

## **RESPONSE TO FEEDBACK RECEIVED - CONSULTATION PAPER ON GUIDELINES ON DISCLOSURE OF FINANCIAL INFORMATION IN PROSPECTUSES**

On 6 May 2003, MAS issued a Consultation Paper inviting comments on draft Guidelines on Disclosure of Financial Information in Prospectuses (the "Guidelines"). The Guidelines 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 disclosure of financial information in prospectuses.

The consultation period closed on 1 July 2003. Comments were received from 15 respondents (listed in the Annex). MAS has considered carefully all the comments received and incorporated them in the guidelines where appropriate.

MAS thanks all respondents for their feedback. Some of the comments and our responses are highlighted below:

### **1 Presentation of audited financial information in tabular form**

Some respondents commented that audited financial information presented in tabular form may not be comparable if there had been changes in accounting policies during the period under review.

MAS' Response: We have amended paragraph 9 of the Guidelines so that where the audited financial information is presented in tabular form and there had been a material change in accounting policies, the quantitative impact of such change should be shown by way of footnotes to the table.

### **2 Audited accounts of a previous holding company**

2.1 The SFR requires the audited financial statements of the previous holding company ("PHC") for the last three financial years to be disclosed in the prospectus if the issuer has been incorporated for less than 3 financial years and 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 (the "75% threshold"). One respondent sought clarification on how the 75% threshold should be applied.

MAS' Response: We have clarified in paragraph 14 of the Guidelines that the audited financial statements of a PHC should be provided as long as the 75% threshold is met for any of the 3 most recent completed financial years.

2.2 One respondent suggested removing the requirement for audited financial statements of the PHC on the basis that pro forma financial statements would suffice as they would be more reflective of the trends or results of the listing group than the PHC's audited financial statements.

MAS' Response: Pro forma financial statements are not audited. The rationale for requiring audited financial statements is to provide investors reasonable assurance that the financial information provided in the prospectus is free from material misstatement.

2.3 One respondent sought clarification on whether the requirement to provide the financial statements of the PHC would apply to acquired business divisions, assets or undertakings.

MAS' Response: MAS has clarified in paragraph 15 of the Guidelines that the audited financial statements of a corporation whose business divisions, assets or undertakings were acquired should be provided if such audited financial statements are reasonably representative of the pro forma group and it is not unduly burdensome for the issuer to provide them.

2.4 Some respondents pointed out that there could be practical difficulties in providing audited financial statements of the corporation (the "vendor") whose business divisions were acquired in the case of a third-party acquisition as the financial statements may not be available or it could be difficult to obtain the consent of the previous auditor of the corporation.

MAS' Response: MAS would consider whether the requirement to provide audited financial statements of the PHC should be waived on a case-by-case basis on application by the issuer under section 247(1) of the Securities and Futures Act (cap.289) (the "SFA"). MAS is of the view that in most cases, it is reasonable to expect that the issuer would have obtained proper accounting records to conduct due diligence before acquiring the business divisions or assets from the vendor.

### **3 Change in accounting policies**

One respondent suggested that MAS clarify whether an intended change in accounting policies should be incorporated in the pro

forma financial information.

MAS' Response: MAS agrees with the suggestion and has clarified in paragraph 21 of the Guidelines that an intended switch to another body of accounting standards should be reflected in the pro forma financial information.

#### **4 Pro forma Balance Sheet**

4.1 One respondent commented that the issuer should disclose the pro forma balance sheets and cash flow statements for the past 3 financial years to enable investors to evaluate effectively the financial position of the pro forma group over a period of time.

MAS' Response: On balance, MAS is of the view that it is not necessary to make it mandatory to disclose the pro forma balance sheet and cash flow statement for more than the latest financial year. The current requirement for one-year pro forma balance sheet and cash flow statement is consistent with the requirements in other international markets.

4.2 One respondent suggested that MAS clarify whether the auditor's opinion on the pro forma financial statements should cover the pro forma balance sheet as at the end of the latest financial year or as at the end of each financial year for which pro forma balance sheets were provided in the prospectus.

MAS' Response: Paragraph 27 of the Guidelines has been amended to clarify that the auditor's opinion should cover each financial year for which pro forma balance sheets were provided in the prospectus.

#### **5 Comparative figures for interim financial statements**

5.1 Some respondents were of the view that the inclusion of comparative figures for interim financial statements may pose practical difficulties in cases where some of the companies have been liquidated or disposed of. They suggested that provisions for waivers of this requirement be included in the guidelines.

MAS' Response: Section 247 of the SFA already provides MAS with the power to exempt any prospectus disclosure requirement under the SFA (including the requirement to include comparative figures under the SFR) where it is unduly burdensome to comply with the requirement.

5.2 One respondent commented that requiring the comparative figures in an interim financial statement to be reviewed or audited may result in undue delay and costs. As an alternative, it was suggested that the auditors be allowed to state that the comparative figures have not been reviewed or audited and are presented solely for comparative purpose only.

MAS' Response: Taking into account the feedback received, MAS will not require the comparative figures to be reviewed. Where the comparative figures have not been reviewed or audited, a statement should be included in the prospectus to indicate this.

#### **6 Discussion on trends and prospects**

One respondent commented that the Guidelines were silent on whether it is acceptable to include a profit ceiling without an appropriate third-party opinion. The respondent pointed out that a profit ceiling could provide useful information on downward trends and risks faced by the issuer.

MAS' Response: We have amended paragraph 46 of the Guidelines to clarify that a profit ceiling set at below the profits recorded for the most recent corresponding financial period would not be regarded as a profit forecast that requires a third-party opinion. However, where the profit ceiling is higher than the profits recorded for the most recent corresponding financial period, such profit ceiling would be regarded as a profit forecast that requires a third-party opinion.

MONETARY AUTHORITY OF SINGAPORE  
17 September 2003

**ANNEX**

**LIST OF RESPONDENTS TO PUBLIC CONSULTATION**

Allen & Gledhill  
Chio Lim Stone Forest Group  
DBS Bank Ltd  
Deloitte & Touche  
Drew & Napier  
Ernst & Young  
Hong Leong Bank  
Institute of Certified Public Accountants of Singapore  
KPMG  
Phillip Securities Pte Ltd  
PricewaterhouseCoopers  
PrimePartners Corporate Finance Pte Ltd  
SBI E2-Capital Pte Ltd  
Singapore Exchange Limited  
Wong Partnership

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