

# Division 1

## Plain Language Guide for Prospectus

### PURPOSE

This division seeks to provide guidance on the usage of plain language in preparing a prospectus under these guidelines.

### 1.0 INTRODUCTION

The language and readability of disclosure documents, such as prospectuses, can be improved. This guide provides tips on how to create simple and friendly prospectuses using plain English. Prospectuses that are written in plain English will be easier for investors to understand. It is important that investors are able to grasp the vital information in prospectuses so that they can use that information to make informed investment decisions. Investors will be encouraged to read prospectuses written in a clear, concise manner, using language that is simple and easily understood.

By using plain English, preparers of prospectuses will be able to get their message across more easily and in a friendlier way. Therefore, we need to move away from the current prospectus drafting style which uses a legalistic approach, and contains too much jargon and too many long sentences, while still ensuring that information is fully disclosed.

The shift to plain English requires a new style of thinking and writing. This may take some time and effort but the benefits will be worthwhile. When drafting, keep the audience in mind and remember that not everyone is legally or financially trained. The language used should be pitched at a level the intended audience can understand.

### 2.0 LIABILITY FOR PROSPECTUS CONTENTS

Section 3.0 provides examples to illustrate the principles of plain English. These examples are not exhaustive and you may use your own style of drafting plain English documents. However, always bear in mind that prospectuses are offer documents and you, as a party involved in the preparation of prospectuses and/or member of the due diligence working group, must ensure that these prospectuses meet all regulatory requirements, namely the *CMSA* and the *Prospectus Guidelines*.

The use of plain English should not reduce your liability or obscure your responsibility to investors. Your duty to disclose relevant and important information remains paramount as does your role to ensure that there is no false or misleading statement, or material omission that would make any statement false or misleading in a prospectus.

### 3.0 PROPOSED NEW STYLE

#### 3.01 Overview

Here, we highlight some common problems in the current style of drafting prospectuses.

<b>Current Style</b>	<b>New Style</b>
Reference to generic names such as “the Company” or the name of the company	Use personal pronouns
Long sentences	Draft clear and concise sentences
Abstract words	Use common everyday words
Superfluous words	Avoid superfluous words
Passive voice	Use active voice
Nouns	Change nouns to verbs
Legal and financial jargon	Use less legal and financial jargon

<b>Current Style</b>	<b>New Style</b>
Negative sentences	Use positive sentences and not multiple negatives
Numerous defined terms	Use defined terms sparingly
Unreadable design and layout	Use an effective layout

You may wish to refer to other websites given at the end of this document for a more comprehensive understanding of the use of plain English.

#### 3.02 Use personal pronouns

The current style of drafting a prospectus is in the third party where reference is made to “the Company” or the name of the company. Instead, the prospectus should be drafted as if the issuer is speaking directly to the potential investor using personal pronouns, such as “we”, “us” and “our” and referring to the investors as “you”. In other words, the prospectus should come across as a medium for

the issuer to communicate directly with the investors. Adopting personal pronouns for the issuer does not reduce the liability of the parties involved in the preparation of the prospectus.

The pronouns should be used consistently to ensure that readers are clear about the identities of the parties mentioned in a prospectus. To avoid confusion, explain at the outset who or whom the pronouns refer to. For example, “we” should refer only to the issuer, i.e. the company, and not the group of companies, promoters, directors or advisers.

Your audience comes from diverse backgrounds, and they may view and understand things differently. When you use personal pronouns, there is greater clarity in your message in addition to sounding more personal and friendly. This is because:

- Personal pronouns aid your reader’s comprehension, as they clarify what applies to your reader and what applies to you;
- They allow you to directly address your reader, creating an appealing tone that will keep your reader reading;
- They help you to avoid abstractions and to use common everyday words;
- They keep your sentences short; and
- First- and second-person pronouns are not gender-specific, allowing you to avoid the “he” or “she” pronouns. The pronouns to use are first-person plural (we, us, our/ours) and second-person singular (you, your/yours).

For example, a common qualification found in prospectuses is:

The following prospectus summary is only a summary of the salient information about the company and the public issue. Investors should read and understand the entire prospectus prior to deciding whether to invest in the public issue shares. The following information is qualified in its entirety and should be read in conjunction with the more detailed information and financial statements appearing elsewhere in this prospectus.

