

Previously on 22 April 2020, SGX RegCo had provided regulatory guidance to issuers on the disclosure expectations of material developments arising from the Covid situation. In view of the upcoming interim financial result season for the period ended 30 June 2020, SGX RegCo, ACRA and ISCA have each published their guidance notes (on 27 July 2020) to help issuers to address high-risk areas such as cash balances, accounts receivables and accounting matters that requires estimation such as impairment. A summary of the published guidance from (1) SGX RegCo, (2) ACRA, (3) ISCA are provided below:

1. SGX RegCo- Expectation of Financial Reports (in collaboration with MAS and ACRA)

1. **Negative Assurance Confirmation.** Under listing rule 705(5), the issuer is to confirm that to the best of their knowledge, nothing has come to the attention of the board of directors which may render the interim financial statements to be false or misleading in any material aspect. This confirmation provides the board's assurance that all material information has been assessed to ensure the reliability of the financial results. In view of the Covid situation,
 - Issuers should provide negative assurance confirmation without including caveats or exceptions; and
 - Board to assess that the interim financial statement provides a balanced and fair view of the issuer's business conditions and financial positions, taking into account the (i) Impact of COVID; and (ii) Impact of any material factors (aside from COVID).
2. **Asset Valuation.** In the current Covid situation, issuers are challenged in making significant judgements and estimates on asset valuations. The issuer should rely on the best available information in making well-reasoned and supported judgements and estimates.
 - Issuers should review whether the asset values have been changed significantly due to the effects of COVID. Assessment of the impact and its associated uncertainties should be clearly explained so that investors can better appreciate the significance of the numbers.
 - Issuers may decide on the best way to conduct a valuation assessment – whether internally; with the assistance of an external valuer; or by performing an assessment of certain assets which are materially impacted. When in doubt, issuers should consider whether expert advice is needed.
 - Where adjustments to the inputs of the valuation models are made to reflect material changes in business conditions, issuers should disclose the key assumptions used, such as forward-looking information on earnings growth rates, and the management's basis for selecting those assumptions. Material uncertainties on the asset valuations should be disclosed.
 - Issuer to consider providing illustrations on the potential impact a change in valuation will have on relevant financial metrics, such as net asset value, net tangible assets or leverage ratio.
 - Boards should engage management and question the appropriateness of key assumptions made in asset valuations. In the rare circumstances that the board is unable to quantify the impact to asset valuation, it should clearly explain why.
3. **Going Concern.** Where there is a deterioration in business conditions, issuers should undertake an assessment of the ability to operate as a going concern and disclose these uncertainties and their plans to address such uncertainties.
 - Where issuers are unable to continue as a going concern, they should make a request for trading suspension pursuant to Listing Rule 1303.
3. **Alternative Performance Measures (APMs).** APMs, such as EBIT, EBITDA and free cash flows, are often used to supplement information provided under relevant accounting standards.
 - APMs (if used) should be presented consistently between periods with clear explanations on how they are calculated.
 - Issuers must ensure that the APMs do not mislead investors and in particular, should not be used to present a more favourable view, or to avoid presenting a less favourable view of the issuer's performance.
 - To avoid using APMs such as EBITDAC (Earnings before interest, taxes, depreciation, amortisation and COVID) as such hypothetical APMs are unreliable and present a misleading picture of financial performance to investors.

2. ACRA- Areas of Review Focus for Directors

ACRA has published this guidance to help directors in their reviews of the upcoming financial statements (FS) in view of the Covid situation. It highlights warning signs of some possible noncompliance(s) with accounting standards, and provides directors with questions to ask management and statutory auditors when assessing the impact of the Covid situation on financial statements.

