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SGX Enhances Rules on Appointment of Auditors and Property Valuation

Introduction

On 12 January 2021, the Singapore Exchange Regulation ("**SGX RegCo**") [announced](#) key changes to the SGX-ST Mainboard Rules and Catalist Rules (collectively, the "**Listing Rules**"). These changes enhance requirements concerning the appointment of auditors by certain listed issuers and property valuation matters.

The amended Listing Rules introduce a new requirement for primary listed issuers on SGX-ST to appoint an auditor registered with the Accounting and Corporate Regulatory Authority ("**ACRA**") to conduct their statutory audits and empower SGX to require the appointment of a second auditor under certain circumstances. The amended Listing Rules also impose minimum qualification criteria for property valuers and prescribed standards for property valuation reporting.

The amendments to the Listing Rules will be effective from **12 February 2021**.

These changes follow a public consultation conducted in January 2020 where SGX sought feedback on these proposed amendments in its consultation paper titled "[Enhancements to Regulatory Regime for Property Valuation and Auditors](#)" ("**Consultation Paper**"). We covered the consultation in our previous Client Update in January 2020 titled "[SGX Proposes New Requirements on Appointment of Auditors and Property Valuation](#)". On 12 January 2021, SGX issued its [response](#) to comments received on the Consultation Paper ("**Response**").

This Update provides an overview of the main changes to the Listing Rules. In particular, it will highlight salient requirements and where relevant, specific timelines for the implementation of certain requirements, which issuers should note for compliance purposes.

Stricter Audit Requirements

The main amendments concerning audit matters relate to:

- New requirement for primary listed issuers to appoint an auditor registered with ACRA;
- SGX's power to direct that an additional auditor be appointed under certain circumstances; and
- Clarification on the preparation of periodic financial statements.

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New Requirement for Primary Listed Issuers to Appoint Auditor Registered with ACRA

All primary listed issuers are required to appoint an auditor registered with ACRA to conduct their statutory audits. SGX has acknowledged that certain foreign issuers may find it challenging to appoint a Singapore auditor if, for example, they are bound by requirements in their home jurisdictions to prepare financial statements according to domestic accounting or audit standards. In this regard, SGX stated that it will consider granting waivers in appropriate cases. Further, SGX also indicated that foreign issuers who wish to also appoint an auditor regulated outside of Singapore will have the flexibility to appoint a Singapore auditor to jointly carry out the audit.

For secondary listed issuers from [Developed Markets](#), SGX will not impose this requirement. For all other secondary listed issuers, SGX will assess whether the appointment of a joint auditor that is registered with ACRA is required on a case-by-case basis. In its Response, SGX set out some of the considerations it will take into account when making this assessment, for instance, the reputation of the auditing firm.

Key implementation timelines concerning appointment of auditor registered with ACRA

Existing issuers must appoint a Singapore auditor to perform the audit for their financial statements for their financial years beginning on or after 1 January 2022. Primary listing applicants who had entered into initial public offering ("IPO") mandates on or before 12 January 2021 and who submit their applications to SGX by 30 June 2021 may continue to appoint a foreign auditor without a Singapore counterpart. However, similar to existing issuers, they must appoint their Singapore auditors post-listing to perform the audit of their financial statements for their financial years beginning on or after 1 January 2022.

SGX's Power to Direct that an Additional Auditor be Appointed Under Certain Circumstances

Presently, the Listing Rules empower SGX to require issuers to appoint independent professionals, as well as special auditors, for specified purposes. The amended Listing Rules will expand SGX's administrative powers to allow SGX to require the issuer to appoint a second auditor under "exceptional circumstances".

In its Response, SGX clarified that this power to appoint a second auditor will not replace existing powers in SGX's regulatory toolkit and it will utilise the appropriate tools to deal with such exceptional circumstances. SGX also provided example(s) of potential "exceptional circumstances" where it will exercise the power to order a second audit. For instance, a second audit could be ordered where SGX believes that possible misstatements in the financial statements are pervasive and yet not evidenced by the incumbent auditor's opinion.

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For further details on the amendments to the Listing Rules relating to audits, please refer to Appendix 4 (Amendments to Mainboard Rules on Appointment of Auditors) and Appendix 5 (Amendments to Catalist Rules on Appointment of Auditors) of the Response.