The above paragraph may be drafted in plain English as:

This is a summary of the salient information in the prospectus. It does not contain all the information that may be important to you. You should read and understand the entire prospectus carefully before you decide to invest in this public issue of shares.

### 3.03 Draft clear and concise sentences

For example, a common disclaimer found in prospectuses is:

No person is authorised to give any information or to make any representation not contained herein in connection with the Issue/Offer and if given or made, such information or representation must not be relied upon as having been authorised by the Company and/or the Offerors. Neither the delivery of this prospectus nor any Issue/Offer in connection with this prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Company since the date hereof.

The above paragraph may be drafted in plain English as:

We have not authorised any person to give any information or represent us in relation to this Issue/Offer. Bear in mind also that this prospectus shall not represent or imply that there have been no change in the Company's affairs since the issuance of this prospectus.

### 3.04 Use common everyday words

*“Foray”, “peripherals”, “paraphernalia”, “excitation”, “sequential”, “miniaturisation”*  
... when you read these words, can you understand them immediately? Do you try to form a picture of what they mean but at the end, they remain vague? Most people may have no idea what these words mean. Furthermore, such uncommon words may have different meanings for different people.

As such, use common everyday words in your examples so that your reader is not perplexed but can better digest the complex information important for making investment decisions.

Replace unnecessary complex words with simpler ones, for example–

- “end” instead of “terminate”;
- “explain” rather than “elucidate”; and
- “use” instead of “utilise”.

When a shorter and simpler synonym exists, use it.

### 3.05 Avoid superfluous words

There is a tendency to use superfluous words. Such words may lend an air of importance, but in fact, are less precise. You can often find a simpler word to use, for example:

<b>Superfluous</b>	<b>Simple</b>
In the event that	If
Despite the fact that	Although
In light of	Because, since

Sometimes, superfluous words are used when one is unsure of a more concise alternative word. The tendency is to let loose several words, hoping at least one of them conveys the intended meaning. This may work sometimes, but more often it only confuses the reader. Therefore, identify and use a single word or phrase to capture an intended meaning.

For example, a statement that normally appears at the beginning of the Information Summary section of prospectuses is:

The following summary information is only a summary of the salient information about ABC Berhad.

A simpler way to say this is:

This summary highlights some salient information about us.

### 3.06 Use active voice

Readers tend to understand sentences that are written in the active voice more quickly and easily as compared to those written in the passive voice. The passive voice often fails to emphasise who will take the action.

Examples include:

<b>Passive</b>	<b>Active</b>
The stock is bought by the investors.	The investors buy the stock.
The application for the public issue will close at the time and date as stated above or such other date or dates as the Directors of the Company and the Managing Director may in their absolute discretion mutually decide.	Our Managing Director and Directors may mutually decide, at their absolute discretion, to extend the closing time and date that are stated above to any later date or dates.

### 3.07 Change nouns to verbs

These examples show how substituting nouns with strong verbs can enhance sentences:

<b>Nouns</b>	<b>Verbs</b>
An application will be made to Bursa Malaysia Securities within 3 market days.	We will apply to Bursa Malaysia Securities within 3 market days.
The Court's decision will be obtained on 29 February 2004.	The Court will decide on 29 February 2004.

### 3.08 Use less legal and financial jargon

“Notwithstanding”, “*ab initio*”, “*inure*”, “*res gestae*”, “*herein*” ... such jargon confuses readers. Instead, use common words to get your points across. Where there is no plain English alternative, explain what the term means when you first use it.

For example, this is commonly found in prospectuses:

The Managing Underwriter and Underwriters as defined and referred thereto in Section 1 of this Prospectus have thereby agreed to undertake to underwrite the 7,000,000 Public Issue Shares to be issued to the following parties, namely the Malaysian Public, the Directors, eligible employees and business associates of ABC Berhad, as well as the 18,000,000 Offer Shares to be offered to the Malaysian Public and Identified Placees. Save and as otherwise provided hereafter in this Prospectus, all capitalised terms shall bear the same meanings as prescribed in the Underwriting Agreement referred thereto.

