Consultation

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Exposure Drafts

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STANDARDS FOR INVESTMENT REPORTING

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1000 – INVESTMENT REPORTING STANDARDS APPLICABLE TO ALL ENGAGEMENTS IN CONNECTION WITH AN INVESTMENT CIRCULAR

Preface

SIR 1000 contains basic principles and essential procedures (''Investment Reporting Standards''), indicated by paragraphs in bold type, with which a reporting accountant is required to comply in the conduct of all engagements in connection with an investment circular prepared for issue in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom.

SIR 1000 also includes explanatory and other material, including appendices, in the context of which the basic principles and essential procedures 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.

The definitions in the glossary of terms set out in **Appendix 4** 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.

To assist readers, SIRs contain references to, and extracts from, certain legislation, chapters of the Handbook of the Financial Conduct Authority (FCA), the *City Code on Takeovers and Mergers* and other applicable regulations. Readers are cautioned that these references may change subsequent to publication.

Introduction

Scope of this Standard

1. The Ethical Standard and Standards for Investment Reporting (SIRs) issued by the FRC apply to reporting accountants when carrying out engagements involving investment circulars intended to be issued in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom.

Definitions

2. The application of Standards for Investment Reporting (SIRs) is best understood by reference to the following four defined terms used throughout the SIRs:

    a) **investment circular** is a generic term defined as ''*Any document issued by an entity pursuant to statutory or regulatory requirements relating to securities on which it is intended that a third party should make an investment decision, including a prospectus, listing particulars, a circular to shareholders or similar document''*;

    b) **reporting accountant** is defined as ''*An accountant engaged to prepare a report for inclusion in, or in connection with, an investment circular. The reporting accountant may or may not be the auditor of the entity issuing the investment circular. The term ''reporting accountant'' is used to describe either the engagement partner or the engagement partner's firm*[1]*. The reporting accountant could be a limited company or an engagement principal employed by the company*";

    c) **public reporting engagement** is defined as ''*An engagement in which a reporting accountant expresses a conclusion that is published in an investment circular, and which is designed to enhance the degree of confidence of the intended users of the report about the 'outcome*[2]*' of the directors' evaluation or measurement of 'subject matter' against 'suitable criteria'*''; and

    d) **private reporting engagement** is defined as ''*An engagement, in connection with an investment circular, in which a reporting accountant does not express a conclusion that is published in an investment circular*''. Private reporting engagements are likely to involve the reporting accountant reporting privately to one or more of an issuer, sponsor or regulator.

3. In order to provide flexibility to develop SIRs for a wide range of possible public reporting engagements, the description of public reporting engagement includes three generic terms. Their meanings are as follows:

    a) the **''subject matter''** of the engagement is that which is being evaluated or measured against suitable criteria. Examples of subject matter are the entity's financial position and the directors' expectation of the issuer's profit for the period covered by a profit forecast;

    b) criteria are the benchmarks used to evaluate or measure the subject matter. ''**Suitable criteria**'' are usually derived from laws and regulations and are required by directors

[1] Where the term applies to the engagement partner, it describes the responsibilities or obligations of the engagement partner. Such obligations or responsibilities may be fulfilled by either the engagement partner or a member of the engagement partner's team.

[2] The ''outcome'' is sometimes described as ''subject matter information.''

to enable them to make reasonably consistent evaluations or measurements of the subject matter. With respect to public reporting engagements the suitable criteria for specific types of engagement are described in the individual SIR dealing with such engagements. Where the reporting accountant's engagement requires it to consider only certain criteria, such criteria are described as ''reporting accountant's criteria''. Reporting accountant's criteria are set out in the SIRs. Where a SIR has not been issued with respect to a particular type of reporting engagement, the reporting accountant uses those criteria that are specified by legislation or regulation. The evaluation or measurement of a subject matter solely on the basis of the reporting accountant's own expectations, judgments and individual experience would not constitute suitable criteria; and

c) the ''**outcome**'' of the evaluation or measurement of a subject matter is the information that results from the directors applying the suitable criteria to the subject matter. Examples of outcomes are historical financial information and a directors' profit forecast and related disclosures that are included in an investment circular.

4. Not all engagements performed by a reporting accountant are public reporting engagements. Examples of engagements that are not public reporting engagements include:

   - Engagements involving the preparation of a comfort letter.
   - Engagements involving the preparation of a long form report.
   - Engagements involving the preparation of the working capital report.

   Such engagements are private reporting engagements.

5. This SIR establishes basic principles and essential procedures for the work of reporting accountants that are common to all reporting engagements (both public and private) relating to investment circulars. Other SIRs set out basic principles and essential procedures to address the particular issues and requirements arising on specific public reporting engagements. These comprise:

   a) SIR 2000 Revised ''*Investment Reporting Standards Applicable to Public Reporting Engagements on Historical Financial Information''*;

   b) SIR 3000 Revised ''*Investment Reporting Standards Applicable to Public Reporting Engagements on Profit Forecasts''*;

   c) SIR 4000 Revised ''*Investment Reporting Standards Applicable to Public Reporting Engagements on Pro Forma Financial Information*";

   d) SIR 5000 Revised "*Investment Reporting Standards Applicable to Public Reporting Engagements on financial information reconciliations under the Listing Rules*"; and

   e) SIR 6000 "*Investment Reporting Standards Applicable to Public Reporting Engagements on Quantified Financial Benefits Statements*."

6. Appendix 1 summarises public reporting engagements that reporting accountants may be required to undertake under relevant legislation and regulations.

Engagement acceptance and continuance

7. **The reporting accountant shall accept or continue a reporting engagement only if the reporting accountant:**

   (a) Has reason to believe that all relevant ethical requirements, including independence, will be satisfied;

   (b) The basis upon which the engagement is to be performed has been agreed between the reporting accountant and those from whom they accept instructions;

   (c) Where the reporting engagement involves the provision of assurance, the scope of the engagement is expected to be sufficient to support the required report;

   (d) The reporting accountant expects to be able to carry out the procedures required by the SIRs; and

   (e) Those persons who are to perform the engagement collectively possess the necessary competencies and capabilities (whether time or resources). (SIR 1000.1)

8. In determining whether the scope of the engagement is expected to be sufficient to support the required report, the reporting accountant considers whether there appear to be any significant limitations on the scope of the reporting accountant's work.

9. A reporting accountant may be requested to perform reporting engagements on a wide range of matters. Some engagements may require specialised skills and knowledge. In these circumstances the reporting accountant considers using internal or external specialists having the appropriate skills.

Agreeing the terms of the engagement

10. **The reporting accountant shall agree the terms of the engagement with those from whom they accept instructions. All the terms of the engagement should be recorded in sufficient detail and in writing. (SIR 1000.2)**

11. Generally, a letter is prepared by the reporting accountant, covering all aspects of the engagement, and accepted in writing by the directors of the issuer and, where relevant, the sponsor. With respect to a public reporting engagement the letter will record the reporting accountant's understanding of what constitutes the subject matter of the engagement, the suitable criteria, and the information that constitutes the outcome of the evaluation or measurement of the subject matter against the suitable criteria.

12. As an alternative to a letter drafted by the reporting accountant, an instruction letter may be issued by the directors and, where relevant, the sponsor. In these circumstances, its terms are formally acknowledged by the reporting accountant in writing, clarifying

particular aspects of the instructions and covering any matters that may not have been addressed.

13. This letter, or exchange of letters (together referred to as ''the engagement letter''), provides evidence of the contractual relationship between the reporting accountant, the entity and, where relevant, the sponsor. It sets out clearly the scope and limitations of the work to be performed by the reporting accountant. It also confirms the reporting accountant's acceptance of the engagement and includes a summary of the reporting accountant's responsibilities and those of the directors and, where relevant, the sponsor as they relate to the reporting accountant's role.

14. The engagement letter establishes a direct responsibility to the other parties from the reporting accountant. It is also the mechanism by which the scope of the reporting accountant's contribution is defined and agreed. If in the course of the engagement the terms of the engagement are changed, such changes are similarly agreed, and recorded in writing.

15. The engagement letter will usually set out the form of any reports (public or private) required (including, in each case, the nature of any opinion to be expressed by the reporting accountant). Accordingly, it is important to clarify those from whom the reporting accountant has agreed to accept instructions including, where relevant, sponsors, and determine their requirements and the scope of such reports, at an early stage.

16. **The engagement letter shall specify those reports that are intended for publication in the investment circular and any other reports that are required. The engagement letter should specify, in respect of each report, to whom it is to be addressed. (SIR 1000.3)**

17. Reporting accountants do not accept responsibility beyond the matters or entities in respect of which they are specifically instructed. The reporting accountant may find information outside the defined scope of the engagement, however, that it believes should be disclosed, because, in its view such information is material to the purpose of the investment circular or to the proposed transaction. The reporting accountant discusses such matters with the directors of the issuer and the sponsor, where relevant, and agrees a course of action.

