

ACRA-SGX-SID Audit Committee Seminar

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Agenda

1 Recent Developments

- Review of CG disclosures by Mainboard Companies

2 Case Studies

- Adequacy of Internal Controls
- Issue Price of the Placement Shares
- Proposed Rights Issue & Transfer a controlling interest
- Completed Rights Issue & Transfer a controlling interest
- Extension of Time to Hold Annual General Meeting

Recent Developments

- Review of CG Disclosures by Mainboard Companies

Review of CG Disclosures by Mainboard Companies

Introduction

- SGX commissioned KPMG to carry out a review of CG disclosures for 545 mainboard companies. Covers both existence and quality of disclosures.
- Review covered 4 pillars, 16 principles and 85 guidelines of the CG Code.
- The report was published on 5 July 2016.

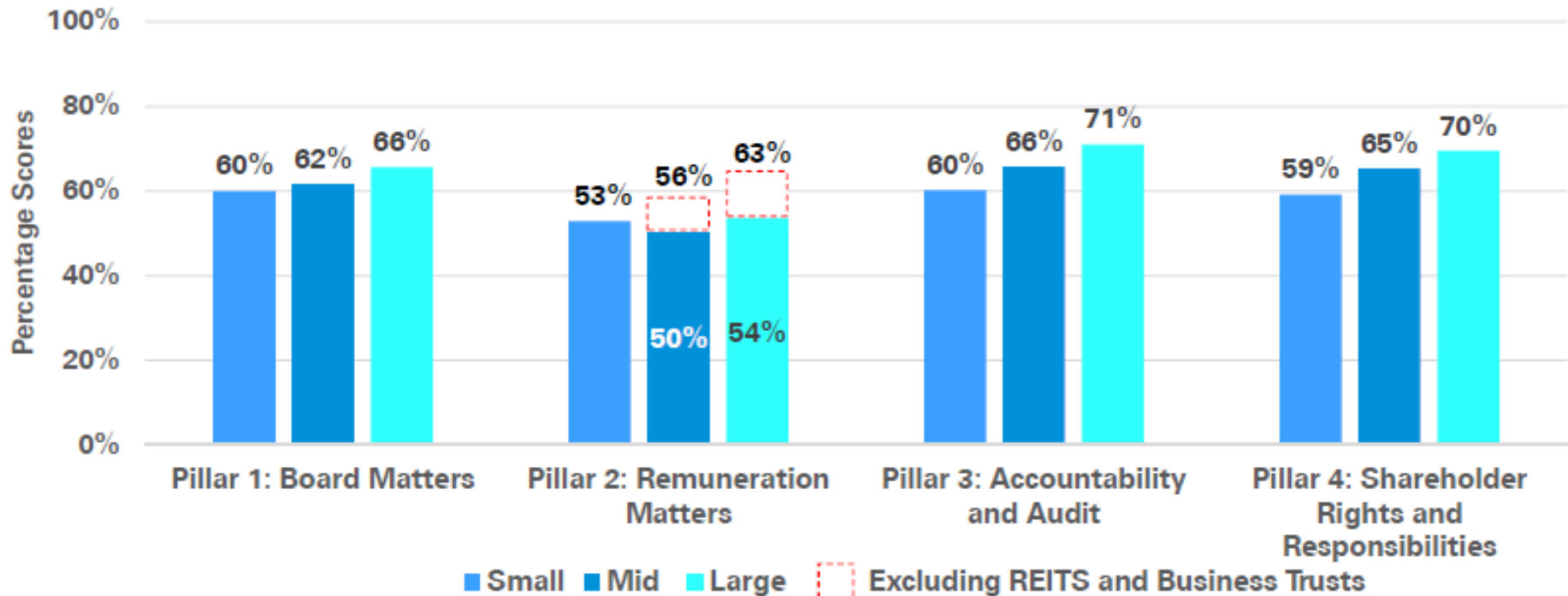
Objective

- Identify extent of compliance with the key requirements relating to CG disclosures as specified in the CG Code.
- Provide observations and insights for companies to improve their levels of disclosure in relation to the requirements in the CG Code.