1. Financial Position and Sustainability.

a) **Property, plant and equipment, goodwill and other intangible assets.**

- Directors should expect management to perform impairment tests, and to have a smaller headroom (or impairment loss to be recognised) to result from these tests.
- Is the discount rate to estimate the asset's recoverable amount updated to reflect the higher risks associated with the Covid situation?
- Has the management included such risks in the forecasted cash flows (i.e. sales, gross margin and changes in working capital) if it is not reflected in the discount rate.

b) **Investment properties and other non-current assets held at fair value.** Has management provide accurate information to valuers and determine whether a revaluation is necessary?

c) **Inventories.** Are inventories written down to their net realisable value?

d) **Trade, other receivables and contract assets.** Are the expected credit loss allowance from customers properly estimated?

e) **Provisions.** To determine provision amounts, directors should ask management to identify onerous or potentially onerous revenue contracts which may contain penalties for late or non-delivery.

f) **Borrowings.** Directors should ask management to forecast financial performance and positions for assessing compliance with loan covenants, to avoid last minute surprises, such as unexpected write-downs of assets and additional provisions which will cause a technical loan default.

g) **Going concern.** Directors should carefully evaluate with management the impact on projected working capital and the company's ability to service its debt obligations when they fall due. Cash flow projections should also be forecasted in sufficient granularity (e.g. by month) to ensure the company remains liquid and viable for the next 12 months and beyond.

h) **Financial instruments.** Directors should work with management to tailor the financial risk management disclosures (i.e. Credit and Liquidity Risks) to the company's actual circumstances, moving away from the typical boilerplate disclosures.

i) **Subsequent events.** Are investors made aware of subsequent matters (in the FS) such as, (i) significant decrease of carrying values of commodity inventories, (ii) management's plan to discontinue an operation or downsize operations after year-end, (iii) fell through of acquisition or disposals due to non-fulfilment of precedent conditions after year-end.

j) **Government relief measures.** Directors should discuss with management the applicable measures and determine their appropriate accounting treatments. CFO or head of finance should take guidance from the published FAQs from ISCA. Please see paragraph 3 for more information.

2. Internal Control and Audit Consideration.

Under the Companies Act, directors and other officers of public companies and their subsidiaries must devise and maintain internal accounting controls sufficient to provide a reasonable assurance that: —

- a) Assets are safeguarded against loss from unauthorised use or disposition; and
- b) Transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair FS and to maintain accountability of assets.

2. Internal Control and Audit Consideration. (Cont'd)

- Directors should engage management and internal auditors on measures put in place to mitigate risks, particularly for high risk areas such as cash management.
- Directors should expect management to review and ensure adequate segregation of duties for key processes.
- Audit Committees should also revise internal audit plans to prioritise the audits of high risk areas, and find ways to mitigate the risks.
- Directors and management are also advised to engage statutory auditors early to discuss the audit plan for the next financial year.
- For valuations and other accounting areas that involve more judgements and estimates due to market volatility, directors are highly encouraged to engage the help of specialists.
- For this financial year, some statutory auditors may face limitation in the scope of their work. If modified audit reports cannot be avoided, directors must implement a plan to address the qualification with the aim to receive a clean audit report in the next financial year.

3. ISCA- Technical FAQs on Accounting Matters (Due to Covid)

The ISCA Auditing and Assurance Standards Committee (AASC) and Financial Reporting Committee (FRC), in collaboration with ACRA, have formed a joint COVID-19 working group to address the challenges faced by the accountancy profession. The guidance are published in the form of FAQs to share the working group's deliberations on the accounting and auditing issues faced. The CFO or head of finance should refer to this guidance on accounting matters arising from the Covid outbreak. Some of the accounting matters that is addressed by the FAQ include:

1. Should the Company recognise the Covid outbreak as an adjusting or non-adjusting event?
2. In view of the Covid outbreak, how should the Company perform the going concern assessment?
3. How to account for the property tax rebate given by the Singapore Government to landlords?
4. How to recognise the payouts from the Jobs Support Scheme (JSS) and other matters?

Useful References:

1. *SGX RegCo-What SGX RegCo expects of financial reports amid Covid*
<https://www.sgx.com/media-centre/20200727-regulators-column-what-sgx-regco-expects-financial-reports-amid-covid-19>
2. *Proposed areas of focus by directors on the FS by the Covid Pandemic*
<https://www.acra.gov.sg/training-and-resources/publications/bulletins-and-guidance/practice-guidance>
3. *ISCA Covid Technical FAQs*
<https://isca.org.sg/covid-19-series/resources/isca-covid-19-technical-faqs/>

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