



SGX-ST Listing Rules

Practice Note 1.2

Oversight of Issuers

Details	Cross References	Enquiries
Issue date: 25 February 2004 Effective date: 1 March 2004	Chapter 1	Please contact Issuer Regulation:- 6236-8896 Daisy Tan 6236-8887 June Sim 6236-8895 Siew Wun Mui 6236-8880 Tang Yeng Yuen 6236-8810 Alex Lee

1. Introduction

- 1.1 This Practice Note discusses the Exchange's role in the current disclosure based regulatory regime and its approach to regulating issuers.

2. Disclosure-Based Regulatory Regime and the Exchange's Role

- 2.1 In October 1998, the Corporate Finance Committee ("CFC") initiated a shift from a merit-based regulatory regime to a predominantly disclosure-based regulatory regime. A disclosure-based regime is premised on the principle that, in general, informed investors can protect themselves. It recognizes that the market is better placed than regulators to decide on the merits of transactions.
- 2.2 In a disclosure-based regime, the principal function of the Exchange is to provide a fair, orderly and efficient market for the trading of securities. In this regard, the Exchange considers disclosure as fundamentally important. The listing rules and the Exchange's regulation of issuers are aimed at promoting, among other things, full, accurate and timely disclosure. The underlying principles of the listing rules include:
- (i) issuers shall have minimum standards of quality, operations, management experience and expertise;
 - (ii) investors and their professional advisers shall be given all information that they would reasonably require to make an informed assessment of the securities for which listing is sought;

- (iii) issuers shall disclose information if a reasonable person would expect that information to have a material effect on the price or value of their listed securities;
- (iv) all holders of listed securities shall be treated fairly and equitably; and
- (v) directors of an issuer shall act in the interests of shareholders as a whole, particularly where a director or substantial shareholder has a material interest in a transaction entered into by the issuer.

3. Regulatory Objectives

- 3.1 Oversight of listed companies is performed by Issuer Regulation (“IR”), part of the Risk Management and Regulation Group. IR aims to establish rules to promote a high standard of corporate governance and transparency by listed companies. IR monitors compliance with its rules.
- 3.2 In considering applications for listing, IR reviews applications for listing, prospectus, offering memoranda, shareholders’ circulars and other documents. IR’s review is limited to ensuring that all relevant requirements for listing are satisfied. The directors of an issuer have primary responsibility for the accuracy and completeness of the document. While IR does not independently verify the information in the document, it may investigate if it has reason to believe that there is an omission from, or false or misleading disclosure in, the document.
- 3.3 Where continuing disclosure obligations are concerned, IR aims to promote full and timely disclosure of all relevant information by the issuer to the market. The directors of an issuer have primary responsibility for the timeliness, accuracy and completeness of the announcement. While IR does not independently verify the information in the announcement, it may investigate if it has reason to believe that there is an omission from, or false or misleading disclosure in, the announcement.

4. Regulatory Approach

- 4.1 IR currently reviews every disclosure document prior to its issue. The objective of the review is to maintain the standard of disclosure (but not to exercise merit judgment on the transactions). IR also monitors reports by media and announcements made by issuers.
- 4.2 However, responsibility for meeting the standard of disclosure rests on the issuer not IR. With effect from 1 March 2004, IR will adopt a more risk-based approach to regulating issuers. Under this approach, greater regulatory attention is focused on areas that pose significant risks and where market transparency, integrity or investor protection may be compromised if the risks materialize. In determining the low- and high-risk areas, IR has assessed the likelihood of a risk materializing and the impact it may have on IR’s ability to meet its objectives. The Exchange will monitor the situation on an on-going basis, and if warranted, low-risk areas may be reclassified as high-risk areas and vice versa.

4.3 Under this approach, IR will make the following changes to its functions:-

Function	Current Procedure	New Procedure
1. Review of shareholders' circulars	Review every circular of every issuer before it is issued.	Limited review of circulars where the disclosure is fairly standard (namely employee share option scheme, share buy-back, capitalization, sub-division of shares and scrip dividend). If, on limited review, the document is clearly deficient, a full review will be carried out. Full review for all other circulars.
2. Review of takeover documents.	Review every document of every issuer before it is issued.	No review. IR may act on a complaint or if it believes there may be non-compliance.
3. Review of offering memoranda for debt securities	Review every document of every issuer before it is issued.	No review if debt securities are offered, and the secondary market is limited, to institutional and sophisticated investors. IR may act on a complaint or if it believes there may be non-compliance.
4. Review of quarterly, half-yearly and full year results announcements	Review every results announcement of every issuer for every reporting period after it is issued.	Selective review of results announcements. The decision to review will be based on the issuer's financial condition, past incidence of non-compliance or inadequate disclosure, and whether it is a newly-listed issuer.
5. Review of annual report and Code of Corporate Governance	Review every annual report of every issuer (including corporate governance disclosures) after it is issued.	Limited review of every annual report, focusing on key areas such as audit qualifications, public float and interested person transactions. No review of corporate governance disclosures in the annual report. (This change has been implemented with effect from 6 May 2003.)
6. Review of notification of directors' or substantial shareholders' interests	Review every notification of every issuer after it is announced.	No review. IR may act on a complaint or if it believes there may be non-compliance.

4.4 If IR receives a complaint that a document referred to in paragraph 4.3 is deficient, it will review the document.

4.5 This approach does not reduce the obligation to comply with the listing rules, but puts the responsibility for compliance squarely on the issuer.

- 4.6 Remedial action may be taken against issuers for an omission, false or misleading disclosure, or non-compliance with listing rules; and advisers who are found not to have exercised due care and diligence.
- 4.7 This approach will improve regulatory efficiency and effectiveness, and is consistent with a disclosure-based regime where the issuers are responsible for compliance with the rules and to make full and timely disclosure. It is also in line with the CFC's view that, in a disclosure-based regulatory regime, enforcement would be carried out by review of disclosure after the documents are issued and, where necessary, some pre-vetting of documents to maintain the standard of disclosure.