



Monetary Authority of Singapore

**SECURITIES AND FUTURES ACT
(CAP. 289)**

**GUIDELINES ON GOOD DRAFTING PRACTICES FOR
PROSPECTUSES**

GUIDELINES ON GOOD DRAFTING PRACTICES FOR PROSPECTUSES

1 PURPOSE OF THESE GUIDELINES

- 1.1 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”). These Guidelines aim to provide guidance to issuers and their professional advisers on good drafting practices for prospectuses.
- 1.2 The SFA requires a prospectus to contain all the information that investors and their advisers would reasonably require to make an informed investment decision. To improve the readability of prospectuses and facilitate investors’ understanding of the key information disclosed in prospectuses, issuers and their professional advisers should follow the general principles and drafting practices set out in these Guidelines when drafting prospectuses.
- 1.3 The Guidelines will apply to all prospectuses and profile statements required under the SFA. Nonetheless, issuers and their advisers are encouraged to follow the Guidelines’ principles for other types of offer disclosure documents (whether for an offer to retail or non-retail investors) such as offer information statements, product highlights sheets and information memoranda wherever possible.
- 1.4 The general principles and drafting practices described in these Guidelines (including the examples) are not exhaustive. Issuers and their professional advisers should also consider how these Guidelines can be appropriately applied to their respective individual circumstances.

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2 COMMON DRAFTING ISSUES IN PROSPECTUSES

- 2.1 In recent years, we have observed that prospectuses have grown in length and complexity, and investors often have difficulty understanding these prospectuses. Common drafting issues which we have observed from the prospectuses we reviewed include:
- (a) long, wordy and repetitive disclosures;
 - (b) unnecessary, irrelevant or immaterial details;
 - (c) material information concealed by the use of legal, financial or technical business jargons;
 - (d) vague boilerplate disclosures which may not be meaningful to investors;
 - (e) convoluted descriptions or explanations; and
 - (f) terms and conditions of contracts or agreements which are lengthy and difficult to understand, or reproduced in their entirety.
- 2.2 To help investors understand information provided in prospectuses so that they may make informed investment decisions, the information should be presented in plain English and in a clear, comprehensive and well-organised manner. Legal, financial or technical business jargon that may not be easily understood by lay persons should be avoided whenever possible.
- 2.3 When drafting a prospectus, you should:
- (a) use plain English;
 - (b) present information in a clear, concise and logical manner; and
 - (c) keep the length of the prospectus as short as possible.

These general principles are elaborated in paragraph 3 below.

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3 DRAFTING PRINCIPLES AND PRACTICES

3.1 You should adopt the following general principles in the drafting of prospectuses:

(A) USE PLAIN ENGLISH

3.2 Using plain English means presenting information in a clear, concise and effective manner so that the reader can understand the information at first reading. Using plain, everyday English makes prospectuses easier to understand and encourages investors to read prospectuses. You should always draft prospectuses with retail investors in mind as they are the audience with the greatest need for the information required to be disclosed in a prospectus. Prospectuses drafted in plain English can help all investors make better informed investment decisions.

3.3 We set out some general practices on the use of plain English below:

(i) Use the active voice

3.4 It is generally easier to understand the active voice as it is engaging and easier to read. The active voice generally uses fewer words and permits the use of strong verbs that highlight who the action-taker is. While the passive voice may be preferred on occasion, it should be used sparingly as it may add length to sentences and obscure the identity of the action-taker.

Examples:

Passive Voice	Active Voice
Fees are paid on an annual basis.	We pay fees on an annual basis.
No inferences should be made from any of the foregoing statements to determine future profitability.	You should not infer from the preceding statements that we will be profitable in the future.

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(ii) Avoid using hidden verbs

3.5 Hidden verbs are verbs that have been nominalised into nouns. A noun derived from a verb often ends with a –sion, –ing, –tion, –ment or –isation. Identifying hidden verbs and changing them to strong verbs make sentence structures more direct and simpler to read.

