

MINUTES

MEETING OF: THE INVESTMENT CIRCULARS SUBCOMMITTEE OF
THE AUDITING PRACTICES BOARD

DATE AND TIME: Friday 7 October, at 09.30 a.m.

PLACE 5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

PRESENT

Members T. Troubridge (Chairman)
J. Anderson D. Hilton
K. Desmond S. Hextall
P. Hughes S. Nyman

Observers J Grant (Executive Director, APB)
D. Cattermole U. Newton

Staff S. Leonard (attended by telephone)

APOLOGIES

Members L. Gallagher G. Pimlott
M. Lomers J. Ward

1. Chairman's introduction

The Chairman welcomed members to the fifteenth meeting of the Sub committee. The Chairman also welcomed Messrs. David Cattermole and Jon Grant and Ms. Ursula Newton to the meeting.

(a) The Chairman noted that since the last meeting SIRs 1000 and 2000 had both been issued in final form. They were being used by firms of reporting accountants and so far as he was aware no difficulties had been encountered when using them.

(b) The Chairman noted that the APB's intention was to approve SIRs 3000 and 4000 at its November meeting. The main purpose of this meeting was to discuss the feedback received on these Exposure Drafts and the way in which the staff proposed dealing with the feedback.

(c) The Chairman noted that the London Investment Banking Association had expressed an interest in meeting with the APB to consider whether a joint initiative might be launched regarding private reporting by reporting accountants in the context of investment circulars.

(e) The Chairman noted that a first draft of the Ethical Standard for Reporting Accountants (ESRA) had been tabled at the September APB meeting. The APB's ESRA working party had met the previous day to discuss the APB's input with respect to its proposals. The draft is to be sent to the CCAB for comment prior to it being presented to the November APB meeting for approval. It was expected that there would be a three month comment period.

(f) Mr Grant noted that there was to be a meeting of European national standard setters hosted by FEE, on 26 October, at which the FEE European Capital Markets Committee would make a presentation about the comparison exercise that is currently being carried out across Europe under the auspices of FEE. Mr. Grant had answered the questionnaire on behalf of the APB.

2. Consideration of comments received on Exposure Draft of SIR 3000

Mr Steven Leonard, of the staff, commented that the staff had written to 15 organisations inviting comment on the Exposure Drafts. These organisations included representative bodies of users and preparers of investment circulars.

Four comment letters had been received. Each of the comment letters was quite detailed. However, none of the commentators opposed the specific proposals being made. Their comments were either recommendations to widen or clarify the scope of the proposed SIRs or concerned matters of detailed drafting.

The Sub-committee considered a proposed redraft of SIR 3000 prepared by the staff effecting a number of comments received on the Exposure Draft. The Sub-committee also considered papers prepared by the staff outlining the reasons for not responding to certain proposals for changes to the SIR.

The Sub-committee considered in detail certain overarching comments made by one commentator and concluded as follows:

- (a) That it was unnecessary for the SIRs to include shareholders and potential investors as “users” within the contemplation of reporting accountants. SIR 1000 already uses the defined term “intended user” and, therefore, it would be inappropriate to define this term further in SIR 3000 (or SIR 4000). Furthermore, the commentator appeared to be seeking that the SIRs establish responsibilities which is not their purpose and is established by law and the Listing Rules.
- (b) That it was impractical to expand the reporting accountant’s reports to detail specific tasks that the SIRs require the reporting accountant to undertake. The specific tasks required, by SIRs 1000, 3000 and 4000, to be performed by the reporting accountant are extensive. To explain all of these procedures within the reporting accountant’s report would make it lengthy and of doubtful value to investors.
- (c) Relevance, as a criterion, refers to the relevance of the forecast itself to investors rather than the relevance of the underlying assumptions. The Sub-committee reaffirmed its belief that this criterion is applicable only for directors and not for reporting accountants. Members of the Sub-committee made a number of drafting suggestions to improve the clarity of what is meant by relevance in paragraph 11 of the proposed SIR.

With respect to SIR 3000.1 and in response to a commentator it was agreed that paragraph 27(a) should be amended to require the reporting accountant to design and perform evidence gathering procedures in respect of the background to, and nature of, the circumstances in which the profit forecast was made.

The Sub-committee concurred with the following proposed structural changes to the SIR:

- The inclusion of a new section entitled “Modified Opinions” in order to conform to the structure of SIR 1000.