Ethical requirements

18. **In the conduct of an engagement involving an investment circular, the reporting accountant shall comply with the applicable ethical standards issued by the Financial Reporting Council. The reporting accountant should also adhere to the relevant ethical guidance of the professional bodies of which the reporting accountant is a member. (SIR 1000.4)**

19. In practice, the UK recognised supervisory bodies have adopted, with minor modifications, The Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the IESBA Code). The FRC is not aware of any significant instances where the relevant parts of the IESBA Code of Ethics are more restrictive than the FRC's Ethical Standard.

20. While it is not the responsibility of the reporting accountant to judge the appropriateness, or otherwise, of a proposed transaction, in respect of which they have been engaged, there

may be rare circumstances where a reporting accountant considers the proposed transaction, or their proposed association with the transaction, to be so inappropriate that the reporting accountant cannot properly commence work or continue to act.

Legal and regulatory requirements

21. **The reporting accountant shall be familiar with the applicable laws and regulations governing the report which is to be given. (SIR 1000.5)**

22. The principal legal and regulatory requirements applicable to reporting accountants in the United Kingdom are summarised in Appendix 2. Readers are cautioned that these references may subsequently change.

Quality control

23. **The reporting accountant shall comply with the applicable standards and guidance set out in International Standard on Quality Control (UK) 1 (ISQC1) and ISA (UK) 220. (SIR 1000.6)**

24. ISQC 1 provides standards and guidance on the system of quality control that a firm establishes. This includes the requirement for a firm to establish policies and procedures for an engagement quality review to be performed for engagements with certain types of characteristic. These engagements include those where "*the firm has determined through its quality management process that an engagement quality control review is an appropriate response based on the assessed likelihood and impact of the quality risks*." Relevant characteristics include engagements involving significant public interest (for example I relation to entities that are undergoing, or plan to undergo, an initial public offering); those that involve a high level of complexity or judgment or where previous issues have been encountered; those where unusual circumstances or risks have been identified; and those with quality risks associated with the composition of the engagement team (for example long association with the entity).

25. The quality control procedures that an engagement partner applies are those set out in ISA (UK) 220 ''Quality control for audits of historical financial information''. In applying ISA (UK) 220, the terms ''audit'' and ''audit engagement'' are read as "reporting accountant's engagement'' and the term ''auditor's report'' is read as ''reporting accountant's report''.

26. **When undertaking any engagement involving an investment circular a partner with appropriate experience shall be involved in the conduct of the work. (SIR 1000.7)**

27. Reporting accountants may be from a firm that is also the auditor of the entity. The audit partner, although having knowledge of the entity, may not have the necessary experience to take responsibility for all aspects of an engagement involving an investment circular. The extent of involvement of a partner with the requisite experience of dealing with investment circulars is determined, for example, by the expertise required to make the reports that the reporting accountant has agreed to provide and the experience of the audit partner.

28. The reporting accountant shall be satisfied that it will be able to evaluate the objectivity and competence of any other practitioner, not part of the engagement team, where the assurance work of that practitioner is to be used, to an extent that is sufficient to accept responsibility for the reporting accountant's report.

29. In some cases it may be appropriate for the partner with the requisite experience of dealing with investment circulars to act as a second partner. In other cases it may be appropriate for such a partner to be the lead engagement partner.

Planning and performing the engagement

30. **The reporting accountant shall develop and document a plan for the work so as to perform the engagement in an effective manner. For public reporting engagements this includes setting the scope, timing and direction of the engagement, and determining the nature, timing and extent of those planned procedures that are required to be carried out in order to achieve the objective of the reporting accountant. (SIR 1000.8)**

31. Planning is an essential component of all reporting accountant's engagements. Examples of the main matters to be considered include:

    a. The terms of the engagement.
    b. Where applicable, whether the criteria are suitable for the engagement.
    c. Ethical considerations.
    d. Whether the timetable is realistic.
    e. The reporting accountant's understanding of the entity and its environment.
    f. Identifying potential problems that could impact the performance of the engagement.
    g. The need for the involvement of specialists.

32. Planning is not a discrete phase, but rather an iterative process throughout the engagement. As a result of unexpected events, changes in conditions or the evidence obtained from the results of evidence-gathering procedures, the reporting accountant may need to revise the overall strategy and engagement plan, and thereby the resulting planned nature, timing and extent of further procedures. This includes consideration, where applicable, of whether the criteria and subject matter of the engagement continue to be suitable.

33. A preliminary review of the available information may provide an indication of potential issues that might need to be addressed in carrying out the engagement. If the preliminary review indicates that there are factors which may give rise to a qualification or other modification of any report, then such factors are reported immediately to the directors and, where relevant, the sponsor.

34. Changes in circumstances, or unexpected results of work carried out, may require the plan to be amended as work progresses. Any such amendments are documented. Where the changes affect the work set out in the engagement letter, the engagement letter is also amended as necessary following agreement with the directors, and where relevant, the sponsor.

Materiality

35. **The reporting accountant shall consider materiality when planning and performing its work in accordance with its instructions, including when determining the nature, timing and extent of procedures; and, in determining the effect of its findings on the report to be issued. (SIR 1000.9)**

36. Matters are material if their omission or misstatement could, individually or collectively, influence the economic decisions of users of the outcome. Materiality depends on the size and nature of the omission or misstatement judged in light of the surrounding circumstances. The size or nature of the matter, or a combination of both, could be the determining factor.

37. In certain circumstances, such as private reporting engagements to report the results of agreed-upon procedures, materiality may have been determined for the reporting accountant within the scope of the engagement.

Evidence

38. **The reporting accountant shall obtain sufficient appropriate evidence on which to base the report provided. (SIR 1000.10)**

39. The reporting accountant, either directly or indirectly, will seek to obtain evidence derived from one or more of the following procedures: inspection, observation, enquiry, confirmation, reperformance, computation and analytical procedures. The choice of which of these, or which combination, is appropriate will depend on the circumstances of each engagement and on the form of opinion (if any) to be given. Guidance on considerations applicable in particular circumstances is given in other SIRs which address the particular issues and requirements arising on specific engagements.

40. The evidence gathered in support of an individual report takes account of the information gathered and conclusions drawn in support of other reporting engagements in connection with the transaction.

41. **If the reporting accountant becomes aware of any withholding, concealment or misrepresentation of information, it shall take steps, as soon as practicable, to consider its obligation to report such findings and, if necessary, take legal advice to determine the appropriate response. (SIR 1000.11)**

42. In preparing any report the reporting accountant relies on information supplied to it by the directors, employees or agents of the entity that is the subject of the reporting accountant's enquiries. The engagement letter may limit the extent of the reporting accountant's responsibility where information which is material to the report has been withheld from, concealed from or misrepresented to the reporting accountant. Notwithstanding any such limitation, the reporting accountant does not accept such information without further inquiry where, applying its professional skill and experience to the engagement, the information provided, prima facie, gives rise to doubts about its validity.

43. The reporting accountant normally informs the directors of the issuer and the sponsor, where relevant, as soon as practicable, of any withholding, concealment or misrepresentation of information. The reporting accountant's duty of confidentiality would ordinarily preclude reporting to a third party. However, in certain circumstances, that duty of confidentiality is overridden by law, for example, in the case of suspected money laundering it may be appropriate to report the matter direct to the appropriate authority.[3] The reporting accountant may need to seek legal advice in such circumstances, giving due consideration to any public interest considerations.

[3] In the UK, subject to compliance with legislation relating to "tipping off".

44. Additional complexity may arise when the reporting accountant is performing an engagement for specific types of entity, including those in the financial services sector; and/or when the reporting accountant is also the auditor of that entity. Relevant guidance is provided in ISA (UK) 250 (Revised June 2016) *Section B – The Auditor's Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector.*[4]

45. **The reporting accountant shall obtain appropriate written confirmation of representations from the directors of the entity. (SIR 1000.12)**

46. Written confirmation of representations made by the directors on matters material to the reporting accountant's report is ordinarily obtained. These representations also encompass statements or opinions attributed to directors, management, employees or agents of an entity, which are relied upon by the reporting accountant. This may be achieved by the directors confirming that they have read a final draft of the report and that to the best of their knowledge and belief:

    a. they have provided to the reporting accountant all significant information, relevant to the report, of which they have knowledge; the report is factually accurate, no material facts have been omitted and the report is not otherwise misleading; and

    b. the report accurately reflects any opinion or statements attributed therein to the directors, management, employees or agents of the entity.

47. The date of the written representations should be as near as practicable to, but not subsequent to, the date of the reporting accountant's report.

48. Representations by the directors of the entity cannot replace the evidence that the reporting accountant could reasonably expect to be available to support any opinion given, if any. Although written representations may provide necessary evidence, they do not provide sufficient appropriate evidence on their own about any of the matters with which they deal. An inability to obtain sufficient appropriate evidence regarding a matter could represent a limitation of scope even if a representation has been received on the matter.