Examples:

Hidden Verb	Active Verb
We <u>made a decision</u> to invest for the long term.	We <u>decided</u> to invest for the long term.
An <u>offering of</u> securities will be made to the public.	We will <u>offer</u> securities to the public.

(iii) Use personal pronouns (direct language)

3.6 Personal pronouns clearly indicate what would apply to investors. Personal pronouns create an engaging tone that allows you to speak directly to investors and may shorten the length of your sentences.

3.7 Using personal pronouns also allows you to avoid gender-specific language that is used in third-person pronouns. When using personal pronouns, the issuer is referred to in first-person plural as “we”, “us”, and “our”, while the investor is referred to in second-person singular as “you” and “your”. When using personal pronouns, you should explain clearly who the personal pronouns refer to and use the personal pronouns consistently in the prospectus to avoid creating confusion for investors. However, you should avoid using personal pronouns in situations where it would lead to ambiguity. For example, in a prospectus for an offer of units in a REIT or a business trust, the use of the word “we” could be ambiguous as it could refer to the trust, the trustee-manager or the REIT Manager.

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Examples:

Third-person Pronouns	Personal Pronouns
Investors should note that the price of the Company's securities may fall and that they may lose all or part of their original investment.	You should note that the price of our securities may fall. You may therefore lose all or part of your original investment.
Before deciding to invest in the securities, investors should seek professional advice from the relevant advisers about their particular circumstances.	Before you decide to invest in our securities, you should seek professional advice from relevant advisers about your particular circumstances.

(iv) Use plain, everyday words

- 3.8 It is always easier to read plain, everyday words that are commonly understood. You should avoid using complex, abstract or formal words whenever there are simpler and clearer alternatives.

Examples:

Before	After
Despatch	Send
Thereafter	Then
Utilise	Use
Whilst	While
Due to the fact that	Because / Since
In the event that	If
Henceforth	From this point

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(v) Avoid the use of legal, financial or technical business jargons

3.9 Whenever possible, you should use plain, everyday words to get your point across to investors. You should avoid the use of Latin phrases as retail investors may not understand them. However, if you must use legal, financial or technical business terms in your disclosure, you should explain the meaning of these terms clearly when you first use them and put these terms in a 'glossary' or 'definitions' section in the prospectus. Your explanation for such terms should be clear and simple so that retail investors can understand your explanation easily.

Examples:

Before	After
Any new shares allotted and issued by our Company pursuant to the Performance Share Plan shall in all respects rank <i>pari passu</i> with other existing shares then in issue.	Any new shares that we allot and issue under the Performance Share Plan will carry the same rights as existing shares.
The company has entered into a revolving credit facility of S\$10 million with XYZ bank that is secured by a first priority lien on all assets under the company.	We have obtained a credit line from XYZ bank that allows us to borrow up to S\$10 million. Loans obtained from this credit line are backed by all of our assets and XYZ bank will have priority over other creditors to our assets.

(vi) Use short sentences

3.10 You should always use short, straightforward sentences that investors can read and understand easily. Each sentence should deal with only one main point. You should avoid superfluous words that add unnecessary length and complexity to a sentence. As complex

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information may be difficult to present in short and straightforward sentences, you may consider presenting it in tabulated form. You should always ensure that long sentences are well structured so as to reduce the likelihood of confusion to investors.

