PRACTICE DIRECTION NO. 1 OF 2020

CLARIFICATION ON THE SCOPE OF PUBLIC INTEREST ENTITY FOR FINANCIAL INSTITUTIONS

Aim

1. This Practice Direction serves to clarify the scope of public interest entity ("PIE") in relation to financial institutions ("FIs") for purposes of the Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") included as Fourth Schedule to the Accountants (Public Accountants) Rules.

Background

2. For purposes of the ACRA Code, PIEs include all listed entities, entities in the process of issuing its debt or equity instruments for trading on SGX, FIs as defined in the ACRA Code[1], large charities and large institutions of a public character. Firms auditing PIEs are subject to higher independence requirements, such as stricter rotation requirements and prohibition from providing certain non-assurance services, to ensure high level of audit quality and integrity of the audited financial statements.

Clarification on the Scope of FIs in the ACRA Code

3. In 2018, changes were made to the ACRA Code provisions on the Long Association of Personnel with an Audit or Assurance Client ("Revised LA provisions") to enhance the effectiveness of the auditor rotation requirements and the restrictions of activities during the cooling-off period. The Revised LA provisions apply to firms auditing PIEs, including relevant FIs.

4. Based on consultation with MAS on the scope of entities within the definition of FIs in the ACRA Code, the following do not fall within the definition:

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[1] FIs are defined in the ACRA Code as:

a. Entities that are part of the banking and payment systems (namely, banks, financial institutions approved under section 28 of the Monetary Authority of Singapore (MAS) Act (Chapter 186), operators of designated payments systems, holders of widely-accepted multi-purpose stored value facilities (including all holders of multi-purpose stored value facilities in excess of $30 million, whether approved or exempted), remittance agents and finance companies);
b. Insurers and insurance brokers;
c. Capital market infrastructure providers (namely, approved holding companies under the Securities and Futures Act (Chapter 289), approved exchanges, local market operators and designated clearing houses); and
d. Capital markets intermediaries (namely, holders of capital market services licence, licensed financial advisers, registered fund management companies, licensed trust companies and approved trustee for collective investment scheme).

a. Money changer;
b. Representative office (banking and insurance);
c. All persons[2] exempt from holding a capital market services ("CMS") licence to carry on business in advising on corporate finance under paragraph 7(1)(b) of the Second Schedule to the Securities and Futures (Licensing and Conduct of Business) Regulations ("SFR")[3];
d. All persons[2] exempt from holding a financial adviser's licence under regulation 27(1)(d) of the Financial Advisers Regulations ("FAR")[4]; and
e. All persons[2] exempt from holding a trust business licence in respect of the carrying on of trust business under paragraph 15(1)(d) and (e) of the Trust Companies Act.

5. Accordingly, higher independence standards including the Revised LA provisions would not be applicable for firms auditing the above clients.

Further Clarification

6. If you need further clarifications on the matter you can send your enquiries through www.acra.gov.sg/enquiry.

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Ong Khiaw Hong
Chief Executive and Registrar of Public Accountants
Accounting and Corporate Regulatory Authority

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[2] Include any company or association or body of persons.

[3] Paragraph 7(1)(b) of the Second Schedule to the SFR states that a person resident in Singapore who carries on business in Singapore in giving advice on corporate finance to accredited investors, expert investors or institutional investors, shall be exempted from the requirement to hold a CMS licence to carry on business in advising on corporate finance, provided that:
(i) such advice is not specifically given for the making of any offer of specified products to the public by the accredited investor, expert investor or institutional investor to whom the advice was given; and
(ii) where the accredited investor, expert investor or institutional investor is —
(A) a public company;
(B) listed on an approved exchange; or
(C) a subsidiary of a corporation listed on an approved exchange,
such advice is not circulated to the shareholders (other than shareholders who are accredited investors, expert investors or institutional investors) of (in the case of sub-paragraph (A) or (B)) the accredited investor, expert investors or institutional investors or (in the case of sub-paragraph (C)) the listed corporation, or is otherwise made known to the public.

[4] Regulation 27(1)(d) of the FAR states that a person resident in Singapore who acts, whether directly or indirectly, as a financial adviser in giving advice in Singapore, either directly or through publications or writings or by issuing or promulgating research analyses or research reports, concerning any investment product (other than life policies), to not more than 30 accredited investors on any occasion, is exempt from holding a financial adviser's licence under section 23(1)(f) of the Financial Advisers Act ("FAA"). Under section 23(1)(f) of the FAA, such person is exempt from holding a financial adviser's licence to act as a financial adviser in Singapore in respect of any financial advisory service.