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Standards for Investment Reporting 5000

INVESTMENT REPORTING STANDARDS APPLICABLE TO PUBLIC REPORTING ENGAGEMENTS ON FINANCIAL INFORMATION RECONCILIATIONS UNDER THE LISTING RULES

The Auditing Practices Board

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5000 – INVESTMENT REPORTING STANDARDS APPLICABLE TO PUBLIC REPORTING ENGAGEMENTS ON FINANCIAL INFORMATION RECONCILIATIONS UNDER THE LISTING RULES

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STANDARDS FOR INVESTMENT REPORTING

5000 – INVESTMENT REPORTING STANDARDS APPLICABLE TO PUBLIC REPORTING ENGAGEMENTS ON FINANCIAL INFORMATION RECONCILIATIONS UNDER THE LISTING RULES

SIR 1000 "Investment reporting standards applicable to all engagements in connection with an investment circular" contains basic principles and essential procedures ("Investment Reporting Standards") that are applicable to all engagements involving an investment circular. The definitions in the glossary of terms set out in Appendix 4 of SIR 1000 are to be applied in the interpretation of this and all other SIRs. Terms defined in the glossary are underlined the first time that they occur in the text.

SIR 5000 contains additional Investment Reporting Standards, indicated by paragraphs in bold type, with which a reporting accountant is required to comply in the conduct of an engagement to report on financial information reconciliations which are included within a Class 1 circular prepared for issue in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom or the Republic of Ireland.

SIR 5000 also includes explanatory and other material, including appendices, in the context of which the Investment Reporting Standards are to be understood and applied. It is necessary to consider the whole text of the SIR to understand and apply the basic principles and essential procedures.

To assist readers, SIRs contain references to, and extracts from, certain legislation and chapters of the Rules of the UK Listing Authority (UKLA) and the Listing Rules of the Irish Stock Exchange Limited (ISE) (together "the Listing Rules"). Readers are cautioned that these references may change subsequent to publication.

Introduction

1. Standard for Investment Reporting (SIR) 1000 "Investment Reporting Standards applicable to all engagements in connection with an Investment Circular" establishes the Investment Reporting Standards applicable to all engagements involving investment circulars. The purpose of SIR 5000 is to establish specific additional Investment Reporting Standards and provide guidance for a reporting accountant engaged to report publicly on reconciliations of the financial information of a target[1] to the accounting policies of an issuer (financial information reconciliations) to be included in a Class 1 circular under the Listing Rules.

1 Under UKLA LR 13.5.1R(1): ISE LR 10.5.1(1) where a listed company is seeking to acquire an interest in another company, that company is described as a "target".

2. Financial information reconciliations (sometimes referred to as GAAP reconciliations) may be included in investment circulars other than Class 1 circulars. If the reporting accountant is requested to report in similar terms to those for a Class 1 circular in such a context, and agrees to do so, the guidance in this SIR may be helpful. However, this SIR is not intended to be used in connection with GAAP reconciliations that are included within a note to financial statements included in an investment circular.

3. An engagement to report on the proper compilation of financial information reconciliations is a public reporting engagement as described in SIR 1000. The description of a public reporting engagement includes three generic terms having the following meanings in the context of an engagement to report on the proper compilation of financial information reconciliations:

   (a) the "**subject matter**" is the target's financial information for the periods being reported on, presented in accordance with the target's accounting policies (ie the target's unadjusted financial information);

   (b) the "**suitable criteria**" are the requirements of the financial reporting framework adopted by the issuer, the accounting policies of the issuer and any "accepted conventions", as set out in the Annexure, that have been applied; and

   (c) the **"outcome[2]"** is the financial information of the target, as adjusted, together with the adjustments, that is included in the Class 1 circular and which has resulted from the directors applying the suitable criteria to the subject matter. The reporting accountant expresses an opinion as to whether that financial information (as adjusted) is properly compiled on the basis stated and whether the adjustments are appropriate for presenting the financial information (as adjusted) on a basis consistent in all material respects with the issuer's accounting policies.

4. In order to express an opinion on the reconciliation the reporting accountant is not required to re-assess any judgments or estimates underlying the subject matter or provide an opinion on the subject matter.

The nature of financial information reconciliations

5. Paragraph 5 of SIR 2000 "Investment Reporting Standards Applicable to Public Reporting Engagements on Historical Financial Information" describes, with respect to Class 1 acquisitions, the requirements of the Listing Rules for a Class 1 circular to include a financial information table relating to the target and an accountant's opinion on that table.

6. However, under the Listing Rules, when an issuer seeks to acquire a publicly traded company (a target) a financial information table is not required to be presented on the

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2 The "outcome" is sometimes described as "subject matter information".

basis of the issuer's accounting policies but is presented on the basis of the target's accounting policies. Consequently the accountant's opinion described in SIR 2000 is not required and there are additional Listing Rules that apply[3].

7. Under these additional rules (see Appendix 1), where a material adjustment needs to be made to the financial information presented in respect of the target in the Class 1 circular to achieve consistency with the issuer's accounting policies, the issuer is required to include the following in the Class 1 circular[4]:

   (a) a reconciliation of financial information on the target, for all periods covered by the financial information table, normally on the basis of the accounting policies used in the issuer's last published accounts[5];

   (b) an accountant's opinion that sets out:

      (i) whether the reconciliation of financial information in the financial information table has been properly compiled on the basis stated; and

      (ii) whether the adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the issuer's accounting policies.

   If no material adjustment needs to be made to the target's financial information, in order to achieve consistency with the issuer's accounting policies, then the Class 1 circular is not required to include a financial information reconciliation.

8. The need for a financial information reconciliation usually arises because the target and the issuer prepare their respective financial statements in accordance with different financial reporting frameworks (for example, the issuer may prepare its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the target may prepare its financial statements in accordance with United States Generally Accepted Accounting Principles) but may also arise through different choices made within the same financial reporting framework.

9. Other than the need for the financial information to be presented on a basis consistent in all material respects with the listed company's accounting policies, the Listing Rules

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3 These rules are UKLA LR 13.5.27R and 13.5.28R: ISE LR 10.5.27 and 10.5.28.

4 Under UKLA LR 13.5.30R(2) and ISE LR 10.5.30(2) similar requirements apply where the target has published half yearly or quarterly financial information subsequent to the end of its last financial year and a material adjustment needs to be made to the financial information presented in respect of the relevant interim period of the target in the Class 1 circular to achieve consistency with the issuer's accounting policies.

