



March 2020

CONSULTATION FEEDBACK STATEMENT & IMPACT ASSESSMENT

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Consultation Feedback Statement & Impact Assessment

1 Background

- 1.1 SIRs contain the standards and guidance which reporting accountants are required to follow when carrying out engagements in connection with UK regulated investment circulars. These engagements include private reporting, for example on working capital statements, as well as public reporting engagements on published financial information. SIR 1000 provides basic principles and procedures for all relevant engagements, and SIRs 2000-6000 provide additional principles and procedures for specific types of public reporting.
- 1.2 The SIRs continue to be used widely by reporting accountants, but most have not been revised since 2005-06. Changes to relevant regulations and legislation meant that they needed to be updated to remain fit for purpose, and also to take account of new types of engagement – most notably reports on Quantified Financial Benefits Statements (QFBS) published during takeovers. Our outreach during the project suggested that – for practitioners – the fundamentals of these standards remained sound. By contrast, investors, who are users of the assurance, showed varying degrees of awareness of why these standards exist. A consultation on revision of the Standards therefore allowed us to make sure that the SIRs continue to be fit for purpose, and to address any concerns in the market.
- 1.3 Our review anticipated changes in EU Rules, with a new Prospectus Regulation ((EU) 2017/1129) being adopted on 14 June 2017 and fully in force within the EU by July 2019. The FCA's Prospectus Regulation Rules Sourcebook has now been updated to incorporate the final Prospectus Regulation Rules, including the detailed disclosure requirements set out in Commission Delegated Regulation (EU) 2019/980 supplementing Regulation (EU) 2017/1129. The SIRs have been updated to reflect these latest rules.
- 1.4 Overall, we have made the SIRs more consistent with contemporary auditing and assurance standards.

2 The Consultation

- 2.1 Our consultation was launched on 1st May and closed on 26th July 2019. We asked seven key high-level questions, and asked for detailed comments on exposure drafts of revised Standards 1000-5000, and a new SIR 6000.
- 2.2 Despite investor outreach, we received only 7 formal written responses all of which were from practitioners or professional bodies.

Respondent Type	Responses
Practitioner	6 BDO, Deloitte, EY, Grant Thornton, KPMG, PwC
Professional Body	1 ICAEW

- 2.3 A lack of formal written feedback from the investors who place reliance on the work of reporting accountants is disappointing in respect of our questions relating to Reporting (Q2 & Q3) and the usefulness of the 'Fair Balanced and Understandable' criteria drawn from the Corporate Governance Code (Q5).
- 2.4 Question 3 asked for feedback on whether we should add the words 'in all material respects' to our illustrative reports. The results of our consultation, and ongoing discussions with relevant regulators, indicated that market participants were more concerned with regulatory alignment than with our proposed change. We have therefore decided not to proceed with this proposal.

3 Responses to the 7 high-level questions

Q1 Overall – Do you agree with the proposed revisions to the SIRs? If not, please explain why?

- 3.1 Overall respondents welcomed the proposed revisions to the SIRs, caveated by the detailed comments on specific individual standards, and our final proposals in respect of reporting (see questions 2 and 3 below).
- 3.2 Whilst there were a significant number of detailed comments on the text of the revised SIRs, these were largely a call for clarification of the text and more precise alignment with the language used in relevant regulations. All respondents cautioned that we allow sufficient time to incorporate final changes to the Prospectus regime once the UK's future relationship with the EU was less uncertain. We therefore delayed finalisation of the SIRs to allow us to incorporate references to the final rules.

Q2 Reporting – The form of the opinions given by reporting accountants is set by regulation (either 'true and fair' or 'properly compiled'). The illustrative accountant's reports included in the revised SIRs have not been significantly changed. Do you believe that reports issued by reporting accountants should be revised further to include such matters as: materiality; scope of work; key matters/risks identified?

- 3.3 Overall, respondents to this question expressed some cautious interest in the concept of 'extended auditor reporting' for 'True and Fair' opinions given on Historical Financial Information (HFI) in compliance with SIR 2000. However, this was caveated with two broad concerns:
- (a) That any such proposals be preceded by a further period of research and investor outreach to ensure that the specific characteristics of SIR 2000 engagements are reflected in the final proposals; and
 - (b) A clear demonstration that any such proposals meet a genuine demand from users.
- 3.4 All respondents were opposed to the extension of this form of reporting to 'properly compiled' reporting engagements under SIRs 3000, 4000, 5000 and 6000. This is because these engagements are seen to be less similar in character to an audit, and because there is perceived to be a greater risk of confusion arising amongst users of the assurance in respect of technical terms such as materiality.
- 3.5 It is disappointing that we did not receive any formal consultation responses from investors and other users. Previous outreach had suggested an appetite for more expansive reporting to help investors understand the nature of these engagements,

the scope of the work being done and the key judgements in play. It is still our view that such reporting would enhance understanding of the role of reporting accountants in the UK capital markets, and potentially increase confidence in (and reliance on) their work. We do not agree that a fundamentally different reporting regime should apply to 'True and Fair' as compared to 'Properly Compiled' reporting engagements, although there might be some differences in the specifics of the requirements.

