

## **RESPONSE TO CONSULTATION PAPER ON ENHANCEMENTS TO REGULATORY REGIME FOR PROPERTY VALUATION AND AUDITORS**

Singapore Exchange Regulation invites comments on this consultation paper. Please send your responses through any of the following means:

Email	listingrules@sgx.com
Mail	Singapore Exchange Regulation 11 North Buona Vista Drive #06-07, The Metropolis Tower 2 Singapore 138589 (Attention: Listing Policy & Product Admission)

Please include your full name and, where relevant, the organisation you are representing, as well as your email address or contact number so that we may contact you for clarification. Anonymous responses may be disregarded.

SGX may make public all or part of any written submission, and may disclose your identity. You may request confidential treatment for any part of the submission which is proprietary, confidential or commercially sensitive, by clearly marking such information. You may request not to be specifically identified.

Any policy or rule amendment may be subject to regulatory concurrence. For this purpose, you should note that notwithstanding any confidentiality request, we may share your response with the relevant regulator.

By sending a response, you are deemed to have consented to the collection, use and disclosure of personal data that is provided to us for the purpose of this consultation paper or other policy or rule proposals.

Please refer to the Consultation Paper for more details on the proposals.

## **Respondent's Information**

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<b>Statement of Interest</b>	

## **Disclosure of Identity**

Please check the box if you do not wish to be specifically identified as a respondent:

I/We do not wish to be specifically identified as a respondent.

## Consultation Questions

### **Question 1: Qualifications of Property Valuer**

Do you agree that issuers and applicants applying to list on SGX should only engage a property valuer that:

- (a) has at least five years of relevant experience in the type of property to be valued;
- (b) is a member of SISV, or a similar professional body in his home jurisdiction of practice which must have the powers to discipline and revoke the membership of its members;
- (c) is not a sole practitioner;
- (d) has no adverse compliance track record; and
- (e) is independent of the issuer?

Please select one option:

- Yes
- No

Please give reasons for your view:

- It may be useful to further define the qualification outlined in (a). SGX may want to specify or provide guidelines to the experience required relating to property valuation within a particular geography, industry, scale and/or size. SGX may also want to consider valuation track record, valuation frequency per period and recency of valuation exercises.
- With reference to (a) and (b), perhaps there should be options with regards to requirements blending years of work experience and training (i.e. SISV or equivalent member plus five years of relevant experience; or graduate degree in a related field plus seven years (for a full property cycle) of relevant work experience; or 10 years of relevant work experience). Most professional membership or credentialing bodies have similar such entry requirement options that attempt to strike a balance between knowledge demonstrated through degrees or exams and knowledge gained from practical experience.
- A blanket requirement that a valuer to be a SISV member or equivalent may exclude experienced and qualified valuers. Furthermore, the requirement may exclude a Singapore-based highly competent valuer who has not met the SISV requirement of passing the Final Examination for Professional Membership (FEPM) exam or being 35-years old, but allowing a less-competent valuer from a foreign country where the local SISV-equivalent body has less rigour in training and examination than SISV, to participate in property valuation in Singapore.
- We agree with (e). The valuer must be an independent external valuer. In addition, the valuer must not be a substantial shareholder, director or employee of the issuer or any of its

subsidiaries, or in partnership with or employed by a substantial shareholder, director or employee.

Nevertheless, it has to be noted that the relationship between the party commissioning the report, in this case issuer, and the valuer may have a significant bearing. There is a tendency for the party commissioning the report to solicit an estimate valuation from valuers before deciding which valuer to appoint. Henceforth, valuers tend to pander to the commissioning party. Similarly, valuers who have valued or are currently valuing properties on an on-going basis for the commissioning party tend to pander to the party commissioning the valuation for future valuation work.

### **Question 2: Standards for Property Valuation**

Do you agree that the Listing Rules should require that:

- (a) valuations for properties located in Singapore must be prepared in accordance with SISV Standards; and
- (b) valuations for properties located outside Singapore must be prepared in accordance with SISV Standards or IVS,

in the circumstances stated in the proposed rules?

Please select one option:

- Yes
- No

Please give reasons for your view:

This is to ensure the valuation for properties are carried out in accordance with a robust and developed set of standards. We are also in agreement that there should be a uniform set of standards, for example, IVS, which should be applied to the valuation of properties located outside Singapore. This would render valuations comparable across different assets within the same real estate segment.

### **Question 3: Summary Property Valuation Report**

Do you agree that the Listing Rules should require that all summary property valuation reports must contain the information required for prospectus and circulars under the SISV Practice Guide?

Please select one option:

- Yes
- No

Please give reasons for your view:

This will allow investors to ascertain the basis and methodology of valuation. A full report should also be made available to investors should they require more information on the said property.

#### Question 4: Audit Oversight

Do you agree that all issuers must appoint an auditor registered with ACRA, and if an issuer appoints an auditor that is regulated outside Singapore, it must also appoint an auditor registered with ACRA to jointly carry out the audit?

