

SUMMARY MINUTES

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

DATE AND TIME: Friday 16 March 2007, at 9.30 a.m.

PLACE: Aldwych House
71-91 Aldwych
London WC2B 4HN

PRESENT:

Members	T. Troubridge (Chairman)	M. Lomers
	K. Desmond	S. Nyman
	S. Hextall	L. Piller
	D. Hilton	J. Ward
	P. Hughes	

Observers J. Anderson (PricewaterhouseCoopers)
D. Cattermole (KPMG)
J. Grant (Executive Director, APB)

Staff S. Leonard

APOLOGIES:

Members	L. Gallagher	G. Pimlott
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1. Chairman's introduction

The Chairman welcomed members to the nineteenth meeting of the Sub-committee. The Chairman commented on the following matters that had arisen since the previous meeting:

- The Chairman (with Messrs Grant and Leonard) had attended a meeting the previous day with Mr. Richard Fleck (Chairman of APB), Mr John Kellas (Chairman of IAASB) and Mr David Swanney (a member of IAASB) to discuss the preliminary plans that the IAASB is making with respect to the possible development of Euro SIRs. The Chairman updated the Sub-committee on what had been said at the meeting and the views of the Chairman of APB that had been communicated to the Chairman of IAASB.
- The APB annual report had been published.
- Mr Kevin Desmond commented that Regulation (211/2007) amending the PD Regulation "as regards financial information in prospectuses where the issuer has a complex financial history or has made a significant financial commitment" was approved on 27 February 2007 and published in the Official Journal of the European Union on 28 February 2007.

2. Approval of summary minutes of last meeting

The summary minutes of the last meeting, held on 8 February 2007, were approved subject to a few minor amendments.

3. Reporting in accordance with SIR 2000

(Note: The discussion relating to this Agenda item relates to a dialogue between the accounting firms represented on the Sub-committee and the Financial Services Authority

regarding the wording to be suggested to companies regarding the basis of preparation of financial statements when IFRS cannot easily be applied due to there being a complex financial history. This issue is not within the formal remit of the APB or the Sub-committee, the timing of the discussion took advantage of the individuals being in a single location)

Further to the discussion at the previous meeting a revised version of the illustrative basis of preparation note and the related explanatory note had been tabled. Members of the Sub-committee supported the revised version subject to certain minor changes being made to the illustrative basis of preparation note. These changes were:

- Deletion of the phrase “including the implementing regulation as regards issuers with complex financial histories”.
- Deletion of the words “all” and “material” in the penultimate sentence of the third paragraph.
- The addition of the words “[other, as applicable]” so that the list of conventions is not an all inclusive list.

Staff was asked to make these changes and to circulate the final version (in pdf format) to members of the Sub-committee.

4. Consideration of a proposed SIR on “GAAP Reconciliations”

The Sub-committee reviewed in detail a revised draft of a proposed Standard for Investment Reporting (SIR) on GAAP reconciliations. The body of the draft SIR had been revised to reflect comments made at the previous meeting.

Members of the Sub-committee made a number of drafting suggestions including:

- In paragraph 21 of the SIR reinstating what had been point (g). (Reporting accountant to obtain an understanding of the extent to which the issuer has either employees with knowledge and experience of the target’s financial reporting framework or access to such knowledge.)
- Reinstating the bulleted list of accounting control techniques in paragraph 32.
- Merging bold letter paragraphs 38 (consistent accounting policies) and 31 (public reporting engagement risk).
- The Annexure should begin with paragraphs addressing the obligations of the issuer rather than the obligations of the reporting accountant.
- Within the Annexure, clearly delineating the accounting conventions from management’s processes. (The Sub-committee decided to specifically seek the advice of the APB as to whether the material on management’s processes should be included in the Annexure. Making a clear delineation would facilitate the discussion with APB).

It was agreed that the staff should prepare a revised draft incorporating these and other drafting suggestions made by members of the Sub-committee. The redrafted version would be circulated to members of the Sub-committee for further comment with a view to a proposed Exposure Draft being presented to the APB for approval at its meeting on 21 May 2007.

It was agreed that the covering note to the APB should:

- Discuss the extent to which the engagement team should have knowledge of the target’s financial reporting framework; and
- Discuss the proposed scope of the Annexure. In particular the note should point out that the part of the Annexure addressing management’s processes (accounting and

internal controls) goes further than the Annexure in SIR 2000 which does not address management's processes.

5. The status of the “Standards for Investment Reporting”

Mr James Anderson presented a draft paper that had been prepared following discussion at the previous meeting of the scope and authority of the SIRs. Mr Anderson indicated that the purpose of the paper was to summarise various aspects of the scope and authority of the SIRs and to pose a number of questions. The Chairman noted that this discussion was particularly relevant in the context of the proposed development of “Euro SIRs” by the IAASB. He commented on the facts that:

- compliance with the SIRs is not mandatory and that their status is essentially that of best practice guidance; and
- there is no inspection regime with respect to work performed by reporting accountants with respect, in particular, to initial public offerings.

There was broad agreement with the content of the paper. Mr Anderson was asked to include a paragraph dealing with changes arising from the 8th Directive.

It was concluded that the paper would form a useful basis for discussion with various interested parties.

6. Any other business

There were no matters raised under “Any other business”.