Documentation

49. **The reporting accountant shall, in a timely manner, document matters that are significant in providing evidence that supports the report provided and in providing evidence that the engagement was performed in accordance with SIRs. (SIR 1000.13)**

50. **The reporting accountant shall record in the working papers (or, if applicable, the report) the reporting accountant's reasoning on all significant matters that require the exercise of judgment, and related conclusions, including whether it is appropriate to make the required report, and the form of report to give, having regard to the scope of the work performed and the evidence obtained. For public reporting engagements, the reporting accountant shall document the thought processes underlying its decisions in this regard. (SIR 1000.14)**

[4] See, in particular Appendix 2.

51. **The reporting accountant shall consider what is necessary to provide an understanding of the work performed (and the results of those procedures) and the basis of the principal decisions taken to another person who has no previous experience with the engagement. (SIR 1000.15)[5]**

52. The form and content of working papers are affected by matters such as:
    a. The nature and scope of the engagement.
    b. The form of the report and the opinion, if any, to be given.
    c. The nature and complexity of the entity's business.
    d. The nature and condition of the entity's accounting and internal control systems.
    e. The needs in the particular circumstances for direction, supervision and review of the work of members of the reporting accountant's team.
    f. The specific methodology and technology that the reporting accountant uses.

53. If the reporting accountant finds it necessary to amend existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed, the reporting accountant shall, regardless of the nature of the amendments or additions, document:

    a. The specific reasons for making the amendments or additions; and
    b. When, and by whom, they were made and reviewed

Professional scepticism

54. **The reporting accountant shall plan and perform an engagement with an attitude of professional scepticism, including when determining the nature, timing and extent of procedures to be performed. (SIR 1000.16)**

55. An attitude of professional scepticism is essential to ensure that the reporting accountant makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations.

56. The reporting accountant assesses the plausibility of information and explanations provided to it by the directors and management of the issuer. Where appropriate it assesses them critically and considers them in the context of its knowledge and findings derived from other areas of its work. The reporting accountant is alert for, and, where appropriate reports, on a timely basis, to the directors and sponsors, where relevant, any inconsistencies it considers to be significant. The extent to which the reporting accountant is required to perform further procedures on the information and explanations received will depend upon the reporting accountant's specific instructions, and the level of assurance, if any, it is to provide and the requirements of relevant SIRs.

Reporting

57. **In all reports the reporting accountant shall:**

[5] *That other person may, however, only be able to obtain an understanding of detailed aspects of the engagement by discussing them with the reporting accountant who prepared the documentation.*

a. **address reports only to those parties who are party to the engagement letter (and on the basis agreed in the engagement letter) or to a relevant regulatory body;**
b. **give, where applicable, a clear expression of opinion;**
c. **identify the matters to which the report relates;**
d. **address all matters that are required by the engagement letter;**
e. **Identify, where applicable, relative responsibilities for the underlying subject matter, the preparation of the subject matter information against the relevant criteria, and the reporting accountant's role to independently express an opinion about the subject matter information;**
f. **Explain, the basis of the reporting accountant's work, including, where applicable, the relevant criteria;**
g. **include the reporting accountant's manuscript or printed signature;**
h. **include the reporting accountant's address; and**
i. **date the report. (SIR 1000.17)**

58. When an opinion is given, it is particularly important for the reporting accountant to clearly identify those elements of a relevant investment circular or other publication to which their opinion relates.

59. **In all public reporting engagements the reporting accountant shall explain the basis of the reporting accountant's opinion by including in its report:**

    a. **a statement as to the reporting accountant's compliance, or otherwise, with applicable Standards for Investment Reporting; and**
    b. **a summary description of the work performed by the reporting accountant. (SIR 1000.18)**

60. Certain of the reports prepared in connection with investment circulars are public reporting engagements and, therefore, usually intended for publication in the investment circular. Additional basic principles and essential procedures on the expression of opinions or conclusions relating to these example public reporting engagements are provided as follows:

    a. accountant's reports on historical financial information, in SIR 2000;
    b. reports on profit forecasts, in SIR 3000;
    c. reports on pro forma financial information, in SIR 4000;
    d. reports of financial information reconciliations under the Listing Rules, in SIR 5000; and
    e. reports on Quantified Financial Benefits Statements (QFBS), in SIR 6000.

61. In private reporting engagements the reporting accountant would ordinarily include in its report:

    a. a statement of compliance with this SIR; and
    b. either a summary description of the work performed or a cross reference to the description of work to be performed in the engagement letter.

62. **Before signing the report, the reporting accountant shall consider whether it is appropriate to make the required report, having regard to the scope of the work performed and the evidence obtained. (SIR 1000.19)**

63. The date of a report is the date on which the reporting accountant signs the report as being suitable for release. However, the reporting accountant should not sign the report (whether modified or not) unless sufficient appropriate evidence has been obtained and all relevant procedures have been finalised. Such procedures include the review procedures of both the engagement partner and the engagement quality control reviewer.

64. As noted in paragraph 15 above, the engagement letter usually sets out the form of the report to be issued, including, where applicable, the form of opinion to be expressed. The reporting accountant ensures that the form of report or opinion is consistent with the terms of the engagement letter.

65. The level of assurance, if any, provided by the reporting accountant may vary from engagement to engagement. This reflects the wide range of characteristics of the matters to which the engagements undertaken by reporting accountants relate. To avoid any misunderstanding by the user of the report as to the scope of the opinion or the level of assurance provided, it is important that the matters to which the engagements undertaken by reporting accountants relate are clearly identified and that the reporting accountant's opinion or other assurance is expressed in terms that are appropriate to the particular engagement. Standards and guidance on the form and scope of reports appropriate in particular circumstances is given in other SIRs which address particular issues and requirements relevant to individual reports.

66. *In certain circumstances the Prospectus Rules require, "a declaration by those responsible for certain parts of the registration document that, having taken all reasonable care to ensure that such is the case, the information contained in the part of the registration document for which they are responsible is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import". The reporting accountant is responsible for its reports included in investment circulars and ordinarily includes this declaration (when satisfied it is able to do so) at the end of each public report included in an investment circular to which the Prospectus Rules apply.*

    [Note: text of paragraph 66 to be finalised once the final form (if any) of the UK implementation of the 2017 Prospectus Regulation is complete]

Modified opinions

67. **The reporting accountant shall not express an unmodified opinion when the following circumstances exist and, in the reporting accountant's judgment, the effect of the matter is or may be material:**

    a. **there is a limitation on the scope of the reporting accountant's work, that is, circumstances prevent, or there are restrictions imposed that prevent, the reporting accountant from obtaining evidence required to reduce engagement risk to the appropriate level; or**
    b. **the outcome is materially misstated. (SIR 1000.20)**

68. Some regulations require a positive and unmodified opinion. Consequently, in the event that the reporting accountant is unable to report in the manner prescribed it considers, with the parties to whom it is to report, whether the outcome can be amended to alleviate its concerns, or whether the outcome should be omitted from the investment circular.

69. Where not precluded by regulation, the reporting accountant expresses a qualified opinion when the effect of a matter described in paragraph 67 is not so material or pervasive as to require an adverse opinion or a disclaimer of opinion. When giving a qualified opinion, the opinion is expressed ‘‘except for’’ the matter to which the qualification relates.

Pre-existing financial information

70. With respect to historical financial information, where the issuer already has available:

    a. audited annual financial statements; or
    b. audited or reviewed financial information, which meet the requirements of the applicable rules in respect of the preparation and presentation of historical financial information to be included in the investment circular,

    it may choose to include these financial statements, or financial information, in the investment circular together with the pre-existing reports of the auditor. In these circumstances the audit firm is not required by the Prospectus Rules to consent to the inclusion of its reports in the investment circular.

Consent

71. **Where the reporting accountant is required to give consent to the inclusion of its public report, or references to its name, in an investment circular the reporting accountant shall, before doing so, consider its public report in the form and context in which it appears, or is referred to, in the investment circular as a whole by:**

    a. 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

    b. assessing whether the reporting accountant has any cause to believe that any information in the investment circular is misleading

    When the reporting accountant believes information in the investment circular is either inconsistent with its public report, together with the information being reported on, or misleading, the reporting accountant shall withhold its consent until the reporting accountant is satisfied that its concerns are unwarranted or until the investment circular has been appropriately amended. (SIR 1000.21)

72. **The reporting accountant shall give consent to the inclusion of any report in an investment circular only when all relevant reports that it has agreed to make, in that investment circular, have been finalised. (SIR 1000.22)**

73. In order to comply with the relevant legislation or regulations, the issuer of an investment circular may ask a reporting accountant to provide a consent letter, consenting to the inclusion of public reports in investment circulars in a number of different circumstances. An example consent letter is set out in Appendix 3. The various circumstances include:

    a. under the Prospectus Rules. These relate to a prospectus issued by an issuer (other than under the Listing Rules). No consent is required to the inclusion of previously issued reports. Where a reporting accountant prepares an accountant’s report on a financial information table for the purposes of the prospectus, the reporting accountant's consent must be obtained. A statement referring to the reporting accountant's consent to the inclusion of such report in the prospectus is required, by….[Placeholder for final reference];

b. under the Listing Rules. Where these relate to listing particulars prepared in connection with an application for admission of securities to listing, the same consent requirements, that is , ….[Placeholder for final reference] apply;

c. under the Listing Rules. Where these relate to a Class 1 circular, paragraph 13.4.1 (6) of the Listing Rules sets out similar consent requirements;

d. under the *City Code*. In connection with a takeover, Rule 23.2.b requires similar consents requirements in respect of public report on a profit forecast or quantified financial benefits statement; and

e. under the AIM Rules. The consent requirements of [Placeholder for final reference].