Please select one option:

- Yes  
 No

Please give reasons for your view:

- Appointing an auditor registered with ACRA will definitely give timely and effective audit oversight. As such SGX will be able to deal with challenges that may surface from financial statements not presenting a true and fair view.
- We note SGX concern on not being able to deal with problems arising from financial statements in a timely and effective manner due to jurisdictional barriers when the issuer appoints an auditor that is regulated outside Singapore.
- However, we strongly oppose the notion of joint audits. In theory, joint audits work. In reality, joint audits, in our view, reduces accountability. When everyone is responsible, no one takes ownership. Joint audits do not necessarily improve quality of audit. On the contrary, quality may suffer and defeat the very objective they are meant to resolve for the following reasons:

a) Responsibility and liability of respective auditors. Joint audits require careful and extensive coordination, cooperation and division of responsibility, more so when auditors are based in different countries. This will consume a significant amount of resources and will definitely not bode well for audit quality. Once the time-consuming process of demarcation of responsibility is ironed out, pertinent issues of accountability and liability will come to the fore.

We have numerous questions to the implementation of the proposed joint audits. We seek clarification on how do audit teams separate the audit procedures for respective sections. And will certain procedures be sufficient for the respective firms / audit partner to give an opinion on the financial statements.

b) Competition for issuer's approval – Joint audits create competition for the approval of management and the audit committee. The auditors will spend a great deal of time and effort to engender themselves to the issuers to retain or increase the level of work. Not only do audit hours increase, but there will be a “race to the bottom” when it comes to audit quality.

c) Allocation of audit fees. Some practical questions to consider include - How would audit firms allocate fees? While one audit firm proposes a goodwill discount to a client, another firm may not want to do so. Additionally, how do two audit firms negotiate audit fees with one client? Should the audit firm who does more audit procedures be allocated more fees

(and how do we assess the extent of work done?); or should the audit firm who is "more reputable" be allocated more fees?

- In summary, we view the joint audit remedy as having the potential to increase fees without improving, and possibly decreasing audit quality. Should this be the case, the unintended consequence of lowering the attractiveness of SGX as a listing hub for regional and international firms is indeed a heavy price to pay.
- And in view of the above, we urge SGX to carefully weigh the costs and benefits of existing and recently implemented joint audit policy in other stock exchanges. Perhaps a wait-and-observe stance may be more prudent at this juncture.

#### **Question 5: Circumstances to Require an Additional Auditor**

Do you agree with the proposed circumstances that SGX may require issuers to appoint an additional auditor, and are there other circumstances where this requirement may be appropriate?

Please select one option:

Yes

No

Please give reasons for your view:

- An example of an exceptional circumstance where a second auditor is needed is when new developments surrounding the listed company may have come to light which suggest that the financial statements may not provide a true and fair view of the company's state of affairs. It is critical to consider the timing of the new developments coming to light i.e. was the events known prior to or post the issuance of the audited financial statements.

If the new developments has been known at the time of audit, or if it is reasonable to expect the auditor / the company of know of the events prior to the issuance of the audited financial statement, and the new developments are expected to have a material impact / posing uncertainty onto the financial performance of the company, then these developments should have been disclosed within the financial statement notes. Alternatively, the auditor may issue a disclaimer of opinion for the audited financial statements. Failure to do so may be a valid circumstance for SGX to require issuers to appoint an additional auditor.

On the other hand, if the same have not been known at the time of audit, or if it is not reasonable to expect the auditor / the company of know of these developments prior to the issuance of the audited financial statement, and the new developments are not expected to have a material impact / uncertainty on the financial performance of the company, then it is reasonable that such developments have not been highlighted within the financial statements. Henceforth, the directors / auditors have acted with due care in the preparation / audit of the financial statements, and the interests of the shareholders has not been compromised at the point of audited financial statements issuance. It is

sufficient to request / appoint the current auditor, who has acted professionally and with due care, and is likely to be more familiar with the company (compared to a newly appointed auditor), to conduct additional procedures post audit, to provide a true and fair view of the company's state of affairs.

In summary, if the existing auditor has acted with due care, and it is in fact the timing of the development of events which led to the financial statements not providing a true and fair view of the company's state of affairs, it is not necessary for a second auditor to be appointed.

- Other plausible exceptional circumstances to appoint an additional auditor include cases where it was obvious the existing auditor missed material items or when the company becomes insolvent shortly after the auditors have signed off.
- On a related note, should SGX exercise the power to direct an issuer to appoint an additional auditor, SGX should be limited to only being able to require an additional auditor that is ACRA registered or possesses some specialist qualification (such as ISCA-FFA credential). SGX should not have the power to name a specific individual or firm that the issuer must use as an additional auditor.
- To conclude, we deem certain exceptional circumstances may warrant an additional audit. But we must also address the issues with deploying another auditor as per our response to question #4 where we strongly oppose to the notion of joint audits.