Examples:

Before	After
<p>The issuance of the Employee Option Plan Shares and/or the Performance Rights Plan Shares pursuant to the vesting of awards which may be granted and/or the exercise of options which have been granted under the Performance Rights Plan and Employee Option Plans respectively, the Call Option Shares, as well as the issuance of the Shares pursuant to the conversion of the Convertible Notes would have a further dilutive effect on new investors in the Offering.</p>	<p>Your shareholding in the Company may be diluted if any of following events occurs:</p> <ul style="list-style-type: none"> (a) the issuance of Employee Option Plan Shares or Performance Rights Plan Shares, or both, due to – <ul style="list-style-type: none"> (i) the vesting of awards which may be granted; (ii) the exercise of options granted under the Performance Rights Plan or Employee Option Plans, as the case may be; or (iii) the exercise of the Call Option Shares; or (b) the issuance of Shares due to the conversion of the Convertible Notes.
<p>The Sponsor has provided the Managers with an undertaking that it shall waive its entitlement to the Sponsor Distribution, being S\$5 million of distributions for the Forecast Year.</p>	<p>The Sponsor has agreed to waive its entitlement to the Sponsor Distribution of S\$5 million for the Forecast Year.</p>

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(vii) Write in the positive and avoid the use of multiple negatives

3.11 Positive sentences are generally shorter and easier to understand than negative sentences. You should avoid using negative sentences where possible as they are less intuitive and investors need to take an additional mental step to understand the sentence. In particular, avoid using multiple negatives in sentences as they can be confusing to investors.

Examples:

Negative Statement	Positive Statement
It is not likely that we would not be able to meet all of our debt obligations through our cash flow, unless our customers do not pay us on time.	We are likely to meet all of our debt obligations through our cash flow, unless our customers do not pay us on time.
We will not accept applications from any person who has not attained the age of 21 years.	We will reject applications from any person under the age of 21 years.

(viii) Avoid using defined terms excessively

3.12 You should use defined terms in moderation to avoid overwhelming investors with new vocabulary. Defined terms should be short, specific, and intuitive to make reading easier. In particular, you should:

- (a) limit the use of definitions that refer to other definitions;
- (b) avoid defining commonly understood terms and defining terms in a manner inconsistent with the way that they are generally used; and
- (c) avoid incorporating important qualifications in defined terms as readers may overlook these qualifications and not fully appreciate the information.

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Examples:

Commonly understood terms which do not need to be defined:	
- Governments	'Singapore Government' can be used to refer to the government of the Republic of Singapore without definition.
- Countries	Known countries such as the United Kingdom or the United States of America need not be defined as the UK or USA.
- Common measurement units	Common measurement units such as square meters or percentage can be referred to as 'sqm' or '%' without definition.
- Currencies	'S\$' can be used to refer to the Singapore Dollar without definition.
Example of defined term with important qualifications: "Projected Industry Growth" – Projected growth of the industry based on the management's internal estimates which have not been verified by any independent expert.	
Before	After
The Directors of the Company made the Announcement on 1 January 2014 that the Sale and Purchase Agreement had been entered into between the Company and the Vendor, to purchase the Property for the amount of S\$10 million (the "Consideration Amount"). Under the terms of the Sale and Purchase Agreement, the Consideration Amount will be satisfied with the issuance of 10 million new ordinary shares in the share capital of the Company (the "Consideration Shares") at a price of S\$1.00 per Consideration Share.	On 1 January 2014, the Company announced that it had entered into an agreement with the Vendor to purchase ABC property for S\$10 million. Under the terms of the agreement, the Company will pay for ABC property by issuing to the Vendor 10 million new ordinary shares of the Company at the value of S\$1.00 each.

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(ix) Avoid the use of vague boilerplate disclosures

3.13 You should avoid using boilerplate disclosures that are vague as boilerplate disclosures may be interpreted differently by issuers and investors, and may not be meaningful to investors. You should always assess the relevance of boilerplate disclosures in the context of the offer and customise the boilerplate disclosures to each particular offer.

Example:

Before:

Each prospective investor in the Offering Shares should ensure that they have sufficient knowledge and experience to make a meaningful evaluation of the Company, the risks of investing in the Offering Shares and the information contained in this offering document:

After:

Before you invest in our shares, you should ensure that you understand our business in the mineral, oil and gas industry, and its accompanying risks (please see “*Risks relating to our operations*” and “*Our Business*”).