- 3.6 However, in the absence of evidence of significant demand for a form of extended auditor reporting we do not propose to proceed with this proposal in the current revisions of the SIRs.

Q3 Reporting – We are proposing to amend the form of the reporting accountant's opinion included within the illustrative reports for SIRs 3000, 4000, 5000 and 6000 to include the words 'in all material respects'. This reflects the application of the concept of materiality by those preparing the information under review, and by the reporting accountants engaged to provide assurance on it. This does not represent a substantive change, except to better align the language used in accountant's reports with other similar assurance reports. Do you agree with this change?

- 3.7 3 of our 7 respondents agreed either in principle or 'conceptually' with our proposed change, and none opposed it. However, the overriding concern was for regulatory alignment – that the standards issued by the FRC contain illustrative reports in a form that are acceptable to the Financial Conduct Authority (FCA) and the Takeover Panel as well as complying with Prospectus Regulation Rules. We have therefore decided not to proceed with this proposal at this time.

Q4 EQCR - SIR 1000 has been revised to reflect the latest IAASB quality control standards, including the requirement for firms to establish policies and procedures to engagement quality review to be performed for engagements with significant public interest (for example those that are undergoing, or plan to undergo, an initial public offering). Do you believe that the SIRs should go further and mandate an EQCR for public reporting or private reporting engagements under the SIRs?

- 3.8 Our initial proposal, reflected in the exposure draft of SIR 1000, was to align the standard with developments in the international quality control standards being developed by the IAASB. At a very high level these standards mandate EQCR reviews for certain types of audit engagement and describe the 'public interest' characteristics of other types of assurance engagement for which a firm should have policies in place to identify when an EQCR would be appropriate.

- 3.9 Respondents to our consultation fell into three categories:

- (a) That the status quo should continue, and the firms should decide which type of engagement should be subject to an EQCR review (1 practitioner);
- (b) Those in favour of the extension of mandatory EQCR for all public and private reporting engagements carried out in accordance with the SIRs, acknowledging that this work has a clear public interest aspect (1 practitioner);
- (c) The extension of mandatory EQCR, suitably tailored to the circumstances of the individual engagements, to all public reporting engagements under the SIRs (4 practitioners, 1 professional body).

- 3.10 We believe that the public interest arguments presented in favour of the final option are persuasive. We have therefore amended SIR 1000 to mandate EQCR for public interest assurance engagements carried out in accordance with the SIRs (ie public reporting engagements). We further note that the developments in the international quality control standards will still require firms to consider public interest arguments in favour of EQCRs for private reporting assurance engagements.

Q5 Fair, Balanced and Understandable – Do you agree with the inclusion of the ‘fair, balanced and understandable’ as potentially relevant principles from the Corporate Governance Code when reporting accountants are assessing whether an investment circular is misleading?

- 3.11 All respondents were opposed to the introduction of the ‘fair, balanced and understandable’ criteria into SIR 1000 (**paragraph 81 of the exposure draft**). Respondents argued that this could potentially lead to a significant expansion of the reporting accountant’s responsibilities in respect of an Investment Circular, including applying these criteria to parts of the document otherwise unrelated to their work, and beyond the professional expertise of the reporting accountant (for example those parts prepared by legal advisers).
- 3.12 When giving consent to the inclusion of their report in the Investment Circular, the extant version of SIR 1000 requires that the reporting accountant considers the form and context in which the report will appear and:
- i. comparing its public report together with the information being reported on to the other information in the rest of the investment circular and assessing whether the reporting accountant has any cause to believe that such other information is inconsistent with the information being reported on; and*
 - ii. assessing whether the reporting accountant has any cause to believe that any information in the investment circular is misleading.*
- 3.13 Some practitioners interpret this responsibility more narrowly than others – and have argued in their consultation responses that it is not necessary for them to consider the Investment Circular as a whole in order to assess whether they have any cause to believe the information is inconsistent or misleading. Others believe that the key phrase is the ‘form and context’ in which their report appears, rather than a more thorough assessment of the Investment Circular (although this form of words has been removed by the new Prospectus Regulation).
- 3.14 We believe that these responsibilities could only be met by the reporting accountant considering the Investment Circular as a whole. However, we do not believe there is sufficient agreement on what the criteria ‘fair, balanced and understandable’ (FBU) might mean in the context of a highly technical prospectus document or other relevant investment circular. We also note that the prospectus regime itself requires issuers to consider different criteria when preparing prospectus documentation (completeness, comprehensibility, consistency) and that the inclusion of FBU within the SIRs might therefore create confusion rather than add to reporting transparency. We have therefore decided not to make this change to SIR 1000.

