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~ THE LAW SOCIETY OF SINGAPORE ~

**FEEDBACK ON  
COUNCIL ON CORPORATE DISCLOSURE & GOVERNANCE (“CCDG”)  
REVIEW OF THE QUARTERLY REPORTING REQUIREMENT**

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THE LAW SOCIETY  
OF SINGAPORE

**THE LAW SOCIETY OF SINGAPORE  
CORPORATE PRACTICE COMMITTEE'S FEEDBACK ON  
CCDG PUBLIC CONSULTATION PAPER  
ON THE REVIEW OF THE QUARTERLY REPORTING REQUIREMENT**

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G1. The Law Society comments on the Consultation Paper on the Review of the Quarterly Reporting Requirement issued by CCDG in January 2006 (the "Consultation Paper") in the capacity of "professional advisers".

G2. Do you support the imposition of the quarterly reporting requirements and why?

The Law Society is in favour of the principle of quarterly reporting as an instrument to compel timely disclosure of key information in a disclosure-based regulatory regime. The benefits of quarterly reporting outweigh its few shortcomings. Quarterly reporting will bring with it greater transparency and a more level playing field in terms of access to information by all stakeholders. Some of the perceived shortcomings may not necessarily be very significant. For example, removing mandatory quarterly reporting may not be a solution to short-termism. There should also be an empirical study of the additional costs, time and effort involved if quarterly reporting were to be imposed on a company. The internal costs of quarterly reporting could be seen as a business cost.

Quarterly reporting is the norm in the United States, one of the leading international financial centres. It is essential to Singapore's status as an international financial centre that we adhere to international best practice.

G3. Which are the most pertinent issues relating to the mandatory quarterly reporting?

One of the most pertinent issues relating to mandatory quarterly reporting would be the signal it would send to investors that Singapore intends to take the lead in setting and adhering to international corporate governance standards and practices. Mandatory quarterly reporting also gives financial investors the financial information which they require for timely assessment of their investment portfolio companies.

On the flip side, a pertinent issue would be ensuring that companies have sufficient resources and robust internal processes that generate reliable information for quarterly reporting. In this regard, guidance should be provided to ensure that companies understand that quarterly reporting will not entail an undue increase in cost.

G4. What changes should be made to the quarterly reporting requirement?

The S\$75m market capitalization test was originally fixed as at 31 March 2003 for then listed companies on the SGX and for IPOs of companies subsequently listed on the SGX. Assuming that market capitalization is a fair test for deciding whether or not a listed company should be required to release quarterly results, the static market cap test does not take into account changes in a company's market capitalization subsequent to 31 March 2003 or subsequent to its IPO. Companies whose market capitalization have increased above S\$75m (perhaps by some margin consistently over a minimum period so as to eliminate any short term volatility) should now be required to release their quarterly numbers. The

question is whether the converse should equally apply – in another words, requiring companies whose market capitalization have fallen below S\$75m to continue to release their quarterly results.

Companies whose market capitalization falls below S\$75m should nevertheless be asked to explain in their annual report the reasons they do not choose to voluntarily adopt quarterly reporting. This would be in line with the tenets of a disclosure-based regime and the practice adopted by the Code of Corporate Governance in requiring listed companies to comment on the reasons for non-compliance with best practice recommendations.

- G5. Do you think a company should be exempted from quarterly reporting if its shareholders decide that the costs outweigh the benefits of more frequent reporting? If so, should both retail and institutional shareholders be involved in the decision?

It must be very clear as to whose interests we are seeking to protect in imposing quarterly reporting as a requirement. This may not be such a simple question as the stakeholders would include the listed companies' shareholders (controlling and minority shareholders, and institutional and retail shareholders), creditors, analysts and potential or prospective shareholders. Allowing only shareholders to vote on whether or not to require quarterly reporting may exclude some of these stakeholders in the decision making process.

If we do allow shareholders to decide, which is not advocated, we will have to consider whether controlling shareholders (who have more than a certain threshold of shareholding) should be required to abstain from voting as they could possibly gain access to the financial results through their nominees on the board or as part of the consolidation or equity accounting process.

- G6. If mandatory quarterly reporting is to be replaced, what alternative requirement will achieve the same objectives?

The Law Society does not believe that mandatory quarterly reporting should be completely replaced by other alternative requirements. Nevertheless, mandatory quarterly reporting is merely one instrument in the regulatory regime to ensure continuous and fair disclosure of information. Other measures to facilitate and achieve these objectives should also be explored and quarterly reporting should not be exclusive to them.

However, in maintaining mandatory quarterly reporting, perhaps the Council could consider simplifying the categories of information that are required to be disclosed so as to lessen the burden for smaller companies.

- G7. Do you think the need for quarterly reporting is greater or less for exempt companies compared to larger ones, and why?

The Law Society does not believe that the size of the company has any effect on whether it should be made to release its quarterly results. The need for quarterly reporting is therefore the same for exempt companies compared to larger ones. However, it should be considered if, apart from the need for quarterly reporting, whether the burdens imposed by quarterly reporting would be disproportionately greater for exempt companies compared to the larger ones, and companies should be allowed to make a case as to why they should not have to comply with mandatory quarterly reporting.

G8. What benefits does quarterly reporting have for exempt companies in particular?

Although it may be argued that quarterly reporting may instill greater financial discipline and awareness of the need to maintain a high level of corporate governance for exempt companies, the requirement for mandatory quarterly reporting in itself may be an imprecise instrument to achieve this objective. In addition, quarterly reporting may not necessarily enhance research coverage and investor awareness in the company's stock.

G9. If the quarterly reporting requirement is extended to companies with market capitalisation of less than S\$75m, should there still be a minimum threshold? If so, what would be an appropriate amount?

The Law Society believes that the S\$75m threshold is presently a fairly arbitrary compromise. The threshold should be justifiable and supported by compelling statistics. The figure may also be a non-static one that floats with the changes in the size of the listed companies on the SGX.

G10. If there is to be an exemption from mandatory quarterly reporting, is market capitalisation the appropriate determinant? What other factors are appropriate and why?

Apart from market capitalization, turnover, the number and spread of shareholders, the free float and the net asset value of the companies are some of the determinants that may be considered if we accept that it is necessary to have a threshold below which quarterly reporting would not apply. Perhaps a combination of these factors working together should be considered in determining which companies are required to participate in mandatory disclosure.

6 March 2006  
The Law Society of Singapore  
Corporate Practice Committee