- The inclusion of an appendix setting out examples of engagement letter clauses in order to conform to the structure of SIR 2000.

The Sub-committee concurred with the following proposed changes to the illustrative reports in Appendices 6 and 7.

- That, consistent with SIR 2000, the examples should not specify who should be the addressee of the reporting accountant's report.
- That the Declaration required by the Prospectus Rules should be included immediately following the opinion.

3. Discussion of proposed wording of the reporting accountant's report in takeover situations.

The Chairman noted that the Director-General of the Panel on Takeovers and Mergers (the Panel) had expressed concern to him and the APB staff because the staff of the Panel had not been consulted during the preparation of SIR 3000. He had expressed particular concern about the paragraph proposed to form part of the reporting accountant's opinion in takeover situations.

Subsequently, the Chairman had met with the Director General and other senior members of the Panel Staff to discuss the wording of the reporting accountant's opinion in takeover situations. The Chairman and Mr Stephen Hextall would be making a presentation to senior staff of the Panel on 10 October and having further discussions concerning the wording to be used in takeover situations. The Chairman undertook to revert to members of the Sub-committee on the outcome of these discussions by e-mail.

4. Consideration of comments received on Exposure Draft of SIR 4000

The Sub-committee considered a proposed redraft of SIR 4000 prepared by the staff effecting a number of comments received on the Exposure Draft. The Sub-committee also considered papers prepared by the staff outlining the reasons for not responding to certain proposals for changes to the SIR.

The Sub-committee concurred with the following proposed structural changes to the SIR:

- The inclusion of a new section entitled "Modified Opinions" in order to conform to the structure of SIR 1000. A number of consequential changes have been made including amending SIR 4000.9 to make clear that the PD Regulation requires the reporting accountant to issue a positive and unmodified opinion.
- The inclusion of an appendix setting out examples of engagement letter clauses in order to conform to the structure of SIR 2000.

The Sub-committee concurred with the following proposed changes to the illustrative reports in Appendices 6 and 7.

- That, consistent with SIR 2000, the examples should not specify who should be the addressee of the reporting accountant's report.
- At the suggestion of a commentator the following words be added to the second paragraph in the basis of opinion section, "...and that such basis is consistent with the accounting policies of ABC plc."
- That the Declaration required by the Prospectus Rules should be included immediately following the opinion.

In response to a concern expressed by the ICAEW, what was Appendix 5 to the Exposure Draft (Sections of ICAEW Guidance TECH 18/98 that remain relevant) has been recharacterised as an Annexure to SIR 4000. The ICAEW has indicated that it intends to

update and reissue TECH 18/98 and expressed concern that, when this occurs, the Appendix would be irrelevant. A footnote has been added to the Annexure alerting readers to the fact that when the ICAEW updates the guidance that the Annexure should not be used.

5. Private reporting

The Chairman noted that consideration was being given to develop, in conjunction with the London Investment Banking Association (LIBA), a Bulletin or series of Bulletins dealing with private reporting, for example when reporting on working capital or financial reporting procedures. It was presently envisaged that such a Bulletin would provide illustrative wording for reporting accountant's private reports in these areas. There were provisional plans for representatives of the Sub-committee to meet with the members of LIBA's Corporate Finance Committee.

Following discussion it was agreed that it would be appropriate to have an exploratory meeting with LIBA having the objective described in the preceding paragraph.

6. Application of SIRs in the Republic of Ireland

Mr. Jon Grant reported that he had attended a meeting at the Institute of Chartered Accountants in Ireland (ICAI), in Dublin, earlier that week. He reported that the ICAI was developing a Bulletin outlining the legislative differences and comparative references as between the United Kingdom and the Republic of Ireland.

It was envisaged that the Bulletin would have appendices for each of SIRs 1000, 2000, 3000 and 4000. The appendices for SIRs 1000 and 2000 had been developed. Once SIRs 3000 and 4000 were finalised appendices would be developed in respect of these.

7. Any other business

Ms. Susan Nyman raised with the Sub-committee the need for clarity as to whether reporting accountants are expected to comply with SIR 4000 when asked to report on pro forma financial information included in an AIM document. Similarly if a reporting accountant's report on a profit forecast is included in an AIM document should a reporting accountant be required to comply with SIR 3000? Ms. Nyman undertook to draft a letter, on behalf of the Sub-committee, to send to AIM to seek to clarify AIM's intentions.