

SGX Review of Quarterly Reporting Framework

Review of Quarterly Reporting Framework

On 11 January 2018, the Singapore Exchange (“SGX”) announced its review of the mandatory quarterly reporting (“QR”) framework. This move represents the latest development in a series of reviews in Singapore since the 2003 introduction of mandatory QR in Singapore and is set against the backdrop of a global move to abolish or refine the requirements of QR in other markets.

The key issue under review is whether QR should be retained or removed entirely. If retained, SGX has also set out several proposals on how the framework can be adjusted to balance stakeholders’ concerns.

SGX has requested public feedback on its proposals by **9 February 2018**, and changes, if any, are expected to be implemented in the **second half of 2018**.

This Update sets out the key points raised in SGX’s consultation paper (available [here](#)).

Developments in Other Jurisdictions and Underlying Concerns over Quarterly Reporting

The current proposals follow a clear trend in other jurisdictions where QR has been abolished or is of limited application:

Jurisdiction	Status of QR
European Union	Implemented in 2007. Abolished in 2013.
United Kingdom	Removed in November 2014.
Hong Kong (“HK”)	Not required for HK Mainboard. Only required for HK Growth Enterprise Market.
Australia	Limited to mineral and oil and gas exploration issuers, issuers admitted on cash commitment basis and issuers proposing to make significant change to activities.

While the United States continues to require QR, several reasons have been cited for the opposite move in other jurisdictions:

- QR imposes a burden on companies, in terms of administration, dedication of financial and management resources and costs, which is disproportionate to its potential benefits.
- QR encourages a culture of short-termism in financial markets.

Retain Quarterly Reporting or Refine Criteria

Option 1: Abolish Quarterly Reporting

The first option presented is the complete scrapping of QR.

While such a move would seem stark and may render any future reversal in position difficult, abolishment is not unprecedented and, as indicated in the consultation paper, not without support.

Option 2: Retain Quarterly Reporting with Refinements to Criteria

The alternative is to retain QR. However, if QR is to be retained, SGX has proposed refining the criteria for the imposition of QR:

- *New requirement of 15% shareholder*

To address the concern that major shareholders may have greater access to information than minority shareholders, SGX has proposed including a new criterion (in addition to the market capitalisation criterion discussed below) that a company should be required to conduct QR if it has at least one shareholder holding direct or indirect interest in at least 15% of the issued shares in the issuer.

It is further proposed that the 15% shareholding for the purposes of this criterion will be measured as at 31 December of each year.

- *Increase and refine the market capitalisation threshold*

In addition to the new 15% shareholder requirement as discussed above, SGX has also proposed the following refinements to the market capitalisation threshold:

	Current	Proposal
Threshold	S\$75,000,000	S\$150,000,000
Measurement	Assessed on last trading day of calendar year	Measured based on average daily market capitalisation over 6-month period ending 31 Dec each year
Periodic Review	None. Once threshold crossed, QR required on continuing basis	Issuer may apply to SGX to cease QR if market capitalisation falls below threshold for 2 consecutive years
Grace Period	1 year to commence QR upon trigger of market capitalisation threshold	No change to grace period

With respect to the application to SGX for cessation of QR, SGX has indicated that it would be unlikely for an application to be approved if that issuer is on the watch-list (if it is a Mainboard issuer) or if the audit opinion in respect of its financial statements is qualified, disclaimed or with emphasis of matter, as investors in such situations are likely to expect periodic updates.

Other Proposals if QR is Retained

Shareholder Approval to Cease or Delay QR

SGX is also seeking feedback on whether issuers should be allowed to discontinue QR or delay the

commencement of QR with the approval of shareholders. SGX has proposed several key controls for consideration:

- approval is to be sought by way of ordinary resolution from minority shareholders present at the annual general meeting;
- votes from controlling shareholders, directors, CEOs and their associates should be excluded;
- cessation or delay may only be for a maximum of 3 years and in the case of delay, approval must be obtained within the 1-year grace period before QR requirements commence; and
- issuers seeking shareholders' approval for cessation or delay are expected to inform shareholders of the consequences including impact on the payment of interim dividends and the alternative information available to shareholders.

SGX is also canvassing opinion on whether the same flexibility should be granted to new issuers provided the same approval is obtained at the point of initial public offering or reverse takeover.

SGX Power to Require QR for Specific Issuers

If QR is to be retained, SGX has clarified that it retains an administrative power to require issuers to make specified disclosures. This would extend to requiring an issuer to conduct QR if deemed appropriate to keep the market informed. In the consultation paper, SGX cited one possible instance where it may exercise its power in such manner: where there has been a serious breach of listing rules. Feedback is similarly sought on the other considerations that should factor in a decision by SGX to exercise such power.

Content of Quarterly Reports

SGX has proposed that the format of the first and third quarter reports be simplified to only require disclosure of the following items:

- balance sheet;
- income statement;
- cashflow statement;
- commentary of significant trends and competitive conditions; and
- negative assurance from board of directors.

If you would like information on this or any other area of law, you may wish to contact the partner at WongPartnership that you normally deal with or any of the following partners:



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