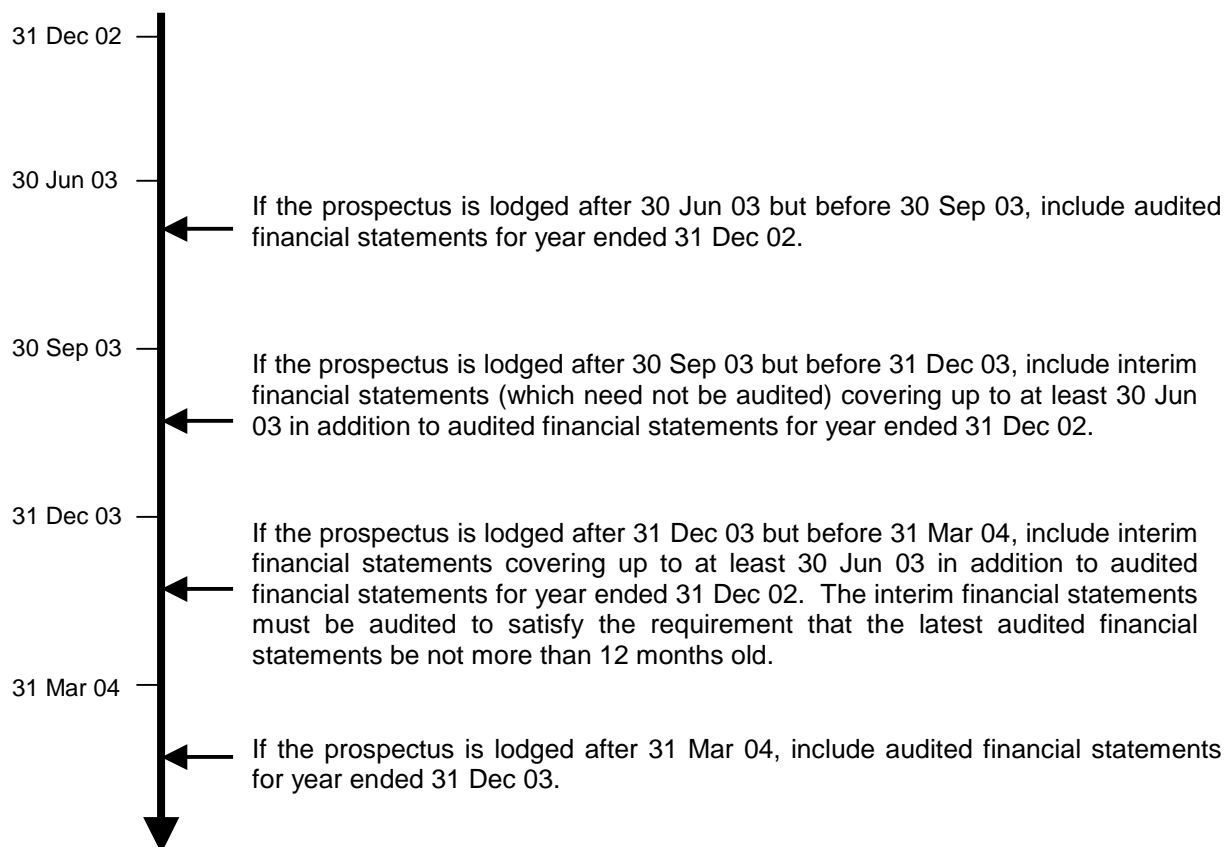
30 Where the prospectus is lodged more **than 12 months but less than 15 months** after the Last Financial Year, MAS would expect the prospectus to include interim financial statements covering at least the 6 months immediately following the Last Financial Year, unless the prospectus includes the audited financial statements for the most recent completed financial year.

31 Separately, the sub-section on “*Audited Financial Information*” requires the most recent audited financial statements to cover a period ending not more than 12 months before the prospectus is lodged. Some issuers and advisers have asked whether they can comply with this requirement by providing audited interim financial statements.

32 The requirement mentioned in paragraph 31 may be satisfied by providing audited interim financial statements covering a period ending not more than 12 months before the prospectus is lodged. However, where the prospectus is lodged more than 3 months after the end of the most recent completed financial year, MAS would expect the audited financial statements for the most recent completed financial year to be included.