Q6 Requirements - Have any extant requirements or guidance been deleted that you believe should be retained? If yes, please explain why it should be retained and whether, and if so how, it should be updated.

3.15 Key issues arising are dealt with in the detail of the individual SIRs below.

Q7 QFBS/SIR 6000 - Do you agree with the development of a new SIR 6000 in respect of public reporting engagements on the proper compilation of a QFBS? Do you have any specific comments about the draft SIR 6000 contained in this consultation?

3.16 All of our respondents supported the introduction of a new SIR 6000. No fundamental issues were identified which suggested the exposure draft was not fit for purpose, although there were a relatively large number of detailed drafting suggestions. Section 2 sets out the key changes we have made to the exposure draft as a result.

4 Detailed comments on the exposure drafts

SIR 1000

4.1 In the course of our stakeholder outreach we determined that the practitioner users of this standard considered it to be fit for purpose. The underlying assurance model, and the setting of high-level principles and requirements for all relevant investment circular reporting work was considered sufficiently flexible to allow its application to many different types of engagement. We therefore implemented minor updates to SIR 1000 to reflect changes to legislation, regulation and other related auditing and assurance standards (ISQC (UK) 1, Client Assets Standard; ISAE 3000¹).

4.2 Specific issues to be considered in respect of SIR 1000 include:

- (a) **EQCR** – in the light of feedback to our consultation on the exposure draft of SIR 1000, we are mandating an EQCR for each public reporting engagement carried out in accordance with SIRs 2000, 3000, 4000, 5000 and 6000. [see **requirement 1000.6**]
- (b) **Fair, Balanced and Understandable** – Reporting accountants are required by the SIRs to consider whether the document (investment circular/prospectus) in which their report or name is included is ‘misleading’ when considered in its entirety. For entities which are either required to, or voluntarily comply with the UK Corporate Governance Code, we amended SIR 1000 to include the criteria of ‘fair, balanced and understandable’ as part of that consideration. The response to our specific consultation **Question 5** on that change is set out above.

SIR 2000

4.3 SIR 2000 deals with reporting accountant engagements to give a true and fair opinion on the historical financial information (HFI) that is required to be included in investment circular/prospectus. The purpose of this information is to provide investors with a relevant financial track record about the entity which is the subject of the proposed transaction, and which has been prepared in a broadly consistent and comparable way. SIR 2000 includes an annexure of ‘accounting conventions’ which are generally used when historical financial information is being prepared. Our proposed changes to SIR 2000 were relatively superficial.

4.4 Key issues arising from the consultation include:

¹ In 2020 the FRC intends to consult on the adoption of ISAE 3000 in the UK for specified engagements.

- (a) **Reliance on other auditors** – all practitioner respondents challenged our assertion that when a reporting accountant seeks to place reliance on other auditors in a SIR 2000 engagement, that that was analogous to the considerations a group auditor under ISA (UK) 600. Whilst we recognise that there are some important contextual differences – with the fact that HFI covers a period of 3 financial years being the most obvious – we remain convinced that SIR 2000 required strengthening in this area (not least identifying which are the relevant independence considerations). We therefore amended the relevant text in the exposure draft to remove explicit references to ISA (UK) 600, but retained the substance of the requirements.
- (b) **Annexure** – SIR 2000 includes an annexure which was originally intended to “describe conventions commonly used for the preparation of historical financial information intended to show a true and fair view for the purposes of an investment circular”. In essence it bridges a gap between relevant accounting standards, and actual market practice in the preparation of Historical Financial Information for the purposes of Investment Circulars (covering scenarios and situations not explicitly dealt with by specific accounting standards). We have received consistent feedback that this annexure is of significant importance and continued relevance for practitioners – particularly in the absence of any other similar guidance. When updating SIR 2000 we sought to ensure that the annexure was updated – as far as possible – to take account of market changes and developments in accounting standards. However, feedback to our consultation suggested that the majority of practitioners would have liked a more thoroughgoing update to the annexure.

