DISCLOSURE AND ACCOUNTING STANDARDS COMMITTEE

CONSULTATION PAPER

DECEMBER 2000

CONSULTATIVE PAPER ON DISCLOSURE AND ACCOUNTING STANDARDS

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. The Committee, in the course of its deliberations, solicited the 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.

3. Following the report of the Corporate Finance Committee ("CFC") issued in October 1998, significant changes were made to 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 that is sufficient for it to move towards a predominantly disclosure based system of regulation in order to provide the impetus for it to become a market driven 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 remedies for enforcement.

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

REGULATORY FRAMEWORK

Obligation To Disclose

5. 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. Experiences have 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 legal 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 legal 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.

6. 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 legal requirements to make disclosure of specific items as required by the Companies Act ("the Act"), there is no legal obligation for companies to make such continuous disclosure of additional items or information which may be relevant and meaningful to investors. The SGX Listing Manual, however, also imposes certain additional disclosure requirements on a specific basis. With the fast moving and 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, corporate legislation should 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 legal obligation rather than a contractual or voluntary obligation will emphasise to the listed companies and their directors and advisers the importance of making adequate disclosure to the market. A legal obligation is also necessary if investors and

securities regulators are to have the legal remedies to enforce such disclosure obligation.

Compliance With Accounting Standards

7. 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.

8. There is presently no statutory requirement for companies' financial statements to comply with accounting standards. Any non-compliance with accounting standards would therefore not strictly affect the requirements of the Act 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.

9. In the UK, under its 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, and, in cases where there are material departures, particulars and the reasons for such departures are to 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 such as 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. 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.

10. Compliance with accounting standards and its enforcement presently rests with ICPAS, whose practising members are regulated by the Public Accountants Board ("PAB"). ICPAS uses its leverage over its practising members, who are auditors of companies, to enforce compliance with accounting standards. In practice, however, auditors often encounter difficulties persuading companies and their directors to comply with accounting standards. Consequently, a qualified opinion expressed by the auditors in their report for such non-compliance does not always achieve the desired effect.

11. Therefore, in line with other leading jurisdictions, the Committee is of the view that compliance with prescribed accounting standards be legislated. Among the models considered are those of the UK and Australia. The Committee feels that it is very rare for financial statements to not give a "true and fair view" if the company complies fully with prescribed accounting standards. The importance of having high standards of disclosures and comparability of financial information would make the Australian model the preferred model for Singapore.

Prescribed Accounting Standards

12. In 1995, in an agreement between the International Accounting Standards Committee ("IASC") 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 many stock exchanges now accept IASs for foreign companies' listings on their exchanges with the exceptions of the US and Canada.

13. 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 Community has announced that it will adopt IASs fully in 2005. This has led to the increasing recognition of the IASC as the global accounting standard setting body. There are, however, differences between IASs and US GAAP. These arose mainly from the conceptual differences under which the Financial Accounting Standards Board ("FASB") in the US developed its standards. US GAAP places greater emphasis on reliability and is therefore more prescriptive and objectively interpreted than the IASs. The IASs, on the other hand, place greater emphasis on relevance and therefore allow a greater degree of judgement to be applied to specific business conditions. Notwithstanding the differences in the conceptual framework for the IASs and the US GAAP, both are recognised by the global capital markets as acceptable financial reporting standards. The Committee is therefore of the view that the IASs and US GAAP be the prescribed accounting standards in Singapore. For companies that adopt any of the prescribed standards, the Committee is of the view that no further reconciliation is necessary.

Accounting Standards Setting Process

14. The current applicable accounting standards in Singapore are the SASs promulgated by the ICPAS although the SGX allows listed companies to prepare financial statements in compliance with SASs, IASs or US GAAP. The SASs are based almost entirely on the IASs issued by the IASC. In almost all instances, the SASs are identical to the IASs. In the few instances where there are differences, these are fairly minor. ICPAS has initiated the process of bringing the SASs to be totally aligned with the IASs thus resulting in the SASs to be identical with the IASs. This being the case, compliance with SASs would mean compliance with IASs. The Committee is of the view that as the SASs currently applicable in Singapore are almost identical to that of the IASs, Singapore should adopt IASs in their entirety. This would remove the perception that financial statements of Singapore companies are deficient when measured against international accounting standards. Such a change should not also increase the compliance costs of Singapore companies.

15. The Accounting Standards Committee ("ASC") of ICPAS is currently the body involved in the review of all accounting standards before they are issued. The ASC would normally 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 is thus a timing difference, which could stretch for up to 2 years before an IAS is issued as an SAS. This timing difference is however being reduced.