(x) Avoid “cutting and pasting” contractual terms in their entirety from legal documents

3.14 Lengthy contractual terms and legalese are difficult to read and understand. Instead, you should summarise the key points of the legal documents clearly and concisely in plain English to facilitate easier understanding of the prospectus by investors.

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(B) PRESENT INFORMATION IN A CLEAR, CONCISE AND LOGICAL MANNER

3.15 Clear, concise and logical presentation enhances the effectiveness of plain English, allowing investors to navigate and grasp information disclosed in the prospectus more quickly and easily. Where there is a novel or unusual issue, you should highlight the issue prominently in the prospectus and discuss the implications it has on the business of the issuer or investors. Some good practices are as set out below.

Practices	Rationale
Use tables, graphs, charts, diagrams, and other visuals	Information presented in visuals, such as tables and charts, are generally easier to read and understand. Visuals also reduce the text necessary to convey the same information. Visuals should be simple, clearly labelled, accurate and drawn to scale to facilitate fair comparisons.
Use bullet points	Bullet points convey a long list of information more efficiently and clearly than information set out in blocks of extended narrative paragraphs.
Use examples	Examples can illustrate complicated information or concepts, making information easier to understand.
Use an effective layout	An effective layout improves the flow and readability of information. You should format the layout of the prospectus (including the spacing and margin widths between paragraphs and sentences) so that the content in the prospectus appear less cluttered. The following formatting tools may also

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	<p>be used to help distinguish and emphasise important information:</p> <ul style="list-style-type: none"> • Font and font size • Underline, bold and italics • Borders and shading • Colour
<p>Use descriptive headings and sub-headings</p>	<p>Use meaningful headings and sub-headings to organise information into sections, manage the flow of information and highlight key information.</p>
<p>Present information in a logical order</p>	<p>Organise information so that related information is presented together and in a logical sequence, with the most important information presented first. Investors will then be able to easily navigate through the information. For example, related sections in the prospectus such as business, risk factors and management's discussion and analysis of financial information can be grouped together. The most significant risk factors should be disclosed at the start of the risk factors section.</p>
<p>Present information in a balanced manner</p>	<p>Where appropriate, give equal consideration to both positive and negative information so as to convey a realistic, fair and balanced view to investors. For example, the overview or summary section should not only highlight the positive aspects of an issuer or its business, but also the potential risks and unfavourable facts.</p>

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(C) KEEP THE PROSPECTUS AS SHORT AS POSSIBLE

3.16 Shorter prospectuses are generally easier to read. You should always prepare prospectuses that are as short as possible without compromising accuracy or completeness of the information required to be included. Set out below are some recommended practices to reduce the length of a prospectus.

Practices	Rationale
Remove redundant information	<p>Avoid including information that adds length without enhancing the quality of the information disclosed. Only include information that helps investors to make an informed investment decision and limit repeating the same information in different sections of the prospectus. Some examples of redundant information that may not be useful to an investor are:</p> <ul style="list-style-type: none">• long and descriptive summaries of contracts;• terms of an agreement that are reproduced in their entirety;• detailed extracts from constitutions;• industry background of a general nature that is unlikely to affect the issuer's business; and• general marketing statements that contain little information on the issuer. <p>You should also avoid including risk disclosures that are obvious and not specific to the issuer. For example, a statement that an issuer "may not be able to implement business strategies</p>

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	<p>successfully” would not be meaningful to readers, unless there are special circumstances affecting the issuer (for example, where the successful implementation of a particular business strategy is the main driver for growth).</p>
Use cross-references	<p>Cross-referencing to information contained elsewhere in the prospectus may reduce repetition and link related information which is not presented together. You should avoid replicating in entirety sections found elsewhere in a prospectus. For prospectuses in the electronic format, you are encouraged to use navigational aids available such as hyperlinks to enhance document navigation.</p> <p>However, where main points are summarised, you should avoid using cross-references in that summary. You should limit excessive cross-references which would disrupt the readability of the information.</p>