5 The UKLA's publication "List!" 16 at paragraph 2.5 discusses certain circumstances where accounting policies other than those used in the issuer's last published accounts are used.

contain no further requirements regarding the proper compilation of the financial information reconciliation, or the appropriateness of adjustments. In particular, the Listing Rules do not specify the individual financial statements or financial statement components that should comprise "financial information" for this purpose. Consequently the directors have regard to accepted conventions which have developed for the preparation and presentation of financial information reconciliations in Class 1 circulars. The Annexure provides a summary of these accepted conventions.

Engagement acceptance and continuance

10. SIR 1000.1 and SIR 1000.2 set out the Investment Reporting Standards with respect to engagement acceptance and continuance that are applicable to all engagements involving an investment circular. Additional Investment Reporting Standards and guidance are set out below.

11. When accepting or continuing an engagement to report publicly on financial information reconciliations, the reporting accountant ascertains whether the directors intend to comply with the relevant regulatory requirements.

12. **In determining whether the persons who are to perform the engagement collectively possess the necessary professional competence the reporting accountant should:**

    (a) assess whether the engagement team[6], or those with whom the engagement team intend to consult, have sufficient knowledge and experience of the issuer's financial reporting framework; and

    (b) consider the extent to which the engagement team requires knowledge of the target's financial reporting framework or are able to consult with those having such knowledge having regard to management's processes. (SIR 5000.1)

13. Where the target's or the issuer's financial information has been prepared in accordance with a financial reporting framework other than that of the country in which the reporting accountant practises[7], the reporting accountant determines whether it has, or can obtain, the necessary professional competence to evaluate whether the financial information

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6 The "engagement team" is any person within the reporting accountant's firm who is directly involved in the engagement including:
   (a) the partners, managers and staff from assurance and other disciplines involved in the engagement (for example, taxation specialists, IT specialists, treasury management specialists, lawyers, actuaries), and
   (b) those who provide quality control or direct oversight of the engagement

7 UKLA LR 13.5.23R and ISE LR 10.5.23 require that the accountant's opinion must be given by an independent accountant who is qualified to act as an auditor. With the exception of paragraph 56, this SIR is drafted on the presumption that the opinion is provided by the issuer's reporting accountant or auditor. However, this need not be the case.

reconciliation has been prepared in accordance with the requirements of the Listing Rules.

14. The successful completion of the reporting accountant's engagement will depend on receiving, on a timely basis, the co-operation of the management and directors both of the issuer and of the target including their disclosure to the reporting accountant of all the pertinent accounting records and any other relevant records and related information. In a hostile bid, or other limited access situation, the reporting accountant is unlikely to obtain the necessary access to the officials and records of the target and, therefore, is unlikely to be in a position to report on a financial information reconciliation. In such situations the circumstances are discussed with the UK Listing Authority[8] (UKLA) or the Irish Stock Exchange (ISE).

Agreeing the terms of the engagement

15. SIR 1000.3 and SIR 1000.4 set out the Investment Reporting Standards with respect to agreeing the terms of the engagement. Examples of engagement letter clauses are set out in Appendix 2 of this SIR.

Ethical requirements

16. SIR 1000.5 sets out the Investment Reporting Standard with respect to the ethical requirements that apply to a reporting accountant[9].

Legal and regulatory requirements

17. The legal and regulatory requirements relating to financial information reconciliations in Class 1 circulars are set out in Chapter 13 of the UKLA Listing Rules and Chapter 10 of the ISE Listing Rules. These chapters also set out the requirements for the inclusion of financial information tables in Class 1 circulars.

18. SIR 1000.6 sets out the Investment Reporting Standards with respect to the legal and regulatory requirements applicable to a reporting accountant.

19. Appendix 1 summarises the relevant requirements of the Listing Rules and illustrates those requirements that are dealt with by SIR 2000 and those dealt with by SIR 5000.

Quality control

20. SIR 1000.7 and SIR 1000.8 set out the Investment Reporting Standards with respect to the quality control of engagements to report on financial information reconciliations.

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8 The UKLA generally encourages advisers or issuers preparing an investment circular in a limited access situation to contact them as soon as possible to discuss the exact disclosure requirements. In certain circumstances it may be appropriate for a financial information reconciliation to be published in a supplementary circular within 28 days of a contested offer becoming unconditional.

9 In October 2006 the APB issued the Ethical Standard for Reporting Accountants (ESRA).

Planning and performing the engagement

21. SIR 1000.9 and SIR 1000.10 set out the Investment Reporting Standards with respect to the planning of all reporting engagements. Additional Investment Reporting Standards and guidance are set out below.

22. **The reporting accountant should obtain an understanding of those factors affecting the subject matter sufficient to identify and assess the risk of the financial information reconciliation not being properly compiled and the adjustments being inappropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the issuer's accounting policies. The reporting accountant's understanding should be sufficient to design and perform evidence gathering procedures and in particular should include:**

    (a) the nature of the target's and the issuer's businesses;

    (b) the accounting policies of the target and of the issuer and the application of those policies;

    (c) the requirements of the issuer's financial reporting framework;

    (d) the extent to which the issuer has employees with the requisite knowledge of the financial reporting framework used by the target, or the ability to consult with those having such knowledge; and

    (e) the procedures and controls adopted, or planned to be adopted, by the directors for the preparation of the financial information reconciliation. (SIR 5000.2)

23. The reporting accountant may gain an understanding of the nature of the target's business in a number of ways, for example:

    - Reviewing publicly available information on the target.
    - Through discussion with the issuer's directors or management.
    - Through discussion with the target's directors or management.
    - Through discussion with the target's auditor, where that auditor is prepared to assist the reporting accountant to gain a wider understanding of the target, its financial reporting procedures and the way in which its accounting policies are applied.

24. In obtaining an understanding of the target's and the issuer's businesses the reporting accountant may consider the following, for example:

    - Business operations:
        - Conduct of operations and nature of revenue sources.
        - Products or services and markets.

- Financing and Investments:
  - Group structure.
  - Finance structure.
  - Investments in non-consolidated entities, including partnerships, joint ventures and special purpose entities.
- Financial reporting:
  - Industry specific practices.
  - Revenue recognition practices.
  - Accounting for unusual or complex transactions including those in emerging areas.