74. Whilst the reporting accountant's reporting responsibilities do not extend beyond its report, the process of giving consent involves an awareness of the overall process whereby the investment circular is prepared, and may entail discussions with those responsible for the document as a whole in relation to its contents.

75. In deciding whether to give its consent, a reporting accountant reads the final version of the investment circular with a view to assessing the overall impression given by the document, having regard to the purposes for which it has been prepared, as well as considering whether there are any inconsistencies between its report and the information in the rest of the document. As part of this process the reporting accountant considers whether it has any cause to believe that any information in the investment circular may be misleading.

76. For this purpose the engagement partner uses the knowledge of the partners and professional staff working on the engagement. If particular issues are identified the engagement partner may, having due regard for any issues of confidentiality, make enquiries of partners and professional staff previously engaged on the audit of financial statements that are the basis of financial information in the investment circular, and any other partners and professional staff who may have been previously consulted regarding such issues, including the engagement quality review partner who is independent of the engagement. The engagement partner is not expected to make enquiries more widely within the reporting accountant's firm.

77. Because of the degree of knowledge required and the increased responsibility that may be assumed, it is inappropriate for a reporting accountant to provide consent unless the reporting accountant has been commissioned to undertake work specifically in connection with the relevant document in relation to the matter for which consent is sought. Hence, if an investment circular includes a reference to a report or opinion, previously provided by the reporting accountant, which is already in the public domain, the reporting accountant is not expected to provide consent to the inclusion of that information and does not generally do so. An example would be the inclusion or incorporation by reference in a prospectus of a previously published audit report or interim review report.

78. An exception to this general rule would be where the reporting accountant has previously consented to the inclusion in an investment circular of that earlier report or opinion and it is being repeated or referred to in connection with the same transaction in respect of which it was originally issued.

79. Rule 27.2 d of the *City Code* requires that where a profit forecast or quantified financial statement has been published in circumstances that required a report by a reporting accountant, any document subsequently published in connection with the transaction must, unless superseded by information included in the new document, include a statement by the directors confirming that the reporting accountants have confirmed that their reports continue to apply. In such a case, before issuing its confirmation the reporting accountant makes enquiries as to whether there have been any material events subsequent to the date of its original report which might require modification of or disclosure in that report.

80. Letters of consent or reconfirmation are dated the same date as the relevant document. The *City Code* requires the letter of consent or re-confirmation to be available for public inspection. The letter of consent may be made available for public inspection in other cases.

Fair, Balanced and Understandable

81. A main principle of the UK Corporate Governance Code is that the board should present a fair, balanced and understandable assessment of the company's position and prospects, and that this responsibility, "*extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory instruments. The board should establish arrangements that will enable it to ensure that the information presented is fair, balanced and understandable*."[6] The reporting accountant may therefore wish to consider, if the investment circular has been prepared in accordance with relevant provisions of the Code.

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

82. **If, in the period between the date of the reporting accountant's report and the completion date of the transaction, the reporting accountant becomes 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 withhold consent, the reporting accountant shall discuss the implications of them with those responsible for the investment circular and take additional action as appropriate. (SIR 1000.23)**

83. If, as a result of discussion with those responsible for the investment circular concerning an event that occurred prior to the completion date of the transaction, the reporting accountant is either uncertain about or disagrees with the course of action proposed, it may consider it necessary to take legal advice with respect to its responsibilities in the particular circumstances.

[6] The UK Corporate Governance Code (July 2018), FRC, Principle N, fn 7.

84. After the date of its report, the reporting accountant has no obligation to perform procedures or make enquiries regarding the investment circular.

Effective date

85. A reporting accountant is required to comply with the requirements in this Investment Reporting Standard for reports signed after xx xxxx 20xx. [To be confirmed on completion of the consultation]

Appendix 1

[Placeholder for references to relevant rules, technical standards and guidance once the final form, if any, of implementation of the 2017 Prospectus Regulation (Regulation (EU) 2017/1129) is finalised. The Regulation entered into force on 20 July 2017, but most of its provisions are due to apply from 21 July 2019.]

Appendix 2

PRINCIPAL LEGAL AND REGULATORY REQUIREMENTS

The description of legal and regulatory requirements provided in this appendix is intended to be a guide and not intended to be a definitive interpretation of such requirements.

The FCA Handbook

1. The FCA Handbook[7]includes three parts relevant to securities and their issuers, namely:

    a. The Listing Rules (LR);
    b. The Prospectus Rules (PR); and
    c. The Disclosure Guidance and Transparency Rules Sourcebook (DTR).

2. The Listing Rules provide the rules and guidance applicable to issuers of securities both seeking admission to, and once admitted to, the Official List. They include the conditions for admission to listing, the requirements concerning Sponsors under the Listing Rules, Class 1 and related party transactions and the requirements for listing particulars when a prospectus is not required to be prepared.

3. The Prospectus Rules effect the practical implementation of the Prospectus xxxx. They apply to all prospectuses required to be issued by UK companies either offering securities to the public or seeking admission of securities to a regulated market. The annexes to the PD Regulation provide detailed rules on prospectuses and, in particular, the content requirements of prospectuses. In respect of prospectus content requirements, the Prospectus Rules reproduce the xxxx. Accordingly, references to the contents requirements in xxxx Prospectus Rules are also references to xxxx the PD Regulation. [<u>Placeholder for relevant text to be updated once references are finalised</u>]

4. The Prospectus Rules also make it clear that the FCA expect ESMA's Prospectus Recommendations; the ESMA Prospectus Questions and Answers; and the ESMA Prospectus Opinions to be followed by issuers when preparing a prospectus. [Text to be updated once references are finalised]

5. The Disclosure Guidance and Transparency Rules Sourcebook contains rules, disclosure guidance, transparency rules, corporate governance rules and the rules pertaining to primary information providers.

6. The xxxx the Prospectus Rules provide that historical financial information for the last three completed financial years, where it exists, is to be included in a prospectus. This information can either be extracted or incorporated by reference from the issuer's annual financial statements or presented in the prospectus specifically for that purpose. The Prospectus Rules provide that where the accounting framework to be applied in an issuer's next annual financial statements is different from that previously applied, at least some of the historical financial information must be represented on the basis of those new policies. The historical financial information must either be accompanied by the auditor's report on the statutory financial statements or by a new opinion by reporting accountants where the information has been presented for the purpose of the prospectus. [<u>Placeholder for relevant text to be updated once references are finalised</u>]

[7] https://www.handbook.fca.org.uk/handbook?timeline=True

7. Where an issuer with listed equity securities proposes to undertake a Class 1 acquisition, Listing Rule 13.5 requires that certain historical financial information is presented in relation to the target and, where relevant, the target's subsidiary undertakings. The last three years historical financial information must be presented in a financial information table on a basis consistent with accounting policies of the issuer. Unless the target is itself admitted to trading on an EU regulated market or on an overseas regulated market or listed on an overseas investment exchange, the financial information table must be reported on by a reporting accountant. However, if there is no report by reporting accountants on the financial information table itself, it is necessary for the issuer to consider whether any material adjustment is required to achieve consistency between the target's historical financial information and the accounting policies of the issuer, in which event a reconciliation of key financial statement components must be presented and the reconciliation reported on by reporting accountants.

8. If an issuer chooses to include a profit forecast or profit estimate in a prospectus the registration document may be required to contain the following information: (a) a statement setting out the principal assumptions upon which the issuer has based its forecast or estimate. See item xxxx Prospectus Rules for more detailed requirements regarding assumptions; and (b) a report prepared by independent accountants or auditors stating that in the opinion of the independent accountants or auditors the forecast or estimate has been properly compiled on the basis stated and that the basis of accounting used for the profit forecast or estimate is consistent with the accounting policies of the issuer. The profit forecast or estimate must be prepared on a basis comparable with the historical financial information. [Placeholder for relevant text to be updated once references are finalised – including requirements in respect of an accountant's report on a profit forecast or estimate]

9. If a profit forecast in a prospectus has been published which is still outstanding, the issuer must provide a statement setting out whether or not that forecast is still correct as at the time of the registration document, and an explanation of why such forecast is no longer valid if that is the case.