Review of CG Disclosures by Mainboard Companies

The Remuneration Matters pillar had the lowest average score (53%)

Percentage Scores by Pillar across Market Capitalisation Categories

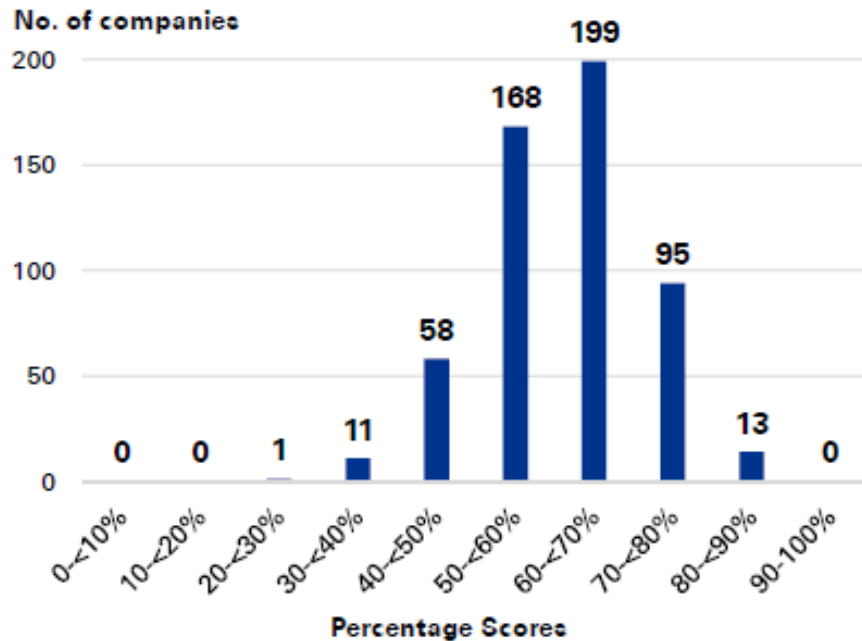


Source: KPMG Services Pte. Ltd.

Review of CG Disclosures by Mainboard Companies

Pillar 1: Board Matters – average score 61%

Strengths, areas of interest and areas for improvement



Strengths

- Comprehensive disclosure on board meetings
- $\geq 1/3$ independent directors on board
- Majority of NC members (including chairman) are independent

Of interest

- The assessment process of long-serving directors' independence – 9 year tenure
- Measures taken to increase board diversity
- Limits on multiple board representations

Needs improvement

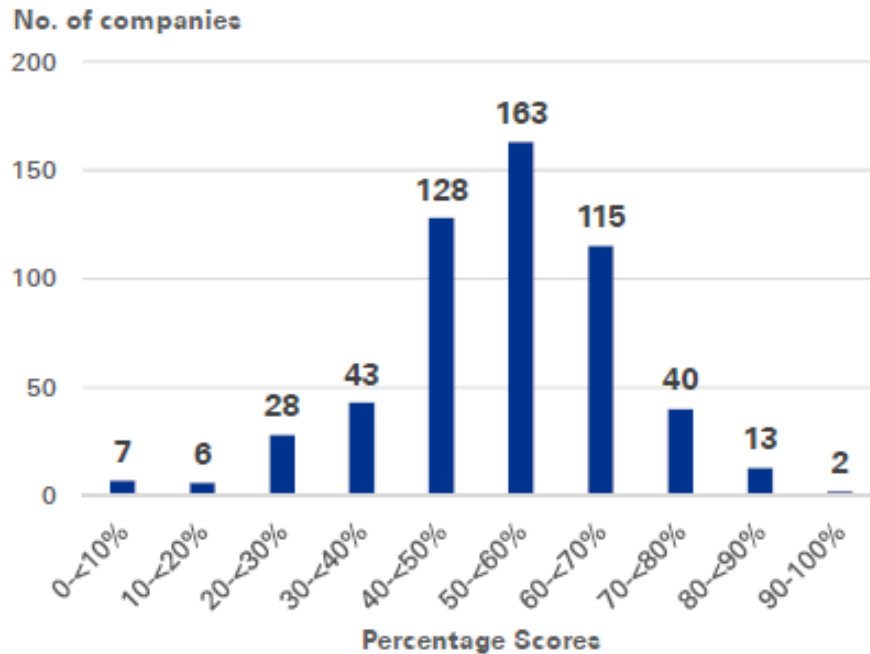
- Disclosure of the appointment of alternate directors

Source: KPMG Services Pte. Ltd.