25. Under the Listing Rules the financial information reconciliation on the target is required to be prepared on the basis of the accounting policies of the issuer[10]. Guidance in the Listing Rules indicates that "accounting policies" includes accounting standards and accounting disclosures[11]. A financial information reconciliation, therefore, is not confined to a reconciliation to the published accounting policies of an issuer but also to those accounting standards comprising the issuer's financial reporting framework, regardless of whether they are articulated within the issuer's statement of accounting policies, even if they have not previously been relevant to the issuer. Accordingly, both the issuer and the reporting accountant consider the extent to which they will need access to expertise in the target's financial reporting framework. However financial information reconciliations do not normally extend to reconciling note disclosures.

26. Other matters for consideration by the reporting accountant include the availability of evidence to support the proposed adjustments and the accounting policies that will form the basis of the adjustments to the target's financial information.

27. **The reporting accountant should consider materiality and public reporting engagement risk in planning its work in accordance with its instructions and in determining the effect of its findings on the report to be issued. (SIR 5000.3)**

Materiality

28. The Listing Rules require a financial information reconciliation to be included in a Class 1 circular only when a material adjustment needs to be made to the target's financial information to achieve consistency with the listed company's accounting policies[12]. The judgment concerning materiality to comply with the Listing Rules is the responsibility of

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10 UKLA LR 13.5.4R and ISE LR10.5.4

11 UKLA LR 13.5.5G and ISE LR 10.5.5.

12 UKLA LRs 13.5.27R and 13.5.28R and ISE LRs 10.5.27 and 10.5.28.

the issuer. The reporting accountant is not required to evaluate this determination of materiality made by the issuer. However, if the reporting accountant becomes aware that a material adjustment may need to be made to the target's financial statements to achieve consistency with the listed company's accounting policies, and the issuer has not prepared a financial information reconciliation, it discusses the matter with the directors of the issuer.

29. The following guidance on materiality addresses the reporting accountant's responsibilities with respect to a financial information reconciliation once the issuer is satisfied that the preparation of a financial information reconciliation is required under the Listing Rules.

30. Matters are material if their omission or misstatement could, individually or collectively, influence the economic decisions of the intended users of the financial information reconciliation. Materiality depends on the size and nature of the omission or misstatement judged in the light of the surrounding circumstances. Materiality is determined by reference to the financial information of the target, as adjusted in the financial information reconciliation.

31. A misstatement in the context of the compilation of a financial information reconciliation includes, for example:

- Use of an inappropriate source for the target's financial information.
- Incorrect extraction of the target's financial information from an appropriate source.
- In relation to adjustments, the misapplication of accounting policies or failure to use the issuer's accounting policies.
- Failure to make an adjustment necessary for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the issuer's accounting policies.
- Disclosing as an adjustment the rectification of an error in the underlying financial information of the target[13].
- A mathematical or clerical mistake.

32. If the reporting accountant becomes aware of a material misstatement in the financial information reconciliation it discusses the matter with the directors of the issuer. If the reporting accountant is not able to agree with the directors as to how the matter is to be resolved it considers the consequences for its opinion.

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13 See discussion in paragraph 12 of Annexure concerning the manner in which a rectification of a misstatement in the underlying financial information may be disclosed.

Public reporting engagement risk

33. "Public reporting engagement risk" is the risk that the reporting accountant expresses an inappropriate opinion when the financial information reconciliation has not been properly compiled on the basis stated or when the adjustments are not appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent, in all material respects, with the accounting policies of the issuer.

34. SIR 1000.11 and SIR 1000.12 set out the Investment Reporting Standards with respect to obtaining evidence that are applicable to all engagements involving an investment circular. Additional Investment Reporting Standards and guidance relating to engagements to report on financial information reconciliations are set out below.

35. **The reporting accountant should assess whether the reconciliation of financial information in the financial information table has been properly compiled on the basis stated and whether the adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the issuer's accounting policies. In making these assessments the reporting accountant should, having regard to the procedures and controls adopted by the directors:**

    (a) check whether the financial information of the target has been accurately extracted from an appropriate source;

    (b) assess whether all adjustments necessary for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the issuer's accounting policies have been made; and

    (c) check the arithmetical accuracy of the calculations within the financial information reconciliation. (SIR 5000.4)

Consideration of directors' procedures and controls

36. In assessing whether the financial information reconciliation has been properly compiled on the basis stated and whether the adjustments are appropriate the reporting accountant has regard to the procedures and controls adopted by the issuer. Such procedures and controls may encompass both high-level internal controls over the reconciliation process and lower level accounting control activities.

37. High-level internal controls over the reconciliation process that the reporting accountant may wish to assess include, whether:

    - Employees (or outside experts utilised by the issuer), have the requisite knowledge and experience to prepare and monitor the preparation of the reconciliation.
    - The directors of the issuer have been involved to an appropriate extent in the preparation of the financial information reconciliation.

- Where applicable, management has compared the reconciliation to any that may have been made before.

38. Examples of accounting control activities that the reporting accountant may wish to assess include, whether:

    - When making adjustments management sought to ensure that the principles of double-entry bookkeeping were followed such that "one-sided" entries were not made.
    - Management considered the tax effects of the adjustments and assessed whether the resultant effective tax rate is understandable and meaningful.
    - Management analysed the differences between the opening and closing equity account balances, as adjusted. (This is sometimes referred to as an equity roll forward reconciliation.) Such an analysis would have assisted management in seeking to ensure that the principles of double-entry bookkeeping have been followed where the other side of an adjustment is to an equity account.
    - Management considered whether the cash and cash equivalent position, as adjusted, is (and should be) the same as that shown by the unadjusted financial statements. If there is a difference between the cash position reported on the two bases management should be able to explain how the difference arises and, in particular, to have considered whether the difference may reflect an error in the double-entry bookkeeping applied to the reconciliation process.

Unadjusted financial information of the target

39. The reporting accountant assesses whether the unadjusted financial information has been extracted from an appropriate source: namely the financial information table of the target included in the Class 1 circular or such published half yearly or quarterly financial information that is required, by the Listing Rules[14], to be reproduced in the Class 1 circular.

40. The reporting accountant is not required to perform specific procedures on the unadjusted financial information of the target other than as described in paragraph 39, and in particular is not required to audit the unadjusted financial information. However, if the reporting accountant has reason to believe that the unadjusted financial information is, or may be, unreliable, or if a report thereon has identified any uncertainties or disagreements, the reporting accountant considers the effect on the financial information reconciliation.

14 UKLA LR13.5.30R(1) and ISE LR10.5.30(1)

41. When the directors have identified an error in the underlying financial information that does not reflect a genuine difference between the accounting policies of the target and the issuer it is not rectified by being presented as an adjustment. The issuer would discuss the proposed presentation of the rectification of the error with the UKLA or the ISE. The reporting accountant would wish to see evidence, based on such discussions, of the agreement of the UKLA or the ISE to the proposed presentation of the rectification of the error.

