

SUMMARY MINUTES

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

DATE AND TIME: Tuesday 20 November 2007, at 9.30 a.m.

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

PRESENT:

Members	T. Troubridge (Chairman)	K. Desmond
	S. Nyman	S. Hextall
	D. Hilton	J. Ward

Observers D. Cattermole (KPMG, substituting for P. Hughes)
H. Postlethwaite (FSA, substituting for L. Piller)

Staff S. Leonard

APOLOGIES:

Members	P. Hughes	L. Gallagher
	M. Lomers	L. Piller
	G. Pimlott	

1. Chairman's introduction

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

- The International Audit and Assurance Standards Board (IAASB) had commenced a project to evaluate the feasibility of developing assurance standards relating to services relevant to the world's capital markets. The Assurance Standards envisaged will address areas that are dealt with by the SIRs: for example pro forma financial information. The IAASB is also planning to revise ISAE 3400, *The Examination of Prospective Financial Information*. Three members of the Sub-committee are members of the IAASB Task Force.
- He had met with the Chief Executive of the FRC to discuss the enforceability of the SIRs in UK capital markets. The meeting had been constructive and the FRC's Chief Executive had indicated that he would be raising this subject with the Financial Services Authority. The Chairman noted that the FSA is about to issue a Discussion paper on the "Structure of the Capital Markets" and that this topic will need to be revisited in light of what this paper says. The Chairman further commented that he had reiterated his concerns regarding the enforceability of the SIRs during a recent discussion of the APB's strategy and priorities for 2008/9.
- Members were reminded that the APB was currently consulting on the content of its Ethical Standards. Although the APB is not, at this time, reviewing the ESRA the Chairman suggested that members should review the proposed

changes and satisfy themselves that there would be no difficulty in applying the proposals to the ESRA. If difficulties were anticipated members were encouraged to respond to the consultation.

2. SIR 5000 “Investment Reporting Standards applicable to Public Reporting Engagements on Financial Information Reconciliations”

Mr. Leonard commented that the APB had issued the Exposure Draft of SIR 5000, dealing with GAAP Reconciliations in Class 1 circulars, in June 2007. Nine comment letters had been received and copies of them had been circulated.

The staff had prepared a detailed analysis of the comments made in eight of the letters and circulated this, along with a proposed redraft of the SIR, to members in advance of the meeting. As one of the comment letters had been received following completion of the staff analysis its comments would be dealt with during the meeting.

Mr. Leonard noted that although a large number of comments had been received, the commentators were generally supportive of the issuance of the SIR and of most of the positions adopted in the proposed SIR.

The Sub-committee discussed in detail a number of changes that the staff were proposing to the proposed SIR: the main areas of focus of the discussion were:

- The extent to which the engagement team should have knowledge of the target’s financial reporting framework.
- Whether proposed enhancements to the description of the reporting accountant’s work effort with respect to the completeness of adjustments were needed.
- The proposed additional guidance relating to hostile bids.
- The proposed amplification of the expression “the nature of the target’s and the issuer’s businesses”.
- The detailed wording of the report from the reporting accountant, and the need for a statutory declaration at the end of the report.
- What constitutes an “accounting policy” and the proposed clarification in the SIR and the Annexure that the accounting policies of the issuer that should be used are those in its last published financial statements.
- Additional guidance proposed for the Annexure concerning whether changes in accounting estimates warrant an adjustment.
- Whether the final paragraph of the Annexure, which addresses internal control, should be applied to all issuers or only to those with experience of GAAP reconciliations. Whether this paragraph, suitably adapted, should be included in the main body of the SIR.
- The extent to which the SIR and the Annexure should “stand alone” from each other.

The Sub-committee discussed the content of the comment letter that had been received subsequent to the staff analysis being prepared. In particular, the Sub-committee considered the main concern of this commentator that the SIR should make clear that a reporting accountant is required to assess a determination by the issuer’s directors that no reconciliation needed to be issued or prepared. The Sub-committee concluded that it would be inappropriate to have such requirements in the SIR as the Listing Rules do not require the reporting accountant to make such a determination. The Sub-committee did however concur with the commentator that there should be clarity that the issuer should

carefully and comprehensively identify the differences that arise from applying the issuers' accounting policies to the target's financial information. It was proposed that a paragraph to this effect be included in the Annexure to the SIR.

With respect to those comments where the staff had recommended that no changes be made to proposed SIR 5000, the Sub-committee agreed that:

- The wording in Appendix 3 of AAF 02/06 (issued by the ICAEW) should not be included in the illustrative report from the reporting accountant as it is contrary to APB policy and practice to include liability limitation wording in the example reports that it publishes.
- The SIR should not address various issues that arise when a Class 1 circular is issued in the same document as a prospectus because such issues primarily involve interpretation of the FSA Rules. It was suggested that in such circumstances that reporting accountants should consult with the FSA.
- The wording in Paragraph 2 of the SIR "In such cases the guidance in this SIR may be helpful to reporting accountants" should not be expanded upon to bring private reporting and other public reports required by Regulation within the ambit of the SIR. It was, however, agreed that reference should be made to the fact that the SIR may be used in situations equivalent to a Class 1 circular on markets, other than the main market, such as AIM and PLUS.

Mr Leonard noted that the Exposure Draft had invited commentators to specify any aspects of the proposed SIR that would have a significant cost impact. No comments had been made in response to this invitation and this would suggest that commentators believe that adoption of the SIR would not increase the cost of reviewing a GAAP reconciliation in a Class 1 circular.

In concluding the discussion the Chairman thanked the members of the Sub-committee for their input and indicated that the staff would redraft the proposed SIR taking account of comments received. The proposed re-drafted SIR would be circulated electronically to members of the Sub-committee and a conference call would likely be held to finalise a draft to be submitted to the APB for approval and issuance.

The Chairman expects that the APB would consider the final draft at its meeting in January 2008. If the APB were to approve the SIR it would be published in early February and likely be effective for reports signed after 30 April 2008.

3. Any other business

There were no matters raised under "Any other business".