16. The accounting standards setting process currently adopted in Singapore requires significant resources both in terms of manpower and time. In addition, the process would put Singapore behind countries that adopt the IASs as soon as they are issued because of the need to have an exposure of the IAS before its adoption as an SAS. With the extensive infrastructure and resources that the IASC has committed to developing standards that are being recognised by national bodies globally, the Committee felt that ICPAS should not "reinvent the wheels" and should cease issuing the SASs. Concerns have however been expressed that the full adoption of IASs without the opportunity to modify the standards to suit local conditions may not be appropriate. The Committee, having considered these concerns and the nature of the modifications to the standards made so far, is of the view that such modifications have not been significant.

17. The Committee is of the view that more active participation in the international accounting standard setting body should be considered. A more proactive approach to solicit views and feedback from all interested parties during the exposure period of a proposed accounting standard issued by the IASC should be adopted. The accounting profession should actively undertake activities that will enhance the understanding and implementation of accounting standards in Singapore e.g. through

the issue of guidelines and interpretations to facilitate consistency in the application of accounting standards and the organisation of public education programmes with bodies such as SIAS and SID.

18. With the rapid changes in technology and business environment, accounting standards and guidelines often lag behind business dynamics. There will therefore be occasions when there are no IASs 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 accounting profession.

Monitoring and Enforcing Reporting and Disclosure Standards

19. The monitoring and enforcement mechanisms adopted by the developed capital markets vary from country to country. In the UK, the role of monitoring and enforcing reporting and disclosure standards is undertaken by the Financial Reporting Review Panel ("FRRP") under the Financial Reporting Council ("FRC") which is independent of the securities regulator, the Financial Services Authority. 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 US, the securities regulator, Securities and Exchange Commission ("SEC"), takes on the role of monitoring and enforcing reporting and disclosure standards. SEC can take enforcement actions against 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, 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.

20. In Singapore, these functions are undertaken, in varying degree, by various bodies such as the MAS, SGX and ICPAS (through the Financial Statements Review Committee). The review by the latter body is restricted to the financial statements and offering documents issued by the listed companies and is normally conducted some time after the issuance of such documents. In view of the lack of timeliness in such review, this may not be effective for an efficient flow of adequate, complete and meaningful information to the investing public.

21. Views have been expressed that for the monitoring and enforcement process to be effective and appropriate, legislation should be put in place. However, the Committee is of the view that the preferred monitoring framework should consist of a review panel with representations from the various private sector market intermediaries such as SGX, SID, ICPAS, IMAS and SIAS. All these parties have vested interests in enhancing reporting and disclosure standards. It should preferably be spearheaded by SGX as it has a national objective to ensure that the capital market remains transparent and competitive.

22. The monitoring approach adopted should be similar to that of FRRP except that the review panel does not have any legislative powers. The role of the review panel should be to examine material departures from reporting and disclosure requirements, including applicable accounting standards with a view to consider whether the reporting and disclosure standards have been complied with. The review panel should aim to discharge its tasks by seeking voluntary agreement with the directors of a company on any necessary revisions to the financial statements in question. If this approach fails and the review panel believes that revisions to the financial statements are necessary, it will refer the non compliance to the Securities Regulator ("SR") to take necessary actions against the company concerned that does not comply with the reporting and disclosure standards and to order the directors to prepare revised financial statements. Where financial statements are revised either voluntarily or by order of the SR, and the company's auditor had not qualified his audit report on the defective financial statements, the review panel should refer the fact to the attention of the accounting profession for appropriate action. The review panel should also be charged with the responsibility of perpetuating the process of reviewing, monitoring and enhancing reporting and disclosure standards. This panel can also introduce new reporting and disclosure standards and if necessary, the reporting and disclosure standards can be referred to the authority for them to be legislated.

REPORTING REQUIREMENTS

Interim Reporting

23. The Internet revolution has brought about dramatic changes to the business and operating models of both the New Economy as well as the Old Economy businesses. 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 this 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. Markets in the US and Canada have long adopted the quarterly reporting requirement. In Asia, both Thailand and Malaysia have already adopted the quarterly reporting of interim financial results for listed companies. China had recently announced that its listed companies are required to announce quarterly results from June next year. The Committee is of the view that all listed companies be required to make interim financial announcements on a quarterly basis.

24. With the more regular and frequent release of interim financial performance of a company, 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 such price sensitive information. Current rules of the SGX require that interim and final financial results of listed companies be announced within 90 days of the relevant period end. 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 US, SEC companies are required to make this announcement within 45 days of each 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 within 3 months of the end of each accounting period.