10. Where an issuer includes pro forma financial information in a prospectus, (relating to shares, transferable securities equivalent to shares and certain other securities convertible into shares), xxxx Prospectus Rules require any such information to be reported on by the reporting accountants. The Listing Rules also require a reporting accountant's report on any pro forma financial information that an issuer chooses to include in a Class 1 circular. [Placeholder for relevant text to be updated once references are finalised]

11. Where a statement or report attributed to an expert (including reporting accountants) is included in a prospectus at the issuer's request, the Prospectus Rules require a statement of consent from the expert. This is discussed in more detail in paragraphs 71 to 81 in the body of this SIR. The consent of the auditor is not required where reports (audit or review) previously issued by the auditor are included in a prospectus.

12. Other rules apply in particular circumstances. By replication of the Prospectus Rules requirements an expert is required, by the Listing Rules, to consent to the inclusion of any report in any listing particulars. However, the consent of the auditor is not required where reports (audit or review) previously issued by the auditor are included in the listing particulars.

13. The Listing Rules also require pro forma financial information in a Class 1 circular to be reported on by an issuer's reporting accountants and to contain provisions requiring an expert's consent to any report included in a Class 1 circular.

Admission to the Main Market of the London Stock Exchange.

14. A two-stage admission process applies to companies who want to have their securities admitted to the Main Market for listed securities of the London Stock Exchange. The securities need to be admitted to the Official List by the FCA, and also admitted to trading by the London Stock Exchange. To be admitted to trading the Admission and Disclosure Standards need to be met. Once both processes are complete the securities are officially listed on the Exchange.

AIM requirements

15. Under the AIM Rules of the London Stock Exchange, companies seeking admission to AIM must publish an AIM admission document. This is the case whether or not they are required by the Prospectus Rules to prepare a prospectus (because they are also making an offer of securities to the public which is not exempt from the requirement to produce a prospectus).

16. The AIM Rules provide that the content of an admission document should be based on the share disclosure requirements in the Prospectus Rules, modified to allow issuers elect not to include certain financial information where no prospectus is required, notably profit forecasts and pro forma financial information.

The City Code

17. Where a document sent to shareholders in connection with an offer falling within the scope of the *City Code* contains a profit forecast, profit estimate or QFBS, with certain exceptions, Rule 28.1 of the *City Code* requires that forecast estimate or QFBS to be reported on by reporting accountants and by the financial advisers.

Companies legislation

18. Financial information presented in an investment circular may constitute ''non-statutory accounts" under section 435 of the Companies Act 2006 (CA 2006) and may therefore require the inclusion of a statement indicating:

    a. that they are not the company's statutory accounts;
    b. whether statutory accounts dealing with any financial year with which the non-statutory accounts purport to deal have been delivered to the registrar;
    c. whether an auditor's report has been made on the company's statutory accounts for any such financial year; and if so whether the report –
        i. was qualified or unqualified, or included a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report, or
        ii. contained a statement under section 498(2) (accounting records or returns inadequate or accounts or directors' remuneration report not agreeing with records and returns), or section 498(3) (failure to obtain necessary information and explanations).

The company must not publish with non-statutory accounts the auditor's report on the company's statutory accounts (section 435 (2) CA 2006)

19. However, this statement is only appropriate where the financial information comprises non-statutory accounts of the company issuing the document. No statement is needed in respect of financial information on a target company, for example, unless the directors of the target company explicitly accept responsibility for that part of the document. The statement is also the responsibility of the directors of the company publishing the document, not the reporting accountants.

Financial Services and Markets Act 2000

20. Under Part VI, the FCA's function is a statutory one. Part VI covers not only the whole process by which securities are admitted to official listing but also the obligations to which companies are subject once they have obtained listing. The Listing Rules represent listing rules for the purposes of Part VI.

21. Prospectus Rule xxxx (in relation to prospectuses), and regulation 6 of The Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001 (in relation to listing particulars, i.e. not prospectuses within the meaning of the Prospectus Directive) provide that each person: (a) who accepts, and is stated in the particulars as accepting, responsibility for the particulars or for any part of the particulars; or (b) who has authorised the contents of, or any part of, the particulars; is deemed to accept responsibility for the particulars (or that part of them). [Placeholder for relevant text to be updated once references are finalised]

22. This raises potential issues for reporting accountants, for example:

    - If they are involved in advising on an investment circular but are not named in it;
    - If they issue a report or letter which is included in the investment circular.

23. In the first example the Prospectus Rules and The Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001 relieve professional advisers from responsibility for the circular where they are solely giving advice as to the contents of the listing particulars in a professional capacity.

24. In the second example the Prospectus Rules and The Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001 limit the responsibility of experts, including reporting accountants, to the part for which they accept responsibility and only if the part for which they accept responsibility is included in (or substantially in) the form and context to which they have agreed.

UK Corporate Governance Code

25. The UK Corporate Governance Code is applicable to all companies with a premium listing, whether incorporated in the UK or elsewhere. The Code includes both Principles and supporting Provisions. The Provisions operate on a 'comply or explain' basis. For parent companies with a premium listing, the board should ensure that there is adequate co-operation within the group to enable it to discharge its governance responsibilities under the Code effectively. This includes the communication of the parent company's purpose, values and strategy. Externally managed investment companies (which typically have a different board and company structure that may affect the relevance of particular Principles) may wish to use the Association of Investment Companies' Corporate

Governance Code to meet their obligations under the Code. In addition, the Association of Financial Mutuals produces an annotated version of the Code for mutual insurers to use.

26. Principle N of the Code requires that, "*The board should present a fair, balanced and understandable assessment of the company's position and prospects*." This Principle "*….extends to interim and other price-sensitive public records and reports to regulators, as well as to information required to be presented by statutory instruments*."[8]

[8] https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf

Appendix 3

EXAMPLE OF A CONSENT LETTER

The Directors

ABC plc

Dear Sirs

We hereby give our consent to the inclusion in the [describe Investment Circular] dated [ ] issued by ABC plc of [our accountant's report]/[our report relating to the profit estimate for the year ended 20 ,]/[our report relating to the profit forecast for the year ending 20 ,]/[our report relating to the pro forma financial information for the year ended 20] /[our report relating to the Financial Information Reconciliation] /[our report relating to the Quantified Financial Benefits Statement] dated [ ] [[and] the references to our name[9]] in the form and context in which [it]/[they] are included, as shown in the enclosed proof of the [describe Investment Circular] which we have signed for identification.

[We also hereby authorise the contents of the [report[s]] referred to above which [is/are] included in the Prospectus for the purposes of Prospectus Rule [5.5.3R (2)(f)] [5.5.4R (2)(f)] OR [We also hereby authorise the contents of the [report[s]] referred to above which [is/are] included in the Listing Particulars for the purposes of Regulation 6(1)(e) of The Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.] OR [We also hereby authorise the contents of the report[s] referred to above which [is/are] included in the Admission Document for the purposes of the Schedule Two to the AIM Rules][10]

[Note all references relating to or derived from prospectus rules are subject to review and finalisation]

Yours faithfully

Reporting Accountant

[9] This is required only when a statement is attributed to a reporting accountant as an expert outside the context of a report from the reporting accountant included in the investment circular.
[10] This paragraph is not required in respect of a Class 1 Circular.

Appendix 4

GLOSSARY OF TERMS

Accountant's report - A report by a reporting accountant included in an investment circular, in which the reporting accountant normally expresses a ''true and fair, for the purposes of the investment circular'' opinion on historical financial information relating to the issuer and its subsidiaries in accordance with SIR 2000 ''Investment Reporting Standards applicable to public reporting engagements on historical financial information ''.

Admission and Disclosure Standards - The Admission and Disclosure Standards published by the London Stock Exchange, for companies admitted or seeking to be admitted to trading by the Exchange.

Agreed-upon procedures engagement—An engagement in which an auditor or reporting accountant is engaged to carry out those procedures of an audit or assurance nature to which the auditor or reporting accountant and the entity and any appropriate third parties have agreed and to report on factual findings. The recipients of the report form their own conclusions from the report by the auditor or reporting accountant. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.

AIM - The Alternative Investment Market operated by the London Stock Exchange plc.

AIM Admission Document - The document prepared in connection with an application for admission of an issuer's securities to trading on AIM. If upon admission a prospectus is required in accordance with the Prospectus Rules, such prospectus may serve as the AIM Admission Document.

AIM Rules for Companies- The Rules of the Alternative Investment Market.

Circular - Any document issued by any company to its shareholders and/or holders of its debt securities in connection with a transaction, which does not constitute a prospectus, listing particulars, annual reports and accounts, interim reports, proxy cards and dividend or interest vouchers.

City Code - The City Code on Takeovers and Mergers, published by the Panel on Takeovers and Mergers.

Class 1 circular - A circular relating to a Class 1 transaction.