You may draft it in plain English as follows:

The Managing Underwriter and Underwriters have agreed to underwrite the 7,000,000 Public Issue Shares to be issued to the Malaysian Public, the Directors, eligible employees and business associates of ABC Berhad, as well as the 18,000,000 Offer Shares to be offered to the Malaysian Public and Identified Placees. Unless otherwise stated, all capitalised terms have the same meanings as defined in the Underwriting Agreement.

If you have been in the financial or legal industry for some time, you may not realise that you are using legal or financial jargon, and it may take time to change. Of course, it is quite impossible to eliminate all legal and financial terms in drafting an offer document. In instances where there is no plain English alternative, consider explaining the term to aid investors' comprehension. Elaboration of technical terms would also help to enhance investor education.

### **3.09 Use positive sentences and not multiple negatives**

Positive sentences are normally shorter and easier to understand, as compared to their negative counterparts.

For example, a negative sentence is:

Persons other than preference shareholders may not receive these dividends.

The above sentence may be written in a positive way as:

Only preference shareholders may receive these dividends.

You should also try to avoid multiple negative phrases, especially when a single word that means the same thing can be used.

For example, such a sentence is:

Our services are **not unlike** that of multinational corporations providing the same services.

The above sentence may be written as:

Our services are **similar** to those of multinational corporations providing the same type of services.

### 3.10 Use defined terms sparingly

Use defined terms sparingly. Often found in legal documents, terms are usually defined and listed down in the “definition” section at the beginning of a document. Although this is customary, it may discourage readers from getting beyond the first page. The need to memorise the terms and to flip through pages over and over again is overwhelming and some readers eventually give up reading. As a plain English expert says,

*“Do not let a shortcut for the writer become a roadblock for the reader.”*

### 3.11 Use an effective layout

Use tables, bulleted lists, diagrams and graphs to reduce text and increase clarity.

Tables are often clearer and quicker in conveying information than long text.

For example:

Our consultancy services cover the European market, Middle East market, Australian market, North American market and the local domestic market. The marketing team handling the European market and Middle East market is located in our Penang office, and for the Australian market, North American market and the local domestic market, our marketing team based in KL is responsible.

Our Penang marketing team accounts for 60% of our revenue, whilst the remaining 40% is derived from the KL marketing team.

A more effective layout is:

Details of our consultancy services are:

<b>Marketing teams</b>	<b>Markets covered</b>	<b>% of revenue</b>
Penang	Europe and Middle East	60
KL	Australia, North America and local domestic	40

Where possible and appropriate, use bullets to list information. Such a format makes it easier for readers to absorb a large amount of information at a glance, rather than perusing long and often repetitive sentences.

For example:

The criteria of allocation for eligible employees is based on the job position of the employee, his length of service with the Company, whether he is a union member and that he has attained the age of 18 years.

A more effective presentation is:

The criteria for allocation for eligible employees is:

- job position;
- length of service;
- whether a union member; and
- at least 18 years old.

The use of charts and graphs are encouraged as it enhances the depth of investor analysis and enables an investor to make better investment decisions.

For example:

RM'000/Year	2001	2002	2003	2004	2005(F)
Revenue	20,000	25,000	34,000	43,000	55,000
PAT after MI	4,200	5,400	7,600	8,900	12,400

The following graph, which is plotted using the figures above, clearly shows the widening gap between revenue and profit after tax and minority interest (PAT after MI). In addition, other graphs which indicate the trend in profit margins or operating expenses can also be used to confirm the above finding.

Most, if not all, prospectuses are printed in black and white. You can improve visual appearance and avoid monotony by the clever use of layout tools such as—

- different fonts and font sizes; and
- borders and shadings.

However, such graphic enhancements should not distract the reader's attention or reduce the legibility of the text.

## **4.0 REFERENCES**

We see easy-to-read offering documents in many international financial markets, such as in the United States of America, Canada and Hong Kong. For reference and to further understand the use of plain English, we encourage you to browse through international websites such as—

- <http://www.sec.gov>  
(US Securities and Exchange Commission);
- <http://www.sfc.hk/sfc/html/EN/>  
(Securities and Futures Commission, Hong Kong); and
- <http://www.bcsc.bc.ca>  
(British Columbia Securities Commission, Canada).