Closing remarks by Tan Boon Gin, CEO of SGX RegCo, at the ACRA-SGX-SID Audit Committee Seminar 2020

Good morning/afternoon ladies and gentlemen

- 1. By now, I am sure most, if not all, of you would have heard that today, we launched our public consultation on a series of proposals aimed at enhancing our oversight of the quality of work of auditors and property valuers in respect of their dealings with listed companies.
- 2. As I mentioned in my speech last year, these proposals are to deal with the trust deficit, which exists not just within the Singapore context, but also globally, particularly in respect of audits. We have chosen to address this trust deficit through proposed measures that, while drawing on some ideas from overseas, have their own flavor to suit our local market.
- 3. To recap, for the benefit of everyone, SGX RegCo is proposing that we can appoint an additional auditor, a second auditor, in certain circumstances. We also want all listed companies to have a Singapore based auditor. Some may question why we would propose the appointment of an additional auditor, instead of just directing the appointment of a special auditor. These tools serve different purposes.
- 4. The duties of a statutory auditor is to report on whether the company's financial statements comply with financial reporting standards and provide a true and fair view of the company's financial position and performance. This is separate and different from the engagement of a special auditor that is intended to address doubts over specified areas or transactions, or matters.
- 5. There have been occasions when a special auditor fails to find any wrongdoing or noncompliance with auditing standards, yet doubt still lingers because of concerns that the audit scope may have been too narrow. We have addressed this to a certain extent by requiring special auditors to report directly to us and by requiring the scope of review to be expanded if the need arises.

- 6. Nonetheless, the loss of confidence may be so overwhelming that the market refuses to accept the findings of the special auditor as being conclusive. At this point, everyone is in a difficult position. The statutory auditors may not want to resign. The shareholders may not want to replace the auditors. The power to change the statutory auditors ultimately resides with the shareholders, and not the regulators. But if nothing is done to resolve the impasse, the company may well succumb to a self-fulfilling prophecy.
- 7. In such a case, it may be necessary for us to direct a second audit which is akin to a re-audit. This additional auditor will review the overall financials of the company and provide a second audit opinion. Please be assured that we won't take lightly a decision to direct the appointment of a second auditor. In other words, we will require a second auditor only in exceptional cases.
- 8. Just because there is a second audit does not mean the first auditor has done anything wrong. It may well be the only way to restore confidence in a company. I should also point out that it is well within the hands of the statutory auditors and the Board and shareholders to avoid this outcome by resigning or changing auditors, respectively.
- 9. This brings me to the second part of our consultation on auditors, which is to require all listed companies to appoint a Singapore-based auditor. This will increase regulatory traction and complements the joint forum set up by MAS and ACRA to strengthen the investigation of accounting and disclosure issues.
- 10. I also want to add that SGX RegCo has also directly engaged with the Audit Committees and external auditors of companies that we feel are of some concern. Last year we met with the ACs and external auditors of 20 companies and for the most recent year-end audit cycle, we met with 26 companies. The changes therefore also complement our own ex ante intervention efforts.
- 11. These proposed auditor rules we are consulting on, if adopted, will apply for both IPO companies and existing companies on a continuing basis. I should highlight that since I mentioned the possibility of such a requirement last year, all the IPO companies that are seeking a listing on SGX appointed a Singapore based auditor. There are also now only 15 listed companies that do not have a Singapore based auditor.

- 12. Turning now to our proposed rules on property valuations, I believe this will be of interest to auditors and valuers alike, given how their work interacts. Our proposals are to do with two aspects: the qualifications of the property valuer and the content of disclosures and standards of property valuation reports.
- 13. The area of valuation and quality reports are important because the REITs and property sector are crucial not just to the Singapore stock market but also to the broader economy. We are therefore proposing that professionals carrying out valuation of property assets be sufficiently qualified.
- 14. For example, valuers must have at least 5 years' relevant experience and be members of professional bodies with a code of conduct and ethics as well as disciplinary powers to revoke the valuer's membership if necessary.
- 15. As for valuation reports, we want issuers and listing applicants to comply with standards set by the Singapore Institute of Surveyors and Valuers (SISV) for the valuation of properties in Singapore. For offshore real estate, valuations may be carried out in accordance with the SISV or the International Valuation Standards (IVS) set by the IVS Council.
- 16. All these proposed measures follow on from the MOU entered into between SGX RegCo and SISV to enhance real estate and land valuation standards. By the way, you may recall that we have a similar MOU with the Institute of Valuers and Appraisers, Singapore (IVAS) to tackle business valuations.
- 17. Some say, "It takes a village". I say, "It takes a community" and I look forward to working closely with even more of you to achieve our shared purpose and common goal, which is preserving the integrity of the market.