Class 1 transaction - A transaction where one or more of a number of specified percentage ratios exceed a predetermined level as specified in LR 10 Chapter 10 of the Listing Rules.

Comfort letter - A private letter from the reporting accountant, usually prepared at the request of the issuer and/or the sponsor, where relevant. It is intended to provide the addressees with comfort (in the form of an opinion or a report on the results of specific procedures carried out by the reporting accountants) regarding matters relevant to the addressees' responsibilities.

Completion date of the transaction - The date by which any offer contained in the circular must have been accepted or application made for shares or other securities to be issued, or the date on which shareholders vote to approve the transaction.

Consent letter - A letter whereby the reporting accountant consents to the inclusion in an investment circular of references to its name or the inclusion of any of its reports or letters which are to be published therein.

Due diligence - The process whereby the directors of the issuer and other parties, whether as principal or in an advisory capacity, satisfy themselves that the transaction is entered into after due and careful enquiry and that all relevant regulatory and/or legal requirements have been properly complied with. There is no generally accepted definition of required procedures for this purpose and where others (such as reporting accountants) are engaged to carry out work that will form part of the process, it is for the instructing parties to make clear what is required of those others in the particular circumstances.

Engagement—In the FRC's Ethical Standard, an audit engagement or an other public interest assurance engagement, or both where the context permits.

Engagement documentation—The record of work performed, results obtained, and conclusions the practitioner reached (terms such as "working papers" or "workpapers" are sometimes used).

Engagement partner - The partner or other person in the firm who is responsible for the engagement and its performance, and for reports that are issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

Engagement quality control review—A process designed to provide an objective evaluation, on or before the date of the report, of the significant judgments the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is for audits of financial statements of listed entities and those other engagements, if any, for which the firm has determined an engagement quality control review is required.

Engagement quality control reviewer—A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the report.

ESMA - European Securities and Markets Authority.

Financial information - The term is used to signify the specific information presented in the form of a table upon which a reporting accountant reports. Typically, this information encompasses a number of accounting periods.

Financial statements - A structured representation of historical financial information, including disclosures, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but it can also refer to a single financial statement. In order to avoid confusion the term financial information is used throughout the SIRs to refer to the information upon which the reporting accountant reports. When the term financial statements is used within the SIRs this refers to financial statements from which the financial information has been derived by the issuer.

FCA - Financial Conduct Authority.

FSMA - Financial Services and Markets Act 2000.

Historical financial information—Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

IFRSs - International Financial Reporting Standards issued by the International Accounting Standards Board. This term incorporates all International Financial Reporting Standards, International Accounting Standards (IASs) and Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standards Interpretation Committee of the IASC.

Investment circular—An investment circular is a document issued by an entity pursuant to statutory or regulatory requirements relating to securities on which it is intended that a third party should make an investment decision, including a prospectus, listing particulars, a circular to shareholders or similar document.

Investment circular reporting engagement—Any public or private reporting engagement in connection with an investment circular where the engagement is undertaken in accordance with Standards for Investment Reporting (SIRs).

ISAs (UK) - International Standards on Auditing (UK) issued by the Financial Reporting Council.

Issuer - For the purposes of the Prospectus Rules ‘‘A legal person who issues or proposes to issue securities’’. For the purposes of the Listing Rules ‘‘Any company or other legal person or undertaking (including a public sector issuer), any class of whose securities has been admitted to listing, or is the subject of an application for admission to listing’’.

Listing particulars - A document not being a Prospectus prepared in connection with an admission of securities to the Official List.

Listing Rules - The part of the FCA’s Handbook entitled ‘‘Listing Rules’’ governing the conduct of companies whose securities are admitted to the Official List.

London Stock Exchange - The London Stock Exchange Group plc.

Long form report - A private report with a restricted circulation, normally prepared by the reporting accountants on the instructions of, and addressed to, the sponsor, where relevant, and the directors of the issuer as part of their due diligence, dealing with agreed matters including commentary on financial and other information in an orderly and relevant form for a specific purpose.

Main Market - The London Stock Exchange’s market for larger and established companies. Securities admitted to the Main Market are listed.

Nominated adviser - A corporate broker, investment banker or other professional adviser approved by the London Stock Exchange to act as a nominated adviser to an AIM company under the AIM Rules.

Non-Statutory Accounts – defined by s.435 (3) of the CA 2006 as: (a)any balance sheet or profit and loss account relating to, or purporting to deal with, a financial year of the company, or (b) an account in any form purporting to be a balance sheet or profit and loss account for a group headed by the company relating to, or purporting to deal with, a financial year of the company, otherwise than as part of the company's statutory accounts

NEX - An independent, self regulated, UK market for smaller companies.

Official List - The Official List, maintained by the FCA in accordance with Part 6 of FSMA 2000, of securities that have been admitted to listing.

Outcome - The outcome of the evaluation or measurement of a subject matter is the information that results from the directors applying the suitable criteria to the subject matter. Examples of outcomes are historical financial information and a directors' profit forecast and related disclosures that are included in an investment circular. Partner - Any individual with authority to bind a firm of reporting accountants with respect to the performance of any engagement in connection with an investment circular.

PD Regulation - the implementing EU Regulation 809/2004 that provides the detailed rules concerning Prospectuses and their contents. Much of the text of this regulation is included within the Prospectus Rules.

Private reporting engagement - An engagement in which a reporting accountant does not express a conclusion that is published in an investment circular.

Professional scepticism—An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.

Professional Securities Market - A market for debt, convertibles and depository receipts, which is operated and regulated by the London Stock Exchange.

Profit estimate - Historical financial information for a financial period which has expired but for which the results have not yet been published.

Profit forecast - The *City Code* defines a profit forecast as ‘‘a form of words which expressly states or by implication indicates a figure or a minimum or maximum figure for the likely level of profits or losses for the current financial period and/or financial periods subsequent to that period, or contains data from which a calculation of such a figure for future profits or losses may be made, even if no particular figure is mentioned and the word ‘‘profit’’ is not used’’. Where a profit forecast relates to an extended period and/or is subject to significant uncertainty it is sometimes referred to as a **projection**.

Pro forma financial information - Financial information such as net assets, profit or cash flow statements that demonstrate the impact of a transaction on previously published financial information together with the explanatory notes thereto.

Projection - Prospective financial information prepared on the basis of:

(a) Hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a startup phase or are considering a major change in the nature of operations; or

(b) A mixture of best-estimate and hypothetical assumptions.

Prospective financial information—Financial information based on assumptions about events that may occur in the future and possible actions by an entity. Prospective financial information can be in the form of a forecast, a projection or a combination of both. (see Forecast and Projection)

Prospectus - The document issued in accordance with the Prospectus Rules in connection with either a public offer or an admission of securities to trading on a regulated market.

Prospectus Regulations - The UK statutory instrument which makes amendments to Part VI of FSMA and to certain secondary legislation.

Prospectus Rules - The FCA's Handbook part ''Prospectus Rules'' which together with the PD Regulation and the changes to FSMA Part VI made by the Prospectus Regulations, implemented the Prospectus Directive into UK law. In respect of Prospectus content requirements, the Prospectus Rules reproduce the Annexes to the PD Regulation. Accordingly, references to the contents requirements in Annexes to the Prospectus Rules are also references to the Annexes to the PD Regulation.

Public interest assurance engagement—Audits of financial statements undertaken in compliance with International Standards on Auditing (ISAs) (UK) and other engagements undertaken in compliance with performance standards issued by the FRC which includes reporting accountants acting in connection with an investment circular (the Standards for Investment Reporting – 'SIRs').

Public offer - An offer to the public in any form to subscribe for securities in an issuer.

Public reporting engagement - An engagement in which a reporting accountant expresses a conclusion that is published in an investment circular and which is designed to enhance the degree of confidence of the intended users of the report about the ''outcome'' of the directors' evaluation or measurement of ''subject matter'' (usually financial information) against ''suitable criteria''.

Quantified Financial Benefits Statement – Defined by the City Code as either:

(a) a statement by a securities exchange offeror or the offeree company quantifying any financial benefits expected to accrue to the enlarged group if the offer is successful; or

(b) a statement by the offeree company quantifying any financial benefits expected to accrue to the offeree company from cost saving or other measures and/or a transaction proposed to be implemented by the offeree company if the offer is withdrawn or lapses.

Report - This term encompasses letters that the reporting accountant may be required to send by regulation or arising from the terms of the engagement.

Reporting accountant - An accountant engaged to prepare a report for inclusion in, or in connection with, an investment circular. The reporting accountant may or may not be the auditor of the entity issuing the investment circular. The term ''reporting accountant'' is used to describe either the engagement partner or the engagement partner's firm.[11] The reporting accountant could be a limited company or an engagement principal employed by the company.

Reporting accountant's criteria - A subset of suitable criteria which the reporting accountant's engagement requires the reporting accountant to consider. Reporting accountant's criteria are set out in appendices to the SIRs.