Review of CG Disclosures by Mainboard Companies

Pillar 2: Remuneration Matters – average score 53%

Strengths, areas of interest and areas for improvement



Strengths

- Comprehensive disclosure on set-up and composition of RC
- Majority of RC members (including chairman) are independent
- Presence of remuneration framework

Of interest

- Remuneration amount of directors and CEO in dollar value
- Disclosure of directors' and CEO's remuneration amount on named basis

Needs improvement

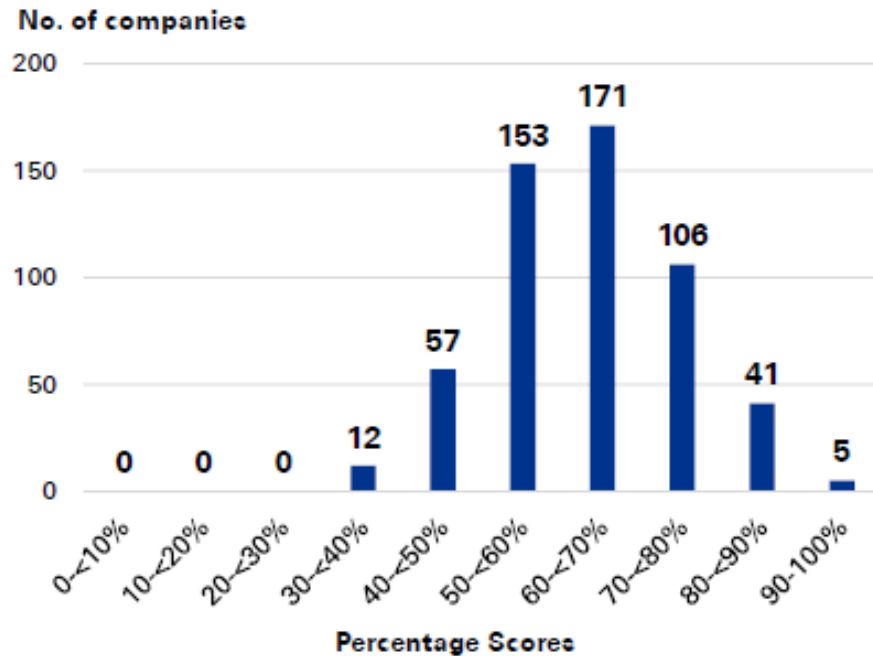
- Disclosure of top 5 key management personnel's remuneration

Source: KPMG Services Pte. Ltd.

Review of CG Disclosures by Mainboard Companies

Pillar 3: Accountability and Audit – average score 63%

Strengths, areas of interest and areas for improvement



Strengths

- AC has at least 3 directors
- Majority of AC members (including chairman) are independent
- Forthcoming disclosure on AC's role in financial reporting, external and internal audit, internal controls and whistle blowing
- AC recent and relevant financial expertise

Of interest

- Adequacy and effectiveness of risk management and internal controls

Needs improvement

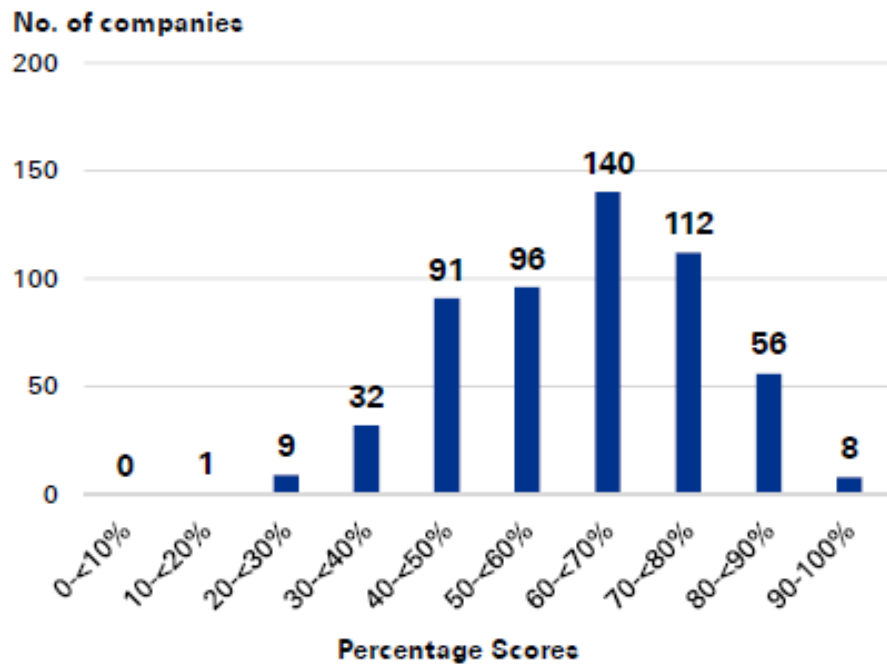
- Internal Audit function's hiring and evaluation, qualifications, access to information, resourcing and standing in the company