Final Reporting

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25. 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 is of the view that the issue of profit warnings be further studied to see if it can be adopted in Singapore.

26. The Companies (Amendment) Act 2000 requires listed companies to present its annual report to its shareholders within 5 months of their financial year-ends. With the Committee's view that all listed companies are to announce quarterly interim financial results within 60 days of the quarter end and its financial year-end, this would mean that shareholders could be receiving the annual report for the previous financial year after the announcement of the first quarter's results of the following financial year. The purpose and usefulness for issuing the annual report to the shareholders would not thereby be achieved. The Committee is therefore of the view that the annual reports of all listed companies be issued to shareholders within 120 days of the financial year-end. In line with the view that the interim reporting period be reduced from 60 to 45 days, this period should be reduced to 90 days in due course.

27. Technological advancements, especially in the area of Internet, have revolutionised the securities market. Strategic alliances and mergers of national stock exchanges are setting the stage for increased global trading of securities across geographic borders and time zones. Information flow becomes even more critical in a round-the-clock global trading environment. Occasionally, the delay in the printing process affects the timeliness of the release of financial information to investors globally. The power of technology could therefore be harnessed to achieve a more effective dissemination of information to the investors. The Committee is of the view that current laws be changed to allow companies to release their financial results and annual reports

through the website of the SGX and/ or the companies' websites. During the transition period, in addition to posting their annual reports to their websites, companies should be allowed to send them to shareholders in the form of CD-ROMs rather than printed hard copies. This would not only result in a faster and more effective dissemination of information to shareholders and the investing public but would reduce significantly the costs of compliance of the companies.

Selective Disclosure

28. In 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 could be made to certain analysts or big investors before releasing it to the public. As there is merit to such a stance, the Committee is of the view that the relevant authority undertakes a review and considers implementing this. Consideration should also be given to the disclosure of information through webcasts and dial-ins.

Reporting Template

29. 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 is of the view that more regular reviews be undertaken of the template to ensure that it is modified regularly and on a timely basis to keep up with the introduction of new accounting standards.

30. There are currently 2 separate templates prescribed by the SGX - one for half-yearly results and the other for the final annual results. As financial information requirements of investors are the same whether such information is in respect of interim or final financial period, the Committee is of the view that a single common template be used for interim as well as final results. This will also help facilitate the listed companies in their preparation for the release of their financial results.

Content

(A) Changes To Requirements Under The Act

31. As companies increasingly tap into the global market place 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 relating to such parent companies on

their own are no longer reflective of the overall financial performance nor is such information meaningful and useful to the users. Consolidated financial information of the parent company and its investee companies would more appropriately reflect the overall performance of the entities. The UK and US in particular do not require financial statements of parent companies to be presented. 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 requirement for the preparation and presentation of the parent company financial statements be removed.

32. Consequent upon this, the audit for the investee companies may not serve any useful purpose in particular those investee companies that are wholly owned or virtually wholly owned (in substance operating as divisions of the parent company), and those that are dormant. Accordingly, the Committee is of the view that the audit requirement for such companies be removed upon the appropriate approval being obtained from the shareholders of such entities.

33. Section 201 of the Act currently requires all companies to include a report by the directors, requiring the confirmation of the various financial information contained in the financial statements. In the view of the Committee, these confirmations do not add any more value to the information in the financial statements. Accordingly, the Committee is of the view that the requirement for such confirmations be removed and replaced by a more meaningful discussion and analysis of the management of the company on the financial performance, state of affairs and business operations of the entities. Information relating to corporate governance matters such as interests of directors in shares should still continue to be disclosed in the annual report to the shareholders.

34. 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 being embodied in legislation. The Act should therefore not contain any provisions relating to reporting and disclosure requirements. These requirements would best be left with the private sector market intermediaries to develop in the light of the changing needs of the market place.

(B) Additional Information Requirements

35. 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, which may be inadequate. The Committee is of the view that in addition to the prescribed requirements, the body of private sector intermediaries should continuously

promulgate best disclosure practices. The Committee believes that the following additional information should be disclosed:

i) Cashflow statement ;
ii) Discussion and analysis of management on the 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).

INDEPENDENCE OF PUBLIC ACCOUNTANTS

Shareholding Interests

36. The debate of auditors' independence is a long standing one and this issue has come to the forefront yet again when SEC discovered that a Big 5 Accounting Firm has not complied with the rules relating to the prohibition of partners and staff of the Firm having interests in audit clients.

