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SGX to propose new listing rules for more regulatory bite

Published 2 weeks ago on 28 January 2019

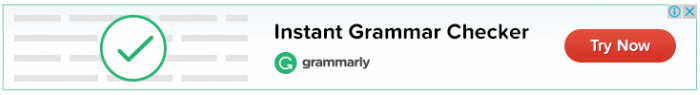
The Singapore Exchange sign outside its building in Singapore in this April 19, 2011 file photo. — Reuters pic

SINGAPORE, Jan 28 — The Singapore Exchange (SGX) is getting tough on audit committees and external auditors of listed companies.

Speaking to reporters on Friday, Tan Boon Gin, the chief executive officer of its regulatory arm, SGX RegCo, said that it has been "a lot more interventionist" in a bid to increase the thoroughness of not just the year-end audits, but also special audits called to further investigate potential problems of listed companies.

Besides requiring some special auditors to report directly to SGX, the bourse operator is also looking to introduce new listing rules, such as giving it the power to require a company to appoint a second auditor, in addition to its existing one, in "exceptional circumstances".

The changes come after SGX was criticised by market observers for not doing enough to protect people who have invested in Noble Group.



The embattled commodities firm recently completed a US$3.5 billion (RM14.4 billion) debt restructuring exercise, after an accounting scandal sent its shares plummeting, with the company losing 99 per cent of its market value.

In a message to auditors, Tan said that they should not "close ranks".

He also said that auditors need to have the "gumption" to flag areas of concern.

"If they do find something (amiss with the company), they can't hide behind the terms of reference and say, 'This wasn't covered under the terms of reference so I didn't look into it'.

"And they shouldn't phrase the language of the report in a language that is so vague that, frankly speaking, we as an exchange cannot take action on it," Tan said.

What SGX has done

Since December last year, SGX has met with the audit committees and external auditors of 15 listed companies and highlighted to them areas of concern based on SGX RegCo's review of the companies.

- Auditors will have to address the matters raised by SGX in the company's annual report

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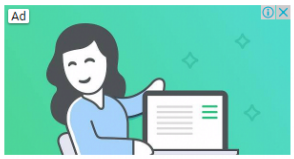

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- Audit committees will have to change their terms of reference for the special auditor if found unsatisfactory by SGX
- Some special auditors will have to report directly to SGX
- The special auditor of SBI Offshore was directed in December last year to report exclusively to SGX
- SGX referred two audit partners to the Institute of Singapore Chartered Accountants (Isca) on the basis that they have fallen short of their professional duties

Two new listing rules proposed by SGX

- Granting the bourse operator power to require some listed companies to appoint a second auditor, in addition to the existing one, in "exceptional circumstances"
- Requiring all listed companies to appoint a Singapore-based auditor

SGX will be conducting a public consultation on these two proposals.

The proposed rules come after two key changes were made in audit reports, so that it will be more transparent for retail investors.

These changes, which took effect in 2017, required auditors to include key matters, such as the estimated valuation of investments, beyond just a "pass/fail" opinion.

Auditors were also told to disclose issues that could affect a company's ability to continue its operations.

What else SGX wants to do

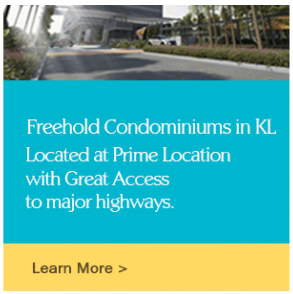
SGX is aiming to increase valuation standards in Singapore.

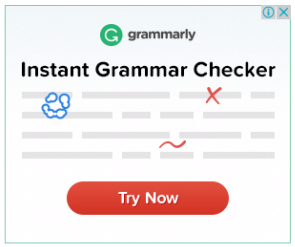
It has signed an agreement with the Institute of Valuers and Appraisers of Singapore so that SGX may approach the institute if it needs advice on valuation concerns of listed companies or those applying to get listed.

Lawrence Chai, managing director of 3E Accounting firm, said that the measures taken by SGX would help in increasing the quality of audits. Without SGX's involvement, it is sometimes hard to tell clients that further checks are needed because the clients may think that the auditors just want extra fees, he said.

Joshua Ong, head of audit at accountancy and business advisory firm Baker Tilly, said that the moves by SGX have not resulted in any difference in their daily work assignments so far, since they have always had to keep to professional auditing standards.

With a more pro-active oversight by SGX, he hopes that the management and board members of listed companies will focus on improving their controls and processes, and be more willing to work with their auditors. — TODAY





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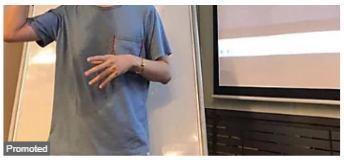

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