Securities - Are as defined by Article 4 of the EU's Markets in Financial Instruments Directive with the exception of money-market instruments having a maturity of less than twelve months.

[11] Where the term applies to the engagement partner, it describes the responsibilities or obligations of the engagement partner. Such obligations or responsibilities may be fulfilled by either the engagement partner or another member of the engagement team.

Sponsor - For the purposes of SIRs, ''sponsor'' is a generic term which includes any one or more of the following to whom the reporting accountant has agreed, in its engagement letter, to address a relevant report:

(a) a person approved, under section 88 of FSMA, by the FCA as a sponsor. The FCA's sponsor regime applies to applications for admission to listing and major transactions. The sponsor regime is designed to ensure that effective due diligence is undertaken on issuers and transactions to ensure that issuers are eligible for listing, that major transactions are properly evaluated and that all relevant information has been included in the investment circular. The rules governing sponsors and their conduct of sponsor services are set out in Chapter 8 of the Listing Rules. Listing Rule 8.2.1 sets out the circumstances when an issuer must appoint a sponsor;

(b) a nominated adviser approved by the London Stock Exchange in connection with an application for admission to AIM and subsequent transactions by a company with securities traded on AIM; and

(c) in connection with any transaction, any party, other than the issuer, who may have specific responsibility for the preparation and/or contents of an investment circular.

Subject matter - The subject matter of an engagement is that which is being evaluated or measured against ''suitable criteria''. Subject matter varies widely in assurance engagements but in public interest assurance engagements is often one or more financial or non-financial aspects of an entity of interest to the intended users of the assurance report. The entity responsible for the subject matter is therefore usually the entity whose underlying subject matter is being addressed in such engagements. In some engagements, there can be more than one entity responsible for the subject matter. Examples of subject matter are the entity's financial position and the directors' expectation of the issuer's profit for the period covered by a profit forecast or a quantified financial benefits statement.

Suitable criteria - Criteria are the benchmarks used to evaluate or measure the subject matter. Suitable criteria are usually derived from laws and regulations and are required by directors to enable them to make reasonably consistent evaluations or measurements of the subject matter. With respect to public reporting engagements the suitable criteria for specific types of engagement are described in the individual SIR dealing with such engagements.

STANDARDS FOR INVESTMENT REPORTING

Contents

SIR 2000 – Investment Reporting Standards Applicable to Public Reporting Engagements on Historical Financial Information

Preface

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, including for example those which relate to Ethics and Quality Control.

SIR 2000 contains specific 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 involving the examination of historical financial information which is intended to give a true and fair view, for the purposes of the relevant investment circular, included within an investment circular prepared for issue in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom.

SIR 2000 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.

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.

To assist readers, SIRs contain references to, and extracts from, certain legislation, regulations and Listing Rules. Readers are cautioned that these references may change subsequent to publication.

Introduction

1. The purpose of this Standard for Investment Reporting (SIR) is to establish standards and provide guidance on the reporting accountant's responsibilities and procedures when preparing an ''accountant's report'' on historical financial information. The work required to prepare an ''accountant's report'' is referred to in this SIR as the ''reporting accountant's exercise''. The objective of the reporting accountant's exercise is to enable the reporting accountant to express an opinion as to whether, for the purposes of the relevant investment circular, the financial information gives a true and fair view of the state of affairs and profits, cash flows and statements of changes in equity of the issuer, or where applicable the target.

2. **When the reporting accountant is engaged to prepare an accountant's report, the reporting accountant shall obtain sufficient appropriate evidence to express an opinion as to whether the financial information presents a true and fair view, for the purposes of the investment circular. (SIR 2000.1)**

3. An engagement to prepare an accountant's report 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 historical financial information:

    a. With respect to historical financial information the ''**subject matter**'' is the entity's financial position for the periods being reported on;

    b. The ''**suitable criteria**'' are the requirements of the applicable financial reporting framework, the PD Regulation, and Listing Rules together with any ''accepted conventions'', as set out in the Annexure, that are applicable; and

    c. With respect to historical financial information the ''**outcome**'' is the directors' historical financial information that is included in the investment circular and which has resulted from the directors applying the suitable criteria to the subject matter. The reporting accountant expresses an opinion (in the ''**accountant's report**'') as to whether the historical financial information gives, for the purposes of the investment circular, a true and fair view.

4. The Prospectus Rules set out certain requirements, derived from the Prospectus Regulation, relating to the presentation of historical financial information in a prospectus..[Placeholder for updated references]..of the Prospectus Regulation (and there are equivalent requirements in a number of the other annexes) requires that historical financial information is either audited or ''reported on as to whether or not, for the purposes of the registration document, it gives a true and fair view, in accordance with auditing standards applicable in a Member State or an equivalent standard.''[12]

5. With respect to Class 1 acquisitions, Chapter 13 of the Listing Rules sets out requirements for a financial information table relating to a target company and the accountant's opinion on that table. The accountant's opinion is required to state whether, for the purposes of

[12] In respect of prospectus content requirements, the Prospectus Rules reproduce the xxxx to the Prospectus Regulation. Accordingly, references to the contents requirements in xxxx the Prospectus Rules are also references to xxxx in the PD Regulation. [Placeholder for final rule references]

the Class 1 circular, the financial information table gives a true and fair view of the financial matters set out in it.

6. In this SIR, accountant's opinions on such financial information tables are described as ''accountant's reports''.

7. An accountant's report is likely to be used where the issuer's audited annual financial statements do not meet the standards of preparation and presentation prescribed in the applicable rules and need, therefore, to be adjusted in order that historical financial information which complies with the applicable rules can be presented. For example, where the entity is seeking a listing, the financial information for the last two years is required to be prepared and presented in a form consistent with that which will be adopted in the issuer's next published annual financial statements, having regard to accounting standards and policies and legislation applicable to such annual financial statements. In the context of Class 1 circulars, the objective may be to present the financial information of the target for all periods in a form which is consistent and comparable with the accounting policies adopted by the listed company in its latest annual accounts.

8. In addition, an accountant's report is used where there are no underlying financial statements that have been audited. Conventions for accounting where there are complex financial histories are described in the Annexure to this SIR.

9. The nature of the accountant's report is such that the objective of the reporting accountant's exercise does not differ in essence from that of an auditor. The underlying requirement of this SIR is that the reporting accountant will, in conducting the work necessary to provide the accountant's report, perform its own procedures, and/or use the work of the auditor(s), that meet those requirements of ISAs (UK) that are relevant to the reporting accountant's exercise. The reporting accountant applies ISAs (UK) on the basis set out in this SIR in the context of the following:

    a. The reporting accountant is often reporting on financial information that has been included in, or formed part of, financial statements which have themselves already been subject to audit by an independent auditor. In consequence, there may be available to the reporting accountant a body of independent evidence relating to the historical financial information which would not be available to an auditor examining the financial information for the first time;

    b. The financial information being examined may relate to accounting periods in circumstances where financial statements for one, and possibly two, subsequent periods have been prepared and audited. These circumstances mean that in assessing risks that may affect the historical financial information in relation to earlier periods the reporting accountant has the benefit of information relating to uncertainties affecting the financial information which would not have been available to an auditor auditing the information for the first time; and

    c. The reporting accountant does not have the statutory reporting responsibilities of an auditor.

10. This SIR provides standards that address those aspects of the reporting accountant's exercise that require the reporting accountant to perform procedures directly, for example risk assessment procedures. It also provides guidance on the application of ISAs (UK) to the reporting accountant's exercise.

11. This SIR recognises that the reporting accountant may wish to use evidence previously obtained by the auditor who audited the historical financial statements for the relevant period covered by the reporting accountant's exercise. Guidance is provided on the steps that the reporting accountant undertakes, including initial planning considerations, in order to assess the suitability of the audit evidence for this purpose.

12. Subject to the considerations set out in this SIR, references in the ISAs (UK) to the auditor performing audit procedures or obtaining audit evidence may be read as references to the reporting accountant being satisfied that the procedures have been performed, or the evidence has been obtained, either by the reporting accountant or an auditor.

13. Certain requirements of ISAs (UK) will not be relevant to the reporting accountant's exercise, for example, when a requirement of an ISA (UK) is predicated on a continuing relationship between an auditor and the entity being audited, or because of the specific nature of the reporting accountant's responsibilities, under applicable regulations, as discussed in this SIR.

14. This SIR also provides guidance to the reporting accountant in the context of assessing whether the financial information shows a true and fair view, for the purposes of the investment circular. In situations where the issuer has a historical record of audited financial statements, the true and fair view for the purposes of the investment circular may be a financial reporting framework such as International Financial Reporting Standards as adopted by the European Union. The Annexure to this SIR provides conventions to support the true and fair view for the purposes of an investment circular

Pre-existing financial information

15. With respect to historical financial information, where the issuer already has available:

    a. Audited annual financial statements; or

    b. Audited or reviewed interim financial information, which meet the requirements of the applicable rules in respect of the preparation and presentation of historical financial information to be included in the investment circular, it may choose to include these financial statements, or financial information, in the investment circular together with the pre-existing reports of the auditor. In these circumstances an accountant's report is not prepared and this SIR does not apply to such circumstances. Furthermore, in these circumstances the audit firm is not required by the Prospectus Rules..[reference to be finalized/revisited once implementation of new rules is complete]..to consent to the inclusion of its reports in the investment circular.

