

12 January 2022

Closing speech for ACRA-SGX-SID Audit Committee Seminar by Tan Boon Gin, CEO, SGX RegCo

Thank you everyone for staying with us through today's seminar.

1. I think after two years of COVID-19, it is easy to be focused on the downsides of the pandemic, such as the safe management measures and other restrictions, work from home versus work from office and so on. But really, I personally feel that there are opportunities beckoning, particularly for companies, financial markets, Singapore.
2. I am going to keep my closing remarks short and hopefully sharp by focusing on just two matters: SPACs or special purpose acquisition companies AND sustainability. As you know, we announced new Rules for both in 2021. But the work doesn't stop there, and the next phase is to work towards effective and meaningful implementation, with contributions from all parts of our market community, investors, issuers, and intermediaries.
3. As this is a seminar directed at Audit Committees (ACs), I'm going to speak to the aspects that ACs should be paying special attention to in your oversight of both financial and non-financial reporting and internal and external auditors in these two areas.
4. SGX launched its framework for the listing of SPACs in 2021, and as you may have heard, some SPACs have already lodged their preliminary prospectuses in preparation for the upcoming IPOs. The listing of SPACs on SGX may present several new novel accounting-related matters. For example, unlike traditional IPOs, SPAC IPOs typically involve several financial instruments to be issued at the time of listing. These include financial instruments such as the IPO units comprising a share and a fraction of one warrant, founder shares and/or warrants.
5. Careful consideration of the terms and circumstances will be necessary to determine the accounting treatment and presentation for the respective instruments. The choice of accounting standards, whether it is SFRS, IFRS or US GAAP may affect the accounting treatment and presentation for similar instruments under the respective financial reporting frameworks.
6. Audit Committees of SPACs should therefore pay attention to and carefully consider the accounting treatment and presentation of the various securities for the first financial reporting period. It is important for investors to appreciate the implications of the accounting treatment and what it means for them as shareholders and market participants.
7. We also expect that de-SPACs (which is when SPACs enter into business combinations with target companies) will similarly raise novel issues. Audit Committees will need to engage the external auditors closely on various issues, such as the accounting treatment for business combination and the target company's valuation.

8. In doing so, the ACs should consider the reasonableness of the assumptions used in any forecasts and projections and whether they are consistent with the accounting policies adopted by the SPAC, and presented in accordance with the relevant accounting standards . Audit Committees must ensure that the information presented in the circular on the target company is complete and meaningful so that shareholders can make an informed decision on the transaction, including whether to redeem their shares at the relevant point in time.
9. Now SPACs being a new product in Singapore, it is unsurprising that we have faced and will continue to face novel accounting issues arising from the process and structure. SGX has and will continue to work together with ISCA and the reporting accountants of each SPAC to address such matters. We understand that ISCA is looking at providing guidance to practitioners on the common accounting considerations for SPAC transactions in Singapore and look forward to continuing our cooperation with them in this area.
10. This brings me to my second topic, sustainability. As a capital market, we want our companies to be able to leverage on green and sustainable finance to transform their business to meet the demands of their investors and financiers.
11. SGX is a key participant in the Monetary Authority of Singapore's Green Finance Industry Taskforce, particularly, in the area of disclosure. As many of you are aware, we have upped the game for listed companies in terms of their sustainability reporting with the onset of climate reporting based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
12. It will come as no surprise that this raises the specter of potential greenwashing, which is something that is front and centre in the minds of the investing public, especially those paying more attention to ESG matters. To address this concern, we expect that robust review and assurance processes will go some way towards building investor confidence.
13. This can take two forms. First, an internal review can be conducted on the processes that go into a sustainability report, and this builds on the existing governance structures and internal control systems within the company. Second, an external assurer can be engaged to provide assurance on specific aspects of the sustainability disclosure, such as the data and the data collection process, which obviously will enhance the reliability of the reported information.
14. For now, we are requiring internal review of sustainability reports as a start, though we have our eye set on external assurance as the ultimate gold standard. ACs will have a key role to play in overseeing such internal reviews. The AC is also critical if the company is working with the external auditors to go one step further to boost investor confidence by voluntarily undertaking external assurance.

15. In short, we have an opportunity this year to earn the confidence of the market in the output from our two new frameworks on SPACs and climate reporting.

16. On that note, I won't stand further between you and your individual lunches. In time, I hope we can all lunch together again to further discuss more ways and means SGX can work with ACs, auditors and boards to further strengthen our listed companies and our market.

Thank you.