

Capital Markets

SGX RegCo's Expectations on Business Valuations & Disclosures

Introduction

In the Regulator's Column on 1 March 2022, the Singapore Exchange Regulation ("**SGX RegCo**") sets out its expectations on valuations and what companies listed on the SGX-ST ("**listed companies**") must disclose about a valuation.

This Update highlights what listed companies and their boards of directors ("**Boards**") must be mindful of regarding business valuations of significant transactions and disclosures concerning valuations.

Disclosures on Business Valuations

Under the SGX Listing Rules, listed companies must conduct independent valuations for transactions including acquisitions or disposals that meet the SGX Listing Rules thresholds for very substantial acquisitions and reverse takeovers. Under the SGX Listing Rules, listed companies are required to disclose details about valuations including:

- Value ascribed to the assets;
- Party who commissioned the valuation;
- Basis of the valuation, including underlying methodologies and assumptions used; and
- Date of valuation.

When preparing valuation disclosures, listed companies should refer to the Practice Note 2: Minimum Disclosure Requirements for Summary Valuation Letters issued by the Institute of Valuers and Appraisers, Singapore ("**IVAS**") ("**IVAS Practice Note 2**") on what must be included in summary valuation letters. This should be done early in the valuation process so that the Board provides necessary information to the valuers.

What SGX RegCo Expects of Boards in Respect of Valuations

SGx RegCo has observed that certain transactions have valuation practices that are open to doubt. For instance, some had input to valuations that were erroneous, key projections that did not appear reasonable because of insufficient disclosures, failure to understand or challenge management, or the valuation was done with a lack of due care.

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SGX RegCo expects the Board to thoroughly examine if the proposed transaction is in the best interest of the company and shareholders. The Board is expected to:

- Examine if the key assumptions and estimates for the valuation are reasonable.
- Fully disclose underlying material uncertainties of the projections.
- Assess whether the valuation conclusion and limitations as disclosed in the valuation reports are acceptable.
- Examine if the valuation was independently performed by qualified and competent valuation professionals. The assessment must consider the valuers' track record and credentials.
- Assess if the valuation is done according to recognised valuation standards, for instance the International Valuation Standards.
- Be mindful of how increasing significance of intangible assets and environmental, social and governance ("**ESG**") matters impact valuations:
 - o *Intangible assets* – Listed companies and Boards must examine if the intangible assets and intellectual property are valued appropriately, and whether there is adequate disclosure of the basis of the valuation.
 - o *ESG matters* – Listed companies and Boards must consider the ESG risks and benefits of their transactions and explain how they impact the companies' long-term prospects. Listed companies should seek professional advice to ensure that the valuation methodologies and disclosures are up to date and reflect best practices in this regard.

SGX RegCo indicated that it is assessing whether to make the SGX Listing Rules more stringent regarding the standards of business valuations, in line with its review for property valuations, and whether to make the application of IVAS Practice Note 2 compulsory in appropriate circumstances.

Further Information

If you have any queries on the above development, please feel free to contact our team below.

Click on the following link for more information (available on the SGX website):

- [Regulator's Column: What SGX RegCo expects of business valuations for significant transactions](#)

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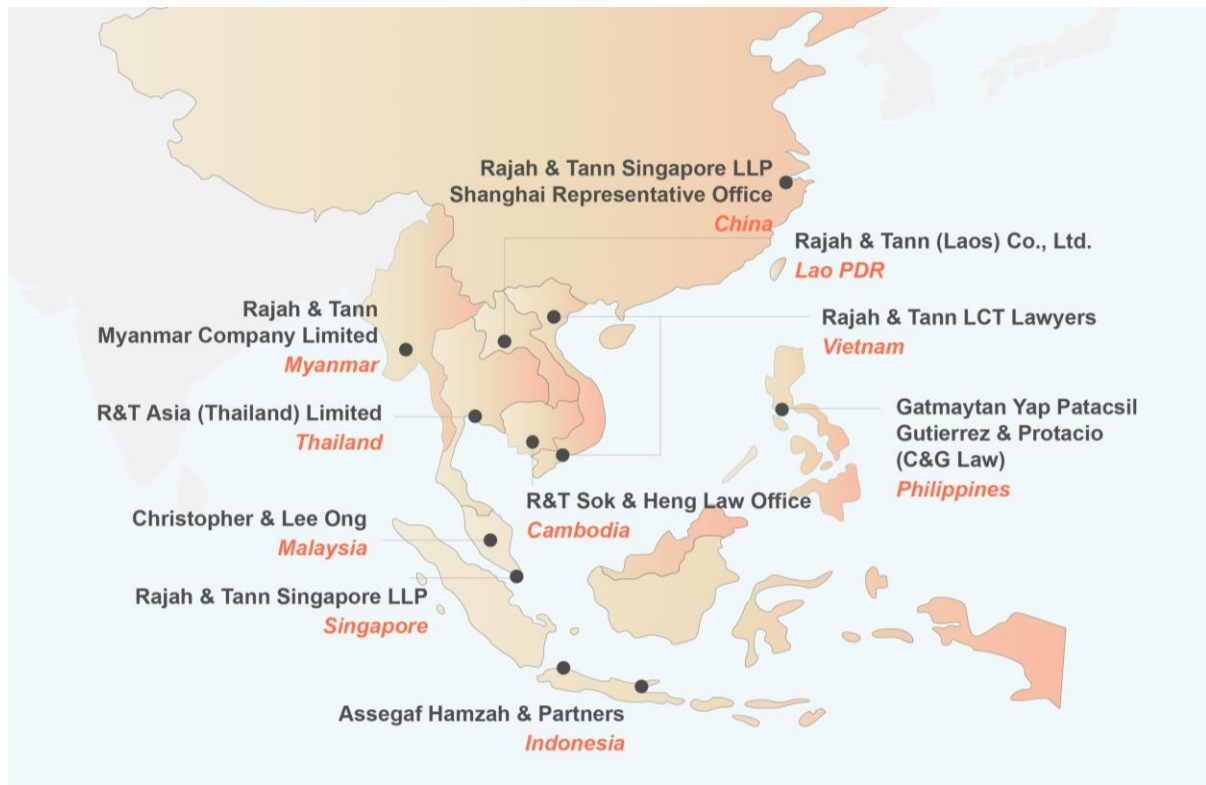
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