WELCOME ADDRESS BY MR ONG KHIAW HONG, CHIEF EXECUTIVE, ACCOUNTING AND CORPORATE REGULATORY AUTHORITY (ACRA) ON 16 JAN 2018, 9:00AM AT THE ACRA-SGX-SID AUDIT COMMITTEE SEMINAR 2018

Mr Willie Cheng, Chairman of SID
Mr Tan Boon Gin, Chief Executive Officer of Singapore Exchange Regulation
Mr Chew Choon Seng, Chairman of the Corporate Governance Council
Mr Lee Boon Ngiap, Assistant Managing Director of MAS
Distinguished guests
Ladies and gentlemen

Good morning. On behalf of ACRA and my fellow organisers, SGX Regco and SID, we warmly welcome you to this year's Audit Committee Seminar. This is the fourth year we are running this seminar. The continued strong attendance shows the importance companies place on corporate governance, the theme for this year.

Corporate Transparency - Cornerstone of Corporate Governance

2 Over the past few years, corporate governance rules have been strengthened in a number of jurisdictions, including Singapore. Stakeholders are also paying greater attention to the corporate governance practices of companies.

3 One key tenet of good corporate governance is transparency. Confidence in our markets will depend on the quality of information available to investors for making investment decisions. In this regard, audit committees play a critical role in raising the quality and transparency of corporate disclosures, particularly, in the areas of financial reporting and audit. In preparation for the reporting season

ahead, I would like to highlight three areas that audit committees should pay attention to.

(i) Raise the quality of financial disclosures

4 First, companies should provide stakeholders with more meaningful financial disclosures, in light of recently introduced requirements in financial reporting standards. From 1 January onwards, all Singapore listed companies are required to apply a new financial reporting framework known as the Singapore Financial Reporting Standards (International), or SFRS(I) *(pronounced S-F-R-S-I)* in short. Also taking effect on the same date are two new accounting standards. They are the SFRS(I) 9 on Financial Instruments and SFRS(I) 15 on Revenue from Contracts with Customers. These standards could materially impact how companies measure financial instruments and recognise revenue, giving rise to significant corresponding changes in financial statement disclosures.

5 I urge audit committees to work closely with company management to ensure the smooth implementation of these new standards. Companies should be transparent in quantifying the potential impact of the changes to their business as they finalise their 31 December 2017 financial statements, and transition to the new standards as doing so will help investors make more informed decisions about their on-going investments in the companies.

(ii) Providing deeper insights through AC commentary

6 Second, audit committees should provide deeper insights through audit committee commentaries. Increasingly, investors will expect this. They are already getting greater financial insights through enhanced auditor reports. Since

late 2016, auditors are required to report Key Audit Matters as part of the enhanced auditor report.

7 Encouragingly, some companies have started to deepen their engagements with investors. Last year, ACRA conducted a study on the first year implementation of the enhanced auditor report in Singapore, jointly undertaken by ACRA, the Association of Chartered Certified Accountants, the Institute of Singapore Chartered Accountants and Nanyang Technological University. One-third of 180 listed companies surveyed had audit committees that were voluntarily providing their commentaries on significant financial reporting matters. This is commendable.

8 However, there is room for improvement. The study also found that close to half (47%) of the audit committee commentaries were either described in a similar manner to the KAMs reported or merely concurred with the work performed by the auditors. Audit committees should share their independent perspectives on the issues. They should also comment on other significant financial reporting matters that auditors have not raised as KAMs. ACRA will be sharing share more on the study later this morning.

(iii) <u>Giving priority to valuation and impairment issues</u>

9 Third, audit committees should pay greater attention to valuation and impairment issues. Investors are increasingly looking at such matters to help them assess the fair value of a company. Valuation and impairment issues are also the two most common findings under ACRA's Financial Reporting Surveillance Programme, or FRSP.

10 ACRA on its part, is embarking on a collaboration with the Institute of Valuers and Appraisers. We will tap on their technical expertise for advice on

complex valuation and impairment issues raised under the FRSP. Where relevant, we will incorporate their expert views in our findings that we share in our engagements with company directors.

<u>Resources available to help audit committees in their roles</u>

11 To help audit committees, regulators such as ACRA and SGX, and professional bodies such as SID will continue to provide support. I will highlight two resources that audit committees can tap on.

(i) <u>ACRA-PwC-SID 2018 mini-guide for audit committees</u>

12 First, a mini-guide specifically meant for audit committees has been issued by ACRA, PwC and SID this morning. The guide summarises the key financial reporting regulatory signposts and corporate disclosure considerations that audit committees should take note of when reviewing financial statements in 2018.

(ii) <u>SID's Audit Committee Chapter Pitstops</u>

13 Second, audit committees can leverage on the series of audit committee pitstops organised by SID. Participants of these sessions are updated on key audit committee related issues, latest regulatory developments and best practices. Close to 300 participants have already benefitted from the six pitstops organised last year. I strongly encourage audit committees to participate in the sessions lined up for 2018.

<u>Conclusion</u>

14 Improving corporate governance is a collective responsibility. Corporate governance rules alone cannot ensure a well-functioning capital market that is

trusted by all stakeholders. Companies must also play their parts and engage meaningfully with their stakeholders, and implement good corporate governance practices. On this note, I would like to urge audit committees to continue raising corporate transparency, particularly in providing insightful disclosures on financial reporting and audit matters.

15 I wish you all a fruitful session this morning, and a successful year ahead. Thank you.