Completeness of adjustments and consistency of accounting policies

42. In assessing the completeness of the adjustments and whether the adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent, in all material respects, with the issuer's accounting policies, the reporting accountant utilises its expertise, and the expertise of those with whom they have consulted, in the issuer's financial reporting framework.

43. The reporting accountant assesses the thoroughness with which the directors have fulfilled their responsibility for ensuring the completeness of adjustments. In view of the importance of the accuracy of a financial reconciliation to potential investors the directors will be expected to have carefully analysed the target's accounting policies and prepared an ''impact analysis'' of the effect of applying the issuer's accounting policies to the target's financial information. With its understanding of the target and the issuer's business as background (see paragraph 24) the reporting accountant discusses with the directors the steps the directors have taken to identify relevant adjustments.

44. As described in paragraph 25 the definition of accounting policies in the Listing Rules encompasses the accounting standards of the applicable financial reporting framework. The reporting accountant's assessment of the completeness of adjustments is likely to include gaining an understanding of the differences between the financial reporting frameworks of the target and the issuer and, in particular:

    (a) identifying those accounting standards in the issuer's or the target's financial reporting framework that may have a particular impact on the target's or issuer's industries;

    (b) assessing the adequacy of the directors' impact analysis;

    (c) considering the adequacy of the process followed by the issuer in ensuring the completeness of the adjustments, in particular the depth of involvement of senior management in the preparation of the reconciliation. Paragraphs 23 to 33 of the Annexure describe in more detail the processes that management may use when preparing a financial information reconciliation; and

    (d) assessing whether the reconciliation, taken as a whole, appears to have any material omissions.

45. **The reporting accountant should obtain sufficient appropriate evidence that the issuer can support each adjustment (including the detailed calculation of the adjustment) and that, where appropriate, such support has been obtained from the appropriate level of management of the target. (SIR 5000.5)**

46. If the reporting accountant becomes aware of an adjustment which:

    (a) in its opinion, ought to be made for the purposes of the financial information reconciliation; or

    (b) in its opinion, ought not to have been made for the purposes of the financial information reconciliation; or

    (c) the directors of the issuer cannot support (either in principle or in matters of detail and computation),

    it discusses the position with the directors of the issuer and, if necessary, the issuer's advisers. If the reporting accountant is not able to agree with the directors of the issuer and the issuer's advisers as to how the matter is to be resolved it considers the consequences for its report.

Checking the calculations

47. The reporting accountant ascertains whether the adjustments made in the financial information reconciliation are included under the appropriate financial statement captions as well as the arithmetical accuracy of the calculations within the financial information reconciliation itself.

48. In respect of the adjustments the reporting accountant checks the calculation of the effect on the target's financial information of applying the accounting policy of the issuer rather than the accounting policies of the target.

Presentation of the financial information reconciliation

49. **The reporting accountant should consider whether it has become aware of anything to cause it to believe that the financial information reconciliation is presented in a way that is not understandable or is misleading in the context in which it is provided. If the reporting accountant is aware of such matters it should discuss them with the directors of the issuer and any other persons to whom its report is to be addressed, and consider whether it is able to issue its opinion. (SIR 5000.6)**

50. The underlying principle is that a reader of the Class 1 circular will be able to understand how the adjustments that have been made affect the underlying financial information. The reporting accountant may wish to assess whether, for example, there is adequate disclosure of the specific line items of the income statement or balance sheet that give rise to an adjustment.

Representation letter

51. SIR 1000.13 sets out the Investment Reporting Standard with respect to representation letters that is applicable to all engagements involving an investment circular. Examples of representation letter clauses applicable to financial information reconciliations are set out in Appendix 3.

Documentation

52. SIR 1000.14 and SIR 1000.15 set out the Investment Reporting Standards with respect to the reporting accountant's working papers.

Professional scepticism

53. SIR 1000.16 sets out the Investment Reporting Standard with respect to the attitude of professional scepticism adopted by the reporting accountant in planning and performing an engagement.

Reporting

54. SIR 1000.17, SIR 1000.18 and SIR 1000.19 set out the Investment Reporting Standards with respect to reporting that are applicable to all engagements involving an investment circular. Additional Investment Reporting Standards relating to engagements to report on financial information reconciliations are set out below. An example report on a financial information reconciliation prepared in accordance with the Listing Rules is set out in Appendix 4.

Responsibilities

55. **In all reports on financial information reconciliations in Class 1 circulars the reporting accountant should explain the extent of its responsibility in respect of the reconciliations by including in its report:**

    (a) a statement that the reporting accountant's responsibility is to form an opinion as to whether the reconciliations have been properly compiled on the basis stated and the adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the accounting policies of the issuer and to report its opinion to the addressees of the report; and

    (b) a statement that the financial information reconciliation is the responsibility of the directors. (SIR 5000.7)

56. The reporting accountant's responsibility in relation to the opinion required by the Listing Rules is limited to the provision of the report and the opinion expressed. Where an audit or other opinion has been expressed on the financial information of the target by a firm other than the reporting accountant, the reporting accountant may state in the responsibilities section that it does not accept any responsibility for any of the historical financial statements of the target and that it expresses no opinion on those financial

statements. An example of such a reference is included in the example report in Appendix 4.

57. Where the reporting accountant has provided an audit or other opinion on the financial information of the target the reporting accountant may state in the responsibilities section that:

(a) it is not updating or refreshing any reports or opinions previously made by it on any financial information used in the compilation of the reconciliations; and

(b) it accepts no responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed at the date of their issue.

An example of such a reference is included in the example report in Appendix 4.

Basis of preparation of the financial information reconciliation

58. **The reporting accountant should, in its report, cross refer to disclosures that explain the basis of preparation of the financial information reconciliation (SIR 5000.8).**

Expression of opinion

59. **The report on the financial information reconciliation should contain a clear expression of opinion that complies with the requirements of the Listing Rules. (SIR 5000.9)**

60. The Class 1 circular in which the reporting accountant's report is included may be made available in other countries, such as the United States of America, which have their own standards for accountants when reporting on financial information reconciliations. In such circumstances, the reporting accountant considers whether to include a reference to the fact that a report issued in accordance with the SIRs should not be relied upon as if it had been issued in accordance with the standards applicable in that other country. An example of such a reference is included in the example report in Appendix 4.