33 Figure 1 below illustrates how the requirements mentioned in paragraphs 28 to 32 may be applied, assuming that the financial year-end is 31 December.

Figure 1



Auditors' review of interim financial statements

34 The sub-section on "*Interim Financial Information*" requires a review by the auditors of the interim financial statements provided in the prospectus. MAS has received queries on whether the requirement applies to all interim financial statements, whether or not they are provided pursuant to the requirement mentioned in paragraph 28.

35 Interim financial statements provide updated information on an issuer's financial position and results either on an actual or on a pro forma basis. A review by the auditors provides assurance to investors that the interim financial statements have been properly prepared.

36 Therefore, whenever interim financial statements are included in a prospectus, whether pursuant to the sub-section on "*Interim Financial Information*" or on a voluntary basis, MAS would expect the prospectus to include a review by the auditors of the interim financial statements.

37 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 reviewed by the auditors, the fact should be disclosed. If the interim financial statements included in a prospectus are audited (whether under the circumstances described at paragraph 32 or otherwise), but the comparative figures are not audited, the fact should also be disclosed.

38 If the interim financial statements included in a prospectus are pro forma financial statements, MAS is of the view that paragraphs 16, 19 and 20 in the sub-section on “*Pro forma Financial Information*” in the Fifth Schedule and paragraphs 17, 20 and 21 in the sub-section on “*Pro forma Financial Information*” in the Seventh Schedule concerning annual pro forma financial statements would apply to the interim pro forma financial statements.

VII Trend Information and Profit Forecast or Profit Estimate

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

39 Where a profit estimate which relates to the most recent completed financial year or 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 assumptions provide reasonable grounds for the profit estimate/forecast;
- 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 estimate/forecast; or
- c) the assumptions do not provide reasonable grounds for the profit estimate/forecast and the reasons for such a conclusion.

40 Experts giving the opinion mentioned in paragraph 39 should disclose the scope of their engagement and the extent and nature of their enquiries.

41 For auditors who are engaged as experts, guidance on the required opinion mentioned in paragraph 39 is provided in Singapore Standard On Auditing 27: “The Examination of Prospective Financial Information” (“SSA 27”) issued by the Institute of Certified Public Accountants of Singapore. MAS would normally accept a statement by the auditors that the examination of the profit forecast/estimate has been carried out in accordance with Singapore Standards on Auditing applicable to the examination of prospective financial information as appropriate disclosure of the scope of their engagement and the extent and nature of their enquiries.

Discussion of trends and prospects

42 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 corporation;
- b) the most significant recent trends in production, in sales and inventory, and in the costs and selling prices of products and services, and the state of the order book, since the most recent financial year; and
- c) 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.

43 Some issuers and advisers have sought guidance on the period that such discussion must cover and whether it would be regarded as a profit estimate or forecast.

44 The required discussion mentioned in paragraph 42 does not constitute a requirement for a profit forecast or estimate to be included in the prospectus. In order not to be regarded as a profit forecast or estimate, 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 are 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.

45 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 give sufficient information for a person to calculate an approximate figure for future profits.

46 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 or estimate. MAS will not normally 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 estimate or forecast to which the requirement mentioned in paragraph 39 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, and a statement that profit for the current financial year will not be higher than \$10 million will be regarded as a profit forecast.

47 The required discussion mentioned in paragraph 42 must cover at least the whole of the current financial year including the period after the date to which any interim financial statements were made up. A review of interim financial performance, where interim financial statements are included in the prospectus, is not sufficient for the purposes of complying with the requirement mentioned in paragraph 42.

Period to be covered by a profit forecast or estimate

48 Where a profit forecast or estimate is included in a prospectus, MAS would normally expect the period covered by such forecast or estimate to be a period for which the financial results of the relevant corporation will be publicly announced.

49 In exceptional cases, where it is necessary to include in the prospectus a profit forecast or estimate 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.

50 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 corporation will be publicly announced, MAS would expect the prospectus to include a statement that the results covering the selected period will be announced in due course.