Clarifications on the Preparation of Periodic Financial Statements

Presently, the Listing Rules require issuers to prepare their periodic financial statements in accordance with prescribed accounting standards and for their annual financial statements to be audited by certified public accountants in accordance with prescribed auditing standards. However, SGX noted that several issuers have not complied with the foregoing requirements.

As such, SGX clarified the application of these requirements in its Response. All issuers (both foreign and local) must comply with these requirements and the Listing Rules will be amended to make this clearer. This means that all issuers must prepare their interim financial statements in accordance with the relevant accounting standards. For example, issuers that prepare their financial statements in accordance with International Financial Reporting Standards should comply with International Accounting Standards 34 on Interim Financial Reporting, in addition to the Listing Rule requirements. This requirement will also apply to issuers that perform quarterly reporting.

In this regard, the Institute of Singapore Chartered Accountants ("**ISCA**") will be issuing guidance to help issuers with preparation of their interim financial statements in accordance with the relevant accounting standards and the Listing Rules.

Further, the current Listing Rules require directors to confirm in the interim reports that nothing has come to their attention which may render the interim financial statements to be false or misleading in any material aspect ("**Negative Assurance Confirmation**"). In providing this Negative Assurance Confirmation, SGX expects directors to consider whether the interim financial statements comply with the relevant accounting standards.

Key implementation timelines concerning preparation of interim financial statements

The amendments to Listing Rules concerning accounting standards for interim financial statements will take effect for issuers' financial statements for any interim financial period (i.e. the first, second or third quarters of the financial year) ending on or after 30 June 2021.

New/Stricter Requirements for Property Valuation

The key amendments concerning property valuation relate to:

- New minimum qualification criteria prescribed for property valuers; and
- Prescribed standards for property valuation reporting.

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New Minimum Qualification Criteria Prescribed for Property Valuers

The amended Listing Rules will require issuers and applicants applying to list on SGX-ST to engage a property valuer that:

- Has at least five years of relevant practical experience in valuing the type of property to be valued;
- Is a member of the Singapore Institute of Surveyors and Valuers ("**SISV**"), or a similar professional body in his home jurisdiction of practice which must have the powers to discipline and revoke membership of its members;
- Is independent of the issuer;
- Is not a sole practitioner; and
- Has no adverse compliance track record.

SGX elaborates on each of these criteria in the Response. In addition, SGX expects issuers to perform due diligence on the valuers they appoint with reference to these qualification criteria.

Prescribed Standards for Property Valuation Reporting

To align the regulatory regime with that of other jurisdictions such as Hong Kong and Malaysia, SGX will prescribe minimum standards of valuation for property valuations.

Valuations for properties located in Singapore must be prepared in accordance with SISV Standards. Overseas properties must have valuations prepared in accordance with domestic standards (where available) or, if there are no such local standards, the International Valuation Standards.

In respect of valuations intended for financial reporting purposes, issuers should refer to relevant guidance on applicable financial reporting standards and seek professional advice to ensure that the valuations will be conducted in accordance with all relevant standards. An example of such guidance is the Financial Reporting Guidance 1 published by the ISCA that sets out best practices to be adopted when engaging valuers.

In addition, summary property valuation reports will be required for certain significant transactions identified in the Listing Rules, such as an IPO for property investment firms or developers, business trusts or real estate investment trusts (REITS), or in an interested person transaction involving the purchase or sale of property. All summary property valuations must contain the information required for prospectuses and circulars as currently prescribed under the SISV Practice Guide. SGX indicated that it will set out the disclosure requirements in the Listing Rules.

For further details on the amendments to the Listing Rules relating to property valuations, please refer to Appendix 2 (Amendments to Mainboard Rules on Property Valuation) and Appendix 3 (Amendments to Catalist Rules on Property Valuation) of the Response.

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Key timelines concerning new requirements on property valuation

Existing issuers must comply with the new requirements on property valuation from 12 February 2021. Listing applicants who enter into IPO mandates on or before 12 January 2021 and submit their applications to SGX by 30 June 2021 may continue to use their current property valuation arrangements. However, post-listing, they will be required to comply with the new requirements.

Concluding Remarks

These changes to the Listing Rules raise the standards concerning the appointment of auditors and property valuation. If you have any queries on these latest changes to the Listing Rules, such as their implementation, compliance concerns and/or how they may affect your business operations, please feel free to contact our team below.

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