Modified opinions

61. SIR 1000.20 sets out the Investment Reporting Standard, with respect to modified opinions, that is applicable to all engagements involving an investment circular.

62. With respect to the compilation of a financial information reconciliation, the reporting accountant may conclude that the outcome is materially misstated, (for example, in the circumstances described in paragraph 31 above), and in such circumstances considers the impact of such misstatements on its opinion.

63. In the event that the reporting accountant concludes that it is necessary to express a modified opinion it explains the circumstances to the directors of the issuer and any other parties to whom it is to report so that the issuer has an opportunity to amend the financial information reconciliation to alleviate the reporting accountant's concerns.

Consent

64. SIR 1000.21 and SIR 1000.22 set out the Investment Reporting Standards with respect to the giving of consent by the reporting accountant.

Events occurring between the date of the reporting accountant's report and the completion date of the transaction

65. After the date of its report, the reporting accountant has no obligation to perform procedures or make enquiries regarding the Class 1 circular. However, the reporting accountant may become aware of events and other matters which, had they occurred and been known at the date of the report, might have caused it to issue a different report or to withhold consent. SIR 1000.23 sets out the Investment Reporting Standards with respect to such events occurring between the date of the reporting accountant's report and the completion date of the transaction.

Effective date

66. A reporting accountant is required to comply with the Investment Reporting Standards contained in this SIR for reports signed after 31 May 2008. Earlier adoption is encouraged.

APPENDIX 1

REGULATORY PROVISIONS APPLICABLE TO CLASS 1 CIRCULARS

	SIR 2000			SIR 5000		
Type of Class 1 Transaction	**Requirement for a financial information table**	**Requirement for an accountant's opinion in true and fair terms**	**Possibility of a modified opinion**	**Requirement for a financial information reconciliation**	**Requirement for an accountant's opinion in properly compiled terms**	**Possibility of a modified opinion**
Class 1 Acquisition of a target that is neither admitted to trading, listed on an overseas investment exchange, nor admitted to trading on an overseas regulated market.	✓ UKLA 13.5.12R UKLA 13.5.14R ISE 10.5.12 ISE 10.5.14	✓ UKLA 13.5.21R UKLA 13.5.22R ISE 10.5.21 ISE 10.5.22	✓ UKLA 13.5.25R ISE 10.5.25	✗	✗	n/a
Class 1 Acquisition of a target that is admitted to trading ...and a material adjustment needs to be made.	✓ UKLA 13.5.12R UKLA 13.5.14R ISE 10.5.12 ISE 10.5.14	✗ UKLA 13.5.21R ISE 10.5.21	n/a	✓ UKLA 13.5.27R(2)(a) UKLA 13.5.30R(2) ISE 10.5.27(2)(a) ISE 10.5.30(2)	✓ UKLA 13.5.27R(2)(b) UKLA 13.5.30R(2) ISE 10.5.27(2)(b) ISE 10.5.30(2)	✓ UKLA 13.5.27R(2)(b) UKLA 13.5.30R ISE 10.5.27(2)(b) ISE 10.5.30
Class 1 Acquisition of a target that is admitted to trading ... and NO material adjustment needs to be made	✓ UKLA 13.5.12R UKLA 13.5.14R ISE 10.5.12 ISE 10.5.14	✗ UKLA 13.5.21R ISE 10.5.21	n/a	✗ If no material adjustment required then not in scope of UKLA 13.5.27R: ISE 10.5.27	✗ UKLA 13.5.28R ISE 10.5.28	n/a
Class 1 disposal	✓ UKLA 13.5.12R UKLA 13.5.19R ISE 10.5.12 ISE 10.5.19	✗ UKLA 13.5.21R UKLA 13.5.29G ISE 10.5.21 ISE 10.5.29	n/a	✗	✗	n/a

Note 1: Within Chapter 13 of the UKLA Listing Rules and Chapter 10 of the ISE Listing Rules the terms "financial information" and "financial information table" are used. The terms have different meanings in that the requirements for a financial information table are set out in UKLA LR 13.5.18R and ISE 10.5.18 whereas the term financial information is not defined.

Note 2: Within Chapter 13 of the UKLA Listing Rules and Chapter 10 of the ISE Listing Rules two different types of accountant's opinion are discussed. The opinion relevant to financial information reconciliations is set out in UKLA 13.5.27R (2)(b) and ISE 10.5.27(2)(b) and is dealt with in this SIR. The other opinion which is relevant to opinions on financial information tables is set out in UKLA LR 13.5.22R and ISE 10.5.22 and dealt with in SIR 2000.

Note 3: UKLA LR13.5.30R(2) and ISE 10.5.30(2) require a financial information reconciliation of a target to be produced with respect to subsequent half yearly or quarterly financial information

APPENDIX 2

EXAMPLES OF ENGAGEMENT LETTER CLAUSES

The examples of engagement letter clauses are intended for consideration in the context of a public reporting engagement on a financial information reconciliation in a Class 1 circular. They should be tailored to the specific circumstances and supplemented by such other clauses as are relevant and appropriate.

Financial information upon which the report is to be given

The Class 1 circular will include a financial information table relating to ABC Inc. prepared in accordance with the requirements of Listing Rule [13.5.18R] [10.5.18] **[**and interim financial information relating to ABC Inc. reproduced in accordance with Listing Rule [13.5.30R(2)] [10.5.30(2)]**]**.

We understand that the Class 1 circular will also include a financial information reconciliation of ABC Inc. for the three years ended [31 December 200X] **[**and the interim period ended [*date*]**]** (the "Reconciliation"). The Reconciliation will comprise [the income statements] and [balance sheets] of ABC Inc. showing the adjustments necessary to restate them to conform to XYZ plc's stated accounting policies. The Reconciliation will include supporting notes to explain the adjustments made.

Responsibilities

The preparation of the Reconciliation in accordance with the requirements of the Listing Rules will be the responsibility solely of the directors.

It is our responsibility to form an opinion as to whether the Reconciliation has been properly compiled on the basis stated and the adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the accounting policies of XYZ plc.

If the results of our work are satisfactory, and having regard to the requirements of Listing Rule [13.5.27R (2)(b)] [10.5.27(2)(b)] **[**and Listing Rule [13.5.30(2)] [10.5.30(2)]**]**, we shall prepare a report on the Reconciliation for inclusion in the Class 1 circular. An illustration of the form of our report if the results of our work are satisfactory is attached.

Scope of work

Our work will be undertaken in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board and will be subject to the limitations described therein.