Whilst there are many detailed suggestions as to how the material could be updated to reflect current market practice in specific areas, there are also many areas where respondents called for more ‘guidance’ in areas which are still relatively untested by the market. If the FRC were to develop such material, we would run the risk of effectively setting accounting standards, rather than describing what current market conventions are. The increasing complexity of some IFRSs adds to this risk. For example, when multiple options are allowed within IFRS for retrospective implementation of a standard, how should these then be treated when information from several entities is combined within the HFI published in an Investment Circular? The risk is particularly acute for HFI because the reporting accountant is seeking to give an opinion that it is ‘true and fair’.

Rather than remove the annexure in its entirety we have therefore concluded a more modest review of the annexure, informed by the detailed comments from our consultation.

SIR 3000

- 4.5 SIR 3000 establishes standards and guidance for reporting accountants who are engaged to report publicly on the proper compilation of profit forecasts to be included in an investment circular. The exposure draft reflected changes in the Prospectus regime from 2019, where it is no longer mandatory to include a reporting accountant’s report in a prospectus/investment circular. The inclusion of such a report is still mandatory for relevant transactions under the UK *Takeover Code*.
- 4.6 In addition to editorials and other drafting suggestions specific issues to note include:

- (a) **Reporting** – we were proposing to include the words ‘in all material respects’ in the opinion section of the accountant’s report (and for each of the ‘properly compiled’ SIR engagements). This is discussed above in response to the high-level **Question 3** from the consultation.
- (b) **Criteria Definitions** – the *Takeover Code* provides definitions of the three criteria of ‘understandability’, ‘reliability’ and ‘comparability’ which must be used when preparers produce profit forecasts. However, these are relatively brief, and from the perspective of the SIRs are not explicitly linked to the definitions used by the IAASB when applied to the work of an assurance practitioner. SIR 3000 now expands on what these criteria should mean for a reporting accountant engaged on work of this kind, with the objective of ensuring greater consistency in the way they are performed.

2 practitioner respondents queried the material we have added to the standard. We note that the extant version of the SIR already went beyond the definitions in the *Takeover Code* with reference (primarily) to ICAEW guidance. We have not identified inconsistencies between the definitions in the *Code* and the material we have added to SIR 3000. We believe that this broader based material ‘unpacking’ the criteria within the *Code* also allow for a wider use of SIR 3000 for the types of private engagement described immediately above. We therefore retained this material in the final version of the standard.

- (c) **Private reporting** - 1 respondent questioned whether there was scope to make the standard easier to apply in the context of voluntary private reporting engagements, rather than focussing on those public reports required by the *Takeover Code*. In our view, SIR 1000 already allows for the SIRs intended to deal with public reporting engagements to be used private reporting (where relevant). We have, for example, expanded on the *Takeover Code* criteria Reporting Accountants consider when giving their opinion on profit forecasts.
- (d) **Professional Advisers** - under the *Takeover Code*, offerors/offerees who publish profit forecasts are required to obtain and publish opinions on the proper compilation of those forecasts from both a reporting accountant and their professional advisers. Specifically, the professional advisers are required to give an opinion as to whether the forecast has been prepared with ‘due care and consideration’. We therefore included additional material in SIR 3000 setting out expectations and requirements about the relationship and interactions between RAs and financial advisers. Our objective was to require RAs to consider the risk that a financial adviser might independently identify areas of concern, or that different opinions might be given. However, 5 of the 6 practitioner respondents asked for this material to be removed from the draft SIR on the grounds that – in fact – financial advisers are almost entirely reliant on the work carried out by the RA when forming their opinions. As a result, we have amended this part of the SIR.

SIR 4000

- 4.7 SIR 4000 establishes standards and guidance for reporting accountants who are engaged to report publicly on pro forma financial information to be included in an investment circular. Pro forma financial information presents the hypothetical impact of a ‘significant gross change’ (transaction) on the entity, in order to allow investors to make an informed assessment of an investment proposal. Typically, pro forma financial information is required where published historical financial information does

not accurately reflect the impact of a transaction, or where a transaction has not yet been completed.

- 4.8 This SIR was in need of mostly cosmetic updating. Changes to EU prospectus regulations had minimal impact on pro forma reporting requirements. We also incorporated relevant material from the updated ISAE 3420, *Assurance Standards to Report on the Compilation of Pro Forma Financial Information*.
- 4.9 We received relatively minor editorial comments on the exposure draft of SIR 4000 from 4 of our respondents (all practitioners). Some queried the inclusion of material from ISAE 3420 because of a perceived risk that additional procedures might be required which they interpret as going beyond the requirements of regulation. However, in our view, greater consistency with the IAASB standard is desirable and the additional material helpful. No significant changes to the exposure draft have therefore been made.
- 4.10 Specific issues to note include:
- (a) **Reporting** – we are proposing to include the words ‘in all material respects’ in the opinion section of the accountant’s report (and for each of the ‘properly compiled’ SIR engagements). This is discussed above in response to the high-level **Question 3** from the consultation.