Source: KPMG Services Pte. Ltd.

Review of CG Disclosures by Mainboard Companies

Pillar 4: Shareholder Rights and Responsibilities - average score 62%

Strengths, areas of interest and areas for improvement



Strengths

- Disclosure of the attendance of directors and external auditors at general shareholder meeting
- Regular communication with shareholders
- Appointment of proxies

Needs improvement

- Establishing an Investor Relations policy and team
- Disclosure regarding the outcome of shareholder meetings
- Adoption of electronic poll voting
- Availability of shareholder meetings minutes to shareholders

Source: KPMG Services Pte. Ltd.

Review of CG Disclosures by Mainboard Companies

Takeaway

- Audit Committee to study the observations of the CG Review and advise their issuers on raising standards of CG disclosures.

- “Low hanging fruits” include the following:
 - Most companies do not appoint alternate directors but 2/3 of them do not state this in the CG Report.
 - Disclosure of poll voting and voting results (listing rule requirement effective 1 August 2015).
 - Disclosure of whether the company has dedicated investors policy or protocol in place.
 - Explicit statement of whether the company is required to have at least half the board comprising independent directors or to have a lead independent director.
 - Disclosure of whether any of the Audit Committee members were previous partners or directors of the existing auditing firm within the previous 12 months and whether any of the Audit Committee members hold any financial interest in the auditing firm.
 - Explicit statement on preparation of minutes and it being available on website or to shareholders upon request.

Case Studies

Case Study 1



Adequacy of Internal Controls

Observations

- Company A is in the business of manufacturing lights. Recently, in view of the downturn in the lightings business, it decided to diversify into the mining sector.
- Based on Company A's disbursement procedures, any 2 signatories (from a list comprising board and senior management) can sign cheques for disbursement of any amount.
- Company did not assess the change in risk profile and adequacy of internal controls in light of the new business it is embarking on.

Concerns

- Although there is a requirement for joint cheque signatories by 2 parties, no limits were imposed on the amount they can authorise. There is a risk of 2 parties authorising cheques for ALL amounts.
- New business (mining) presents new risks which the Board, including AC need to review, assess and put in place internal controls.

Recommended Practices / Resolution

- The AC should be cognizant of the risk of the joint signatories being able to disburse cheques of any amounts and calibrate prescribed limits by balancing the level of risk the Board is willing to take against the impact on efficient operations.
- The Board, with the concurrence of the AC, must opine on the adequacy of internal controls in the annual report. AC should commission a review of the Group's control environment (taking into account the new mining business) and introduce robust and effective system of internal controls to address financial, operational and compliance risks.