In performing this engagement we will expect to receive, without undue delay, such;

(a) co-operation from all relevant officials of XYZ plc and ABC Inc. [including its auditors];

(b) access to all the pertinent accounting records of XYZ plc and ABC Inc. and any other relevant records and related information; [and]

(c) representations from XYZ plc[; and]

(d) [access to the files of the auditors of ABC Inc.],

as we may need for the purposes of our examination.

APPENDIX 3

EXAMPLES OF MANAGEMENT REPRESENTATION LETTER CLAUSES

The following are examples of management representation letter clauses relating to reports on financial information reconciliations, issued pursuant to the Listing Rules, which may be obtained from the issuer. Alternatively they may form the basis for a board minute.

Introduction

We refer to the financial information reconciliation set out in Part [...] of the [Class 1 circular] dated...(the "Reconciliation"). We acknowledge that we are solely responsible for the Reconciliation and confirm on behalf of the directors of the company to the best of our knowledge and belief, having made appropriate enquiries of officials of the company [and the directors and officials of the [target]], the following representations made to you in the course of your work.

Specific representations

- We acknowledge as duly appointed officials of the company our responsibility for the Reconciliation which has been prepared in accordance with the requirements of the Listing Rules of [the United Kingdom Listing Authority] [the Irish Stock Exchange Limited].
- We have considered the adjustments included in the Reconciliation. We confirm that, in our opinion, the Reconciliation includes all adjustments that are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the accounting policies of XYZ plc.
- We have made available to you all significant information relevant to the Reconciliation of which we have knowledge.
- [...*Any specific representations relating to information included in the Reconciliations (for example representations concerning accounting policies in greater detail than that included in the published financial statements).*]

APPENDIX 4

EXAMPLE REPORT ON A FINANCIAL INFORMATION RECONCILIATION IN ACCORDANCE WITH THE LISTING RULES

Date

Reporting accountant's address

Addressees, as agreed between the parties in the engagement letter

Dear Sirs,

XYZ plc (the "Company"): proposed acquisition of ABC Inc (the "Target")

We report on the reconciliation of [*describe items reconciled* the consolidated income statement for each of the years in the three-year period ended [*date*] **[**and the interim period ended [*date*]**]**, and of *describe items reconciled* the consolidated balance sheet as at[*dates*]], together the "financial information", as previously reported in the financial statements of the Target prepared under [United States Generally Accepted Accounting Principles], showing the adjustments necessary to restate it on the basis of the Company's accounting policies [specify the accounting policies e.g. those used in preparing the Company's last set of annual financial statements] (the "Reconciliation"), set out in Part [ ] of the Class 1 circular of the Company dated [*date*]. This report is required by Listing Rule[s] **[**13.5.27R(2)(b) [and 13.5.30R(2)] of the United Kingdom Listing Authority**]** **[**10.5.27(2)(b) [and 10.5.30(2) of the Irish Stock Exchange Limited]**]** and is given for the purpose of complying with [that] [those] Listing Rule[s] and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "Directors") to prepare the Reconciliation in accordance with Listing Rule[s] **[**13.5.27R(2)(a) [and 13.5.30R(2)]**]** **[**10.5.27(2)(a) [and 10.5.30(2)]**]**.

It is our responsibility to form an opinion, as required by Listing Rule[s] **[**13.5.27R(2(b)] [and 13.5.30R(2)]**]** **[**10.5.27(2)(a) and 10.5.30(2)]**]**, as to whether:

(a) the Reconciliation has been properly compiled on the basis stated; and

(b) the adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies, and to report that opinion to you.

[*Insert where an audit or other opinion has been expressed on the financial statements of the Target upon which the Reconciliation is based by a firm other than the reporting accountant, or where such information is unaudited:* The Reconciliation is based on the [un]audited balance sheet[s] as at [*dates*] and income statement[s] for [each of] the [year[s]]/[period[s]] then ended of [the Target] which were the responsibility of the directors of [the Target] [and were audited by another firm of accountants]. We do not accept any responsibility for any of the historical financial statements of [the Target], nor do we express any opinion on those financial statements.]

[*Insert where the reporting accountant has provided an audit or other opinion on the financial statements of the Target upon which the Reconciliation is based:* In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Reconciliation, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed at the date of their issue.]

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in [the United Kingdom] [Ireland]. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of checking whether the unadjusted financial information of [the Target] has been accurately extracted from an appropriate source, assessing whether all adjustments necessary for the purpose of presenting the financial information on a basis consistent in all material respects with [the Company's] accounting policies have been made, examination of evidence supporting the adjustments in the Reconciliation and checking the arithmetical accuracy of the calculations within the Reconciliation.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Reconciliation has been properly compiled on the basis stated and that the adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies.

[*This paragraph may be omitted if the document is not to be distributed outside [the UK] [Ireland]* – Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America [or other jurisdictions] and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.]

Opinion

In our opinion:

(a) the Reconciliation has been properly compiled on the basis stated; and

(b) the adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies.

Declaration

[*This paragraph is only included if the investment circular is also a prospectus*. For the purposes of [Prospectus Rule [5.5.3R(2)(f)] [5.5.4R(2)(f)]] /[Paragraph 2(2)(f) of Schedule 1 to "The Prospectus (Directive 2003/71/EC) Regulations 2005"] [Paragraph 3(2)(f) of Schedule 1 to "the Prospectus (Directive 2003/71/EC) Regulations 2005"] we are responsible for this report as part of the [prospectus] [registration document] and declare that we have taken all reasonable care to ensure that the information contained [in this report] [those parts] is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the [prospectus] [registration document] in compliance with [item 1.2 of Annex I of the PD Regulation] [item 1.2 of Annex III of the PD Regulation].]

Yours faithfully

Reporting accountant

ANNEXURE

ACCOUNTING CONVENTIONS AND PROCESSES USED IN PREPARING FINANCIAL INFORMATION RECONCILIATIONS FOR INCLUSION IN CLASS 1 CIRCULARS

This Annexure has been compiled by the APB from a number of sources to describe conventions and processes commonly used for the proper compilation of financial information reconciliations. It does not constitute basic principles, essential procedures, or guidance promulgated by the APB.

Introduction

Financial information tables

1 With respect to Class 1 acquisitions, Chapter 13 of the Listing Rules of the UK Listing Authority (UKLA) and Chapter 10 of the Listing Rules of the Irish Stock Exchange Limited (ISE) set out requirements for a financial information table relating to targets[1].