SIR 5000

- 4.11 SIR 5000 sets standards and guidance for reporting accountants who are engaged to report publicly on financial information reconciliations included in Class 1 circulars under the UK Listing Rules. The purpose of financial information reconciliations is to identify material differences which arise from the different accounting policies adopted by a target and an issuer in a Class 1 transaction. Where material differences are identified, companies are required to include an opinion from a reporting accountant as to whether the adjusted financial information has been properly compiled and whether the adjustments are appropriate to allow the adjusted information to be materially consistent with the issuer’s accounting policies.
- 4.12 SIR 5000 was last updated in February 2008, since when there have been several revisions to the UK Listing Rules. Changes made relating to financial information reconciliations have been relatively cosmetic, but the Standard needed to reflect the latest rules and needed updating throughout. References to the Irish Listing Rules also had to be deleted since the revised SIRs will be UK only.
- 4.13 We received only minor editorial comments on the exposure draft of SIR 5000 from 4 of our respondents (all practitioners). No significant changes have therefore been made.
- 4.14 Specific issues to note include:
- (a) **Reporting** – we are proposing to include the words ‘in all material respects’ in the opinion section of the accountant’s report (and for each of the ‘properly compiled’ SIR engagements). This is discussed above in **Question 3**.

SIR 6000

- 4.15 SIR 6000 is a new SIR which deals with reporting engagements connected with Quantified Financial Benefits Statements (QFBSs). QFBSs contain estimates of

synergy benefits and other quantified financial benefits (including costs) made in the context of a proposed takeover. They can be prepared by both offerors and by target companies as a defensive measure against a hostile takeover. Under changes to the *Takeover Code* since the last revision to the SIRs, preparers of QFBs are required to include in their publication an opinion by a reporting accountant that the statement has been properly compiled, as well as a statement by their financial advisers that it has been prepared with due care and diligence.

4.16 **Question 7** of our consultation asked specifically whether respondents welcomed the development of the new standard, and for detailed comments on the exposure draft. All of our formal respondents, and other stakeholders with whom we discussed the proposal (including the Takeover Panel) were in favour of our proposal. Since this is an entirely new standard, we anticipated a relatively large number of detailed drafting issues.

4.17 Specific issues to note include:

- (a) **Reporting** – we are proposing to include the words ‘in all material respects’ in the opinion section of the accountant’s report (and for each of the ‘properly compiled’ SIR engagements). This is discussed above in response to the high-level **Question 3** from the consultation.
- (b) **Criteria Definitions**, paras 9-14 – the *Takeover Code* provides definitions of the two criteria of ‘understandability’ and ‘reliability’ which must be used when preparers produce QFBs. However, these are relatively brief, and from the perspective of the SIRs are not explicitly linked to the definitions used by the IAASB when applied to the work of an assurance practitioner. SIR 6000 expands on what these criteria should mean for a reporting accountant engaged on work of this kind, with the objective of ensuring greater consistency in the way they are performed.

Practitioner respondents queried the material we have included in the standard. We note that the extant version of the SIR already goes beyond the definitions in the *Takeover Code* with reference (primarily) to ICAEW guidance. We have therefore retained this material in the final version of the SIRs.

- (c) **Professional Advisers** - under the *Takeover Code*, offerors/offerees who publish QFBs are required to obtain and publish opinions on the proper compilation of those forecasts from both a reporting accountant and their professional advisers. Specifically, whereas the RA gives an opinion on the proper compilation of the QFB on the basis stated, the professional advisers are required to give an opinion as to whether the QFB has been prepared with ‘due care and consideration’. Consistent with SIR 3000 feedback, our respondents asked for this material to be removed from the draft SIR. As a result, we have amended the material (consistent with SIR 3000).

Impact Assessment

4.18 The work carried out by reporting accountants is required by rules set by the FCA (incorporating EU Prospectus Regulation Rules), and the Takeover Panel. The SIRs set requirements and provide guidance for the conduct of that work, in order that reporting accountants comply with those rules. The FRC has not identified any additional costs arising from the changes proposed to existing SIRs by the FRC, or the development of the new SIR dealing with QFBs. Any costs arising from the

requirements on reporting accountants form fall within the respective impact assessments of the policy making regulator.



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