37. 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 having any beneficial interest in an audit client. In the US, the American Institute of Certified Public Accountants also has very similar rules except that in the case of indirect interest, it has to be a material indirect interest. 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 of ICPAS prohibits a public accountant or his firm from having as an audit client a company in which 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.

38. The Committee reviewed the need for the current rules to be amended having regard to the rules and practices elsewhere and to the unique circumstances of Singapore in view of its size. It is of the view that auditors must not only be independent but be seen to be independent if they are to be an effective part of the compliance

enforcement mechanism. Having a financial interest in an audit client would, prima facie, be seen to be an impairment on the independence of the auditor. The Committee is of the view that the rules should be amended to prohibit any shareholding in a client company by the public accountant and all the staff who are directly involved in the audit of that client company. This prohibition would also extend to the members of their immediate family who are financially dependent on the public accountant or the staff directly involved in the audit (collectively referred to as "Covered Persons"). All other public accountants and staff in the firm, whilst not prohibited, should not have, in aggregate, shareholdings exceeding 5% of the equity share capital of a public company.

39. In the case of a private company, the Committee is of the view that there is no reasonable basis for any differentiation to be made since auditing standards are and should continue to be consistently applied in all cases where audit is required. Furthermore, private companies may one day become public companies or even floated on the stock exchange. There could also be occasions where private companies could be non-wholly owned subsidiaries or associated companies of a publicly listed company. On this basis, the Committee is of the view that the prohibition and the 5% rule applicable to public companies should also apply to private companies. Whilst allowing the public accountants and their staff (other than the Covered Persons) to collectively own not more than 5% of the equity share capital of an audit client, in the interest of greater transparency on the part of the public accountants, any such interest or changes to such interest should be disclosed in the auditors' report on an annual basis. Interest in the audit client could either be held directly or indirectly by the affected persons.

40. The above rules should also apply to auditors of unlisted parent companies that have listed companies as their subsidiaries and/or associates. The disclosure of the auditors’ shareholding interests in the listed subsidiaries and/or associates should be made in the auditors’ report of the parent company.

41. The Committee understands that 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 in paragraph 39 above.

Employment Relationships

42. As with the financial relationships of the auditor and his audit client, there could be certain employment relationships between close family members and the audit client that could affect the independence of the auditors. Situations where the close 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 certain employment relationships exist:

a) A close family member of a Covered Person is employed by an 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;
c) A former employee of an audit client becomes a partner of the auditing firm and participates in the audit of the audit client.

Multi-Disciplinary Professional Practices ("MDPs")

43. The complexities of the business environment invariably offers greater opportunities for professionals (accountants, lawyers, etc) to offer a one-stop comprehensive and multi-disciplinary package of services to their clients. This has led to the call for relaxation in the rules by allowing the formation of fully integrated MDPs especially between lawyers and accountants. Various reviews and studies have been undertaken, especially by the legal profession, to determine if such MDPs would result in any conflict of interest or impairment of independence on the part of the respective professionals. Current practices outside of the US have seen the development of a hybrid model where professional firms come together through strategic alliances on a contractual basis to deliver for example legal services to their clients. Whilst the Committee is of the view that MDPs would be better able to meet with the needs of business enterprises, there are various professional and ethical concerns that would need to be addressed before fully integrated MDPs could be formed.

Non-Audit Services

44. In addition to providing audit services, public accountants normally provide certain non-audit services which could impair their independence vis-à-vis their audit clients. The SEC has proposed four principles by which the independence of public accountants could be measured. A public accountant is not independent when he:

(a) Has a mutual or conflicting interest with the audit client;
(b) Audits his or her own work;
(c) Functions as management or an employee of the audit client; and
(d) Acts as an advocate for the audit client.

The Committee is of the view that companies should disclose in their annual reports details of non-audit services provided by their auditors during the financial year to which the report relates. Examples of such non-audit services include:

i) **Book-keeping and other services (including secretarial services) relating to the clients' accounting records or financial statements.** When an accounting firm or entities controlled by the accounting firm provide such services for an audit client, the auditor auditing the client's financial information may be auditing his or her accounting firm's work.;

ii) **Financial information systems design and implementation** Designing and implementing a hardware or software system used to generate information that is significant to the audit client's financial statements 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 his or her 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.

iii) **Internal audit outsourcing.** 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 he or she helped to establish and 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 proposal does not include nonrecurring 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.

EMBRACING TECHNOLOGY

45. 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 the web-casting and dial-ins during press and analysts' briefings.