Case Study 2



Issue Price of Placement Shares

Observations

- Listing Rule 811(1) states that:
 - An issue of shares must not be priced at more than 10% discount to the weighted average price for trades done on the Exchange for the full market day on which the placement or subscription agreement is signed. If trading in the issuer's shares is not available for a full market day, the weighted average price must be based on the trade done on the preceding market day up to the time the placement is signed.
- Company B signed a subscription agreement to issue shares to the subscriber at S\$0.009 for each share. Company B's volume weighted average price on the full market day on which the subscription agreement was signed was S\$0.0104.
- Company B rounded down the volume weighted average price used to calculate the discount to two decimal places and arrived at a 10% discount as follows:
 $(0.01 - 0.009) / 0.01 = 10\%$
- The correct discount should be 13.5% computed as follows:
 $(0.0104 - 0.009) / 0.0104 = 13.5\%$

Concerns & Recommended Practices

- Any issue of shares which is priced at more than 10% discount to the weighted average price for trades done on the Exchange may be prejudicial to the interests of shareholders who are not given the opportunity to participate in the share issue.
- Weighted average price used to calculate the discount should be at four decimal places for issuers with low share prices. If the discount is more than 10%, issuers are required to seek specific shareholders' approval.

Case Study 3

▶ Proposed Rights Issue & Transfer a controlling interest

Observations

- Listing Rule 803 states that:
 - An issuer must not issue securities to transfer a controlling interest without prior approval of shareholders in general meeting.
- Company C proposed to undertake a rights issue.
- One of the substantial shareholders verbally indicated his interest to subscribe for excess rights shares.

Concerns

- Should this substantial shareholder subscribe for the excess rights shares, he might become a new controlling shareholder of Company C depending on the subscription rate.

Recommended Practices / Resolution

- In cases where the substantial shareholders had indicated their intention to subscribe for excess rights shares, an issuer should disclose such intention in its announcement and OIS if these shareholders are likely to become the new controlling shareholders should the excess rights shares be allotted to them.
- Shareholders' approval should be obtained to comply with Listing Rule 803.
- Alternatively, an issuer should disclose that it will not allot and issue any excess rights shares resulting in a transfer of controlling interest in the Company unless otherwise approved by shareholders in a general meeting.

Case Study 4

▶ Completed Rights Issue & Transfer of controlling interest

Observations

- Listing Rule 803 states that:
 - An issuer must not issue securities to transfer a controlling interest without prior approval of shareholders in general meeting.
- Company D undertook a rights issue.
- Majority of the public shareholders did not subscribe for their entitlements.
- Shareholder X subscribed for his entitlement and became a new controlling shareholder of Company D.

Concerns

- Whether Listing Rule 803 applies under such scenario.

Recommended Practices / Resolution

- In this situation where a shareholder subscribes for his entitlement (instead of excess rights shares), this need not be subject to requirement under 803.

Case Study 5



Extension of Time to Hold Annual General Meeting (“AGM”)

Observations

- Rule 707(1) states that the time between the end of an issuer’s financial year and the date of its annual general meeting (if any) must not exceed four months.
- Company E would have to hold its AGM for its financial year ended 31 December 2015 by 30 April 2016 as its financial year ends on 31 December.
- Company E was granted an extension of 3 months until 31 July 2016 to hold its AGM on the basis that the Company required more time to deal with unresolved audit findings raised by its auditors.
- On 28 July 2016, Company E submitted its application for a further extension of 3 months till 31 October 2016 to hold its AGM.
- The Exchange rejected Company E’s application for the following reasons:
 - (a) Company E’s differences with its auditors and provided no certainty in being able to meet its revised timeline; and
 - (b) Company E was already in breach of Rule 707 by the time it submitted its application on 28 July 2016 since the Company has not issued its annual report by the stipulated timeframe.

Case Study 5



Extension of Time to Hold Annual General Meeting (“AGM”)-Continued

Other circumstances where the Exchange rejected the applications

- The Company will be ceasing its production and has not appointed a financial controller to prepare the Company’s financial statement.
- The Company’s completion of audit hinges on the completion of its principal operating subsidiary's liquidation and there is no certainty that subsequent to the completion of the liquidation, the Company would have the ability to meet the extended timeline.

Concerns & Recommended Practices

- Rule 707(1) is in alignment with Section 201 of the Companies Act (Chapter 50) of Singapore, which requires the issuer to convene its annual general meeting on a timely basis, no later than four months after the end of the financial year.
- An issuer should convene its annual general meeting on a timely basis for its shareholders to voice their opinion and seek clarification from the Board and management on matters relating to an issuer.
- In the circumstances where an issuer is unable to meet the timeline, the issuer should submit timely application for extension and provide compelling reasons for the Exchange to grant the extension.

Thank you

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