2 A financial information table is required to include, for each of the periods covered by the table:

(a) a balance sheet and its explanatory notes;

(b) an income statement and its explanatory notes;

(c) a cash flow statement and its explanatory notes;

(d) a statement showing either all changes in equity or changes in equity other than those arising from capital transactions with owners and distributions to owners;

(e) the accounting policies; and

(f) any additional explanatory notes.

3 When an issuer seeks to acquire a target that is not publicly traded[2], the financial information table is presented on the basis of the issuer's accounting policies. However, when an issuer seeks to acquire a publicly traded target the financial information table is presented on the basis of the target's accounting policies.

---

1 Where a listed company is seeking to acquire an interest in another company, that company is described as a target.

2 A target that is not publicly traded is one that is neither admitted to the Official List nor admitted to trading, listed on an overseas investment exchange nor admitted to trading on an overseas regulated market.

4 With respect to a target that is not publicly traded a reporting accountant's opinion is required as to whether, for the purposes of the Class 1 circular, the financial information table gives a true and fair view of the financial matters set out in it, and whether the financial information table has been prepared in a form that is consistent with the accounting policies adopted in the listed company's latest annual consolidated accounts.

Financial information of publicly traded targets

5 With respect to targets that are publicly traded a reporting accountant's opinion on the financial information table is not required. However, with respect to a publicly traded target, if a material adjustment needs to be made to the target's financial statements to achieve consistency with the issuer's accounting policies there are additional requirements.

6 Therefore, with respect to a publicly traded target, the issuer is required to make a determination as to whether material adjustments need to be made to the target's financial statements in order to achieve consistency with the issuer's accounting policies. Such a determination will need to be made by a staff member or outside expert having appropriate qualifications (see paragraph 23) and involve the identification of material differences (if any) between the accounting policies of the issuer and the accounting policies of the target (see paragraph 24).

7 Where such a material adjustment does need to be made the issuer is required to include the following in the Class 1 circular in addition to the financial information table referred to above[3]:

(a) a reconciliation of ''financial information'' on the target, for all periods covered by the financial information table, normally on the basis of the accounting policies used in the issuer's last published accounts[4];

(b) a reporting accountant's opinion on that reconciliation that sets out:

(i) whether the reconciliation of financial information in the financial information table has been properly compiled on the basis stated; and

(ii) whether the adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the issuer's accounting policies.

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3 Under UKLA LR 13.5.30R(2) and ISE LR 10.5.30(2) similar requirements apply where the target has published half yearly or quarterly financial information subsequent to the end of its last financial year and a material adjustment needs to be made to the financial information presented in respect of the relevant interim period of the target in the Class 1 circular to achieve consistency with the issuer's accounting policies.

4 The UKLA's publication ''List!'' 16 at paragraph 2.5 discusses certain circumstances where accounting policies other than those used in the issuer's last published accounts are used.

The need for accounting conventions

8 The term "financial information" is not defined by the Listing Rules nor are there any detailed rules regarding the "proper compilation" of a financial information reconciliation. The directors, therefore, have regard to accepted conventions which have developed for the preparation and presentation of financial information reconciliation tables in Class 1 circulars. These conventions are summarised in paragraphs 9 to 22 that follow. In paragraphs 23 to 33 there is a discussion of processes that the issuer may adopt when preparing financial information reconciliations.

Conventions

Format of financial information reconciliations

9 The overriding principle regarding the format of the presentation of a financial information reconciliation is that the presentation discloses all the material adjustments that are required to be made in order to present the financial information (as adjusted) on a basis consistent with the issuer's accounting policies. The relevant accounting policies of the issuer are normally those adopted by the issuer in its last published accounts.

10 Financial information reconciliations typically address the balance sheet and income statement or extracts of the balance sheet and income statement. However, if there is a material adjustment required, for example, to the cash flow statement or the Statement of Changes in Equity then relevant financial information from the relevant statement may also be presented. A material adjustment may arise to the cash flow statement where the target and the issuer use different definitions of the composition of cash and cash equivalents.

11 There is no prescribed format for the presentation of the reconciliation. Sometimes they are presented in columnar form using as a basis the descriptions of financial statement items in the target's financial information. However, alternative presentations are commonly used and the underlying principle is that the reader of the Class 1 circular should be able to understand how the adjustments affect the underlying financial information.

Errors in the underlying financial information

12 Where an error in the underlying financial information is identified that does not reflect a genuine difference between the accounting policies of the target and the issuer it is not rectified by being presented as an adjustment. The issuer discusses the proposed presentation of the rectification of the error with the UKLA or the ISE.

13 What constitutes an error will be defined by the financial reporting framework used by the issuer. In the case of International Financial Reporting Standards (IFRSs) as adopted by the EU, for example, an error is defined as: "omissions from, and misstatements in, the target's financial statements, for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of fact and fraud".

Accounting policies

14 Guidance in UKLA Listing Rule 13.5.5G and ISE Listing Rule 10.5.5 indicates that "accounting policies include accounting standards and accounting disclosures". A financial information reconciliation, therefore, is not confined to a reconciliation to the stated accounting policies of an issuer but to those policies and the accounting standards comprising the financial reporting framework of the issuer regardless of whether they are articulated within the issuer's statement of accounting policies. However, reconciliations do not normally extend to reconciling note disclosures.

15 Under many financial reporting frameworks, such as IFRSs as adopted by the EU, the application of different measurement bases to financial statement items is evidence that different accounting policies have been applied. IAS 8 states "A change in the measurement basis applied is a change in an accounting policy and is not a change in an accounting estimate"[5]. Examples of measurement bases, described in IFRSs as adopted by the EU are: historical cost, current cost, net realisable value, fair value or recoverable amount[6].

16 In the process of applying the entity's accounting policies, management makes various judgments, apart from those involving estimations (see paragraph 19) that can have a significant effect on the amounts recognised in the financial statements. Under IFRSs as adopted by the EU the entity is required to disclose those judgments that have the most significant effect on the amounts recognised in the financial statements[7].

17 Examples of such judgments are:

- Whether financial assets are held-to-maturity investments.
- When substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities.
- Whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue.

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5 IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" paragraph 35

6 IAS 1 "Presentation of financial statements" paragraph 109

7 IAS 1 paragraphs 113 and 114

- Whether the substance of the relationship between the entity and a special purpose entity indicates that the special purpose entity is controlled by the entity.

Where the target and the issuer have made, or would make, different judgments in similar circumstances this gives rise to the need for an adjustment.

