

SGX REGCO'S EXPECTATIONS OF DISCLOSURES ON KEY FINANCIAL INDICATORS

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Introduction

On 31 August 2023, the Singapore Exchange Regulation (“**SGX RegCo**”) published a Regulator’s Column and a guidance note on financial statements disclosure (collectively, the “**Guide**”). The Guide sets out the SGX RegCo’s expectations of disclosures on three key financial indicators, namely liquidity ratios, non-current trade and other receivables, and significant advances or prepayments, which are the likeliest to warrant investor concern given the global financial outlook.

This article will look at the standard disclosures and substantive disclosures of each of the three key financial indicators. Issuers whose financial indicators are at concerning thresholds should proactively adopt the substantive disclosures.

Expectations of disclosures on liquidity ratios

To comply with Rule 719 of the SGX Listing Rules, an issuer has to implement adequate and effective systems of internal controls (including financial controls) and risk management systems. A key component of such an internal control system would be a mandatory periodic assessment of liquidity risk.

Liquidity ratios measure whether the issuer’s current assets are adequate to meet its short-term financial obligations due within the next 12 months, taking into account its cash and cash equivalent balances, the cash flow generated from its operating activities and the effects of changes in interest rates. The Board and management are expected to make a rigorous assessment of the issuer’s liquidity ratio and provide the appropriate substantiation to their assessment.

Where the issuer’s liquidity ratio is at a concerning threshold, the issuer should consider pivoting to a more substantive disclosure on how it plans to meet its short-term financial obligations, which would entail the following:

1. A detailed breakdown of the sources of funds which are expected to be available to the issuer for the next 12 months (including proposed equity fund-raising exercises, divestment of non-core assets);
2. Available credit facilities and their unutilised amounts, as well as whether such facilities are committed or uncommitted;
3. Cost-cutting measures;
4. New financing or refinancing arrangements;
5. Strategies and plans to improve collection of outstanding receivables;
6. Confirmation as to whether any breach of financial covenant(s) have been rectified or waived; and
7. Confirmation as to whether the Board has reviewed and is satisfied with, at the minimum, a 12-

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month cashflow forecast from the date of the latest financial statement.

An issuer with a lower liquidity ratio faces a higher risk of breaching its debt obligations and potential cross-defaults, and the inability to operate as a going concern. Where issuers are unable to continue as a going concern, they should disclose this information via SGXNet immediately and make a request for trading suspension pursuant to Rule 1303 of the SGX Listing Rules.

If an issuer relies on an undertaking of financial support from its parent company or sponsor to operate as a going concern, the Board should carefully assess the financial standing of its parent company or sponsor and the effectiveness of financial support. The issuer is expected to disclose the assessment together with the announcement of its financial results.

Expectations of disclosures on non-current trade and other receivables

Significant non-current receivables might indicate that the issuer is facing cashflow issues from delays or non-collectability or is adopting inappropriate revenue recognition policies, or worse, that there are concerns about the veracity of the sales.

The Board and management of issuers that report significant non-current receivables are expected to analyse the nature, breakdown and ageing schedule of such receivables and track the issuer's plans for collection. An assessment of the collectability should be disclosed in the issuer's financial results announcement.

A more substantive disclosure would include a credit evaluation of customers' financial conditions, reviewing information such as payment history, age of debts and cash flow projections, and available press information. Where a credit loss assessment was performed in accordance with the relevant accounting standards, issuers may disclose such an assessment.

Issuers may also provide an explanation on the nature of the non-current receivables and why they remain on the balance sheet (for instance, there is an industry wide systematic risk or an issuer specific risk). Any underlying governance issues and requirements for improvement in controls should also be disclosed.

Expectations of disclosures on significant advances or prepayments

Where significant advances or prepayments are not commensurate with the issuer's business scale, the Board must assess the rationale behind such payments and the associated risks. This would entail reviewing the breakdown, nature and terms of such advances and prepayments, determining whether such balances should be treated as impaired, especially if the balances are long standing, and ensuring that the controls in place for such payments are adequate.

Further, appropriate due diligence needs to be conducted to verify management's representation regarding such payments, especially where such payments are made to related parties. To provide greater assurance to shareholders on the veracity and collectability of such prepayments, such

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assessments should be included in the issuer's financial statements.

More substantive disclosures would include explanations on the nature of the advances and/or prepayments, the specific projects they relate to, the progress of transactions, whether they would be utilised or offset against any expected costs, and an explanation on whether any allowance for impairment loss is required. Further, issuers should also consider disclosing in their financial statements whether a recognition of such advances and prepayments is common market practice for entities in the same industry, the sufficiency and effectiveness of internal controls, and the efforts to recover or utilise such advances and prepayments.

Conclusion

The disclosure-based regime in Singapore requires the Board to continuously disclose material information which may give rise to investor concern. The Guide would assist issuers to ensure their financial disclosures are clear, current and complete, minimise regulatory queries and improve overall governance.

Shareholders should also continue to monitor disclosures by issuers in their annual report, financial statements and updates on SGXNet. Where clarifications or further actions are needed, shareholders should further engage the Board of the issuer.

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