Accounting estimates

18 Although adjustments are made for differences in accounting policies (as defined), adjustments are not made to replace the target's accounting estimates with new estimates made by the issuer. However, in rare circumstances the effect of a difference from applying an accounting estimate may be material to the adjusted financial information and the issuer may consider that it is necessary to explain this through supplemental disclosure to allow the financial information reconciliation to be considered in context. An example of such a circumstance is where the issuer and the target both have a policy of depreciating a particular class of property, plant and equipment on a straight line basis over its expected useful life. However, the target's estimate of the expected useful life differs significantly from the issuer's estimated useful life and the effect of the difference in estimate is material to the financial information reconciliation.

Distinguishing between accounting policies and accounting estimates

19 Many financial reporting frameworks recognise that it can be difficult to distinguish changes in accounting policies from changes in accounting estimates and that in such instances of uncertainty the change is treated as a change in accounting estimate[8]. A similar principle applies when determining whether a target uses different accounting policies to those used by the issuer.

Explanation of adjustments

20 The overriding principle that the issuer follows is to ensure that the adjustments are clearly shown and explained.

21 The convention is that material adjustments are presented on a disaggregated basis (that is offsetting adjustments are not netted off) as such presentation enhances the understanding of the users of the reconciliation.

Material adjustments

22 The requirement for a reconciliation arises where a material adjustment needs to be made to the target's financial statements to achieve consistency with the listed company's accounting policies. It is not possible to prescribe conditions for determining whether an adjustment will be a material adjustment in any given case, although presentational accounting policy differences, which do not have the effect of altering net

8 IAS 8 paragraph 35

assets, net income or cash flows are not normally treated as material. The UKLA or the ISE will usually wish to agree the approach in individual cases.

Processes for preparing a financial information reconciliation

Identification of all material differences

23 In order to identify all material differences between the accounting policies of the issuer and the accounting policies of the target the issuer's staff responsible for preparation of the reconciliation will need to have (or acquire) a requisite degree of expertise with respect to both financial reporting frameworks. Such expertise may be augmented by the use of appropriate reference material and technical guides. In complex cases the issuer may have to employ an outside expert having appropriate qualifications.

Preparing a financial information reconciliation

24 There are four basic steps involved in preparing a financial information reconciliation. These are:

(a) identification of all material differences between the accounting policies of the issuer and the accounting policies of the target (See paragraph 6);

(b) performing an "impact analysis" by performing a detailed analysis of the application of those policies and gathering the relevant data to enable either:

  (i) the adjustments to be calculated; or

  (ii) a determination to be made that no adjustments are required.

(c) in respect of each material difference calculating the effect on the target's financial information of applying the accounting policies of the issuer rather than the accounting policies of the target; and

(d) ensuring that the bookkeeping underpinning the financial information reconciliation is complete and accurate.

25 In practice these steps will need to be undertaken by the issuer's staff responsible for preparation of the reconciliation in consultation with, and with the cooperation of, the relevant finance staff of the target. It is unlikely that the issuer's staff will be able to achieve the necessary understanding of the target's financial information without a high degree of involvement of the target's finance staff in the process. In a hostile bid, or other limited access situation, the issuer is unlikely to be in a position to prepare a financial information reconciliation. In such situations the circumstances are discussed with the UKLA or the ISE.

26 The UKLA generally encourages issuers preparing an investment circular in a limited access situation to contact them as soon as possible to discuss the exact disclosure requirements. In certain circumstances it may be appropriate for a financial information

reconciliation to be published in a supplementary circular within 28 days of a contested offer becoming unconditional.

Identification of all material differences between the accounting policies of the issuer and the target

27 As explained in paragraph 14 the identification is not confined to the stated accounting policies of the issuer or the target but also encompasses differences between those accounting standards that affect the financial statements of the issuer or the target regardless of whether the application of the accounting standards has been articulated in the statement of accounting policies.

Impact analysis

28 The issuer, therefore, gains an understanding of the differences between the financial reporting frameworks of the target and the issuer and may prepare an "impact analysis". Such an impact analysis may be prepared in conjunction with, or as a development of, the initial determination prepared by the issuer referred to in paragraph 6.

29 The impact analysis should in particular identify those accounting standards in the issuer's or target's financial reporting frameworks that may have a particular impact on the target's or issuer's industries.

30 Using proprietary checklists or synopses of the requirements of accounting standards may assist issuers in preparing an impact analysis.

Calculating the effect on the target's financial information of applying the issuer's accounting policies

31 In order to calculate the adjustments required to be made in respect of each identified difference, between the accounting policies of the target and the issuer, the issuer is likely to require access to the accounting records and related information of the target. To provide support for the calculation of each adjustment the issuer retains appropriate documented evidence.

Ensuring that the bookkeeping is complete and accurate

32 When preparing a financial information reconciliation there are a number of accounting controls that an issuer may apply, for example:

- Ensuring, when making adjustments, that the principles of double-entry bookkeeping are followed. The risk of making one-sided adjustments is mitigated to a great extent if working papers are prepared covering an adjusted income statement, an adjusted balance sheet and an adjusted statement of equity, even if not all of these are to be published.
- Considering the income, and other, tax effects of the adjustments and assessing whether the resultant effective tax rate is understandable and meaningful.

- Analysing the differences between the (adjusted) opening and closing equity account balances. (This is sometimes referred to as an equity roll forward reconciliation.) Such an analysis will be of assistance in checking that the principles of double-entry bookkeeping have been followed where the other side of an adjustment is to an equity account.
- Proving that the cash and cash equivalent position, as adjusted, is the same as that shown by the unadjusted financial statements (unless there is a reason for there being a difference). If there is a difference between the cash position reported on the two bases the issuer should understand how this difference arises and consider whether it may reflect an error in the double-entry bookkeeping applied to the reconciliation process[9].

Internal controls over the reconciliation

33 The following high level internal controls should typically be in place:

- The issuer should have employees (or access to outside experts), and other technical resources, with requisite knowledge and experience to prepare and monitor the preparation of the financial information reconciliation.
- The directors of the issuer should be committed to the proper preparation of financial information reconciliations as evidenced by a careful review of the financial information reconciliations being performed.
- Where applicable, comparing the reconciliation to those made in earlier periods. This may be applicable where the listed company has made an unsuccessful bid for the target in a previous period or a bid for other targets that use the same financial reporting framework.

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9 Cash flow statements are usually not published as part of a financial information reconciliation. Nevertheless, comparing the resultant cash position from moving from the target's financial reporting framework to that of the issuer may be a useful accounting control.

NOTICE TO READERS

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