16. Notwithstanding that the audit firm is not required to give consent, a reporting accountant that is also the auditor of the company may become aware that the financial statements are defective. For example, a material error may have been detected in the original financial statements. If the reporting accountant does become aware that the financial statements are defective and that the directors have not revised them as permitted by section 454 of the Companies Act 2006, it discusses the matter with those charged with governance. If the directors do not decide to revise the financial statements, the reporting accountant considers the need to take legal advice.[13]

[13] See also Bulletin 2008/5 *''Auditor's Reports on Revised Accounts and Reports, in the United Kingdom''.*

True and fair view, for the purposes of the investment circular

17. **The reporting accountant shall:**

   a. **Obtain an understanding of the purpose of the investment circular;**

   b. **Ascertain which financial reporting framework is required to be used by the applicable regulations and which, if any, accepted conventions as to the preparation and presentation of historical financial information for inclusion in investment circulars are to be applied[14]; and**

   c. **Review the appropriateness of the accounting policies in order to determine whether the proposed historical financial information prepared by the issuer is capable of giving a true and fair view, for the purposes of the investment circular. (SIR 2000.2)**

18. Where historical financial information is presented in a prospectus the Prospectus Rules generally determine the applicable financial reporting framework. The Prospectus Rules require the most recent year's financial information to be presented in a form consistent with that which will be adopted in the issuer's next published annual financial statements, having regard to the accounting standards, policies and legislation applicable to such annual financial statements. [<u>Placeholder - reference to be finalized/revisited once implementation of new rules is complete</u>]

19. The reporting accountant satisfies itself that the directors have performed a thorough review of the accounting policies used in preparing the historical financial information in determining the accounting policies appropriate for the business following the transaction that is the subject of the prospectus. The reporting accountant also considers whether the policies are consistent with the applicable financial reporting framework, and accounting policies used in the relevant industry. Where the reporting accountant does not agree with the directors' final proposed accounting policies they refer to the guidance on reporting set out in paragraphs 61 to 63 (going concern) and 67 to 72 of this SIR.

20. Where information is presented in a Class 1 circular, the suitable criteria regarding its presentation are those set out in the Listing Rules. These rules require financial information to be presented in a form consistent with the accounting policies adopted in the issuer's latest annual consolidated accounts.[15]

21. The directors have regard to, and make appropriate disclosure of, accepted conventions which have been developed for the preparation and presentation of historical financial information in investment circulars (including those relating to additional disclosures). These conventions have been developed to assist the directors, to the extent consistent with established accounting principles, to fulfil the criteria set out in the relevant

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[14] See Annexure.

[15] LR 13.5.4.R (1), unless LR 13.5.4.R (2) applies. This includes when financial information is presented in compliance with: the accounting policies to be used in the issuer's next financial statements, provided the issuer's last published annual consolidated accounts have been presented on a restated basis consistent with those to be used in its next accounts on or before the date of the class 1 circular. [LR 13.5.4.R (2) (f)]

regulations, present the information in an easily analysable form, and give a true and fair view for the purposes of the applicable investment circular.

22. The Annexure provides a summary of these conventions including, among others, conventions that address:

- Making adjustments to previously published financial statements and dealing with entities which have not previously prepared consolidated accounts.
- Carve outs.
- Acquisitions.
- Newly-formed issuers.

In certain circumstances applying the conventions may result in combined or aggregated, rather than consolidated, financial information being presented in order to meet the requirement to present financial information that gives a true and fair view, for the purposes of the investment circular.

General Professional Considerations

Agreeing the terms of the engagement

23. Illustrative examples of engagement letter clauses are set out in Appendix 1.

Joint reporting accountants

24. When joint reporting accountants are appointed, the division of work as between them is a matter for agreement. The arrangements between the joint reporting accountants form part of the engagement letter. Irrespective of any such arrangement, the joint reporting accountants are jointly and severally responsible for the report to be given. Each of the joint reporting accountants participates in the planning of the engagement and they agree upon the scope of work and any changes subsequently found to be necessary thereto. Each of the joint reporting accountants has regard to the considerations set out in this SIR in respect of using the work of an auditor in determining the extent to which it is appropriate to rely on the evidence obtained by the other reporting accountants or the extent to which they consider it necessary to carry out their own work. Each of the joint reporting accountants reviews the work of the other to the extent considered necessary and records the results of that review. A common record of documentation, in accordance with SIR 1000, is maintained.

Fraud and Irregularity

25. In considering the requirements of ISA (UK) 240 (Revised) "*The auditor's responsibilities relating to fraud in an audit of financial statements*", ISA (UK) 250 (Revised) "*Section A - Consideration of laws and regulations in an audit of financial statements and Section B - The auditor's statutory right and duty to report to regulators of public interest entities and regulators of other entities in the financial sector*" for the auditor to report any matters

arising to certain authorities, the reporting accountant will need to assess the effect of these requirements when reporting in terms of the true and fair view, for the purposes of the investment circular. Where matters arise, which may potentially require disclosure by the reporting accountant and the reporting accountant is unsure how to proceed, the reporting accountant takes legal advice.

Those Charged with Governance

26. In applying ISAs (UK) 260 ''Communication with those charged with governance'', 265 ''Communicating deficiencies in internal control to those charged with governance and management'' and 450 ''Evaluation of misstatements identified during the audit'', the reporting accountant considers who, in relation to the investment circular, should be regarded as a person charged with governance. Where the issuer has already formed an audit committee, the reporting accountant communicates with the audit committee in accordance with the guidance set out in this SIR. In the absence of an audit committee those responsible for governance will usually be the directors of the issuer.

Planning and Performing the Engagement

Planning

27. **The reporting accountant shall perform and document risk assessment procedures to support the reporting accountant's exercise. (SIR 2000.3)**

28. In addition to those matters that a reporting accountant considers when applying SIR 1000, a reporting accountant may consider:

    - Any previous modifications to the opinion in the auditor's report on underlying financial statements or emphasis of matter or other matters paragraphs and their potential impact on the approach to the reporting accountant's exercise.

    - The nature of adjustments to previously published historical financial information which may be proposed by the preparer of the historical financial information (for example as a result of changing the applicable accounting framework) and the sources of evidence to support an examination of the adjustments.

    - The interaction with other roles undertaken by the reporting accountant in connection with the transaction, for example preparing a long form report.

    - Staffing, including relevant experience and skills linked to investment circular reporting, and sources of consultation.

    - Liaison with the auditor and arrangements for terms of access to the audit documentation, or equivalent evidence if maintained in machine readable form.

    - The nature and timing of procedures to support any decision to rely on audit evidence obtained by the auditor.

- Whether the financial reporting framework applicable to the audited financial statements is the same as that applicable to the financial information contained in the investment circular.

- Whether there are any special circumstances concerning the appointment, resignation or reporting responsibilities of the auditor.

- Whether there is evidence of any limitation having been placed on the work of the auditor.

- Whether corrections or adjustments to subsequent financial statements indicate possible inadequacies in the audits of earlier periods.

29. **Where the reporting accountant is considering using audit evidence obtained by an auditor as part of the evidence for the reporting accountant's exercise, the reporting accountant shall consider the professional qualifications, independence and professional competence of the auditor and the quality control systems applied by the audit firm to that engagement. (SIR 2000.4)**

30. The reporting accountant's consideration is analogous to the requirements of ISA (UK) 600 (Revised) *Special Considerations – Audits of Group Financial Statements (Including the work of component auditors).* Matters that the reporting accountant considers include:

    a. Whether the auditor was required to comply with the FRC's Ethical Standard, International Standards on Quality Control (UK), and ISAs (UK).

    b. The auditor's professional competence, including their integrity and experience.

    c. Whether the auditor operated in a regulatory environment that actively oversees auditors.

31. **If an auditor does not meet the relevant independence requirements, or the engagement team has serious concerns about the other matters listed in paragraph 30, the reporting accountant shall obtain sufficient appropriate audit evidence relating to the historical financial information of the component without reliance on the evidence generated by the auditor. (SIR 2000.5)**

Understanding of the entity, its environment and risk assessment

32. **The reporting accountant should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the historical financial information covered by the accountant's report whether due to fraud or error, and sufficient to design and implement responses to the assessed risks of material misstatement. As part of this risk assessment the reporting accountant should determine whether any of the risks identified are, in the reporting accountant's judgment, significant risks. (SIR 2000.6)**

33. Such an understanding is ordinarily obtained by:

    a. Meeting the directors and management of the entity;
    b. Visiting the entity's premises;
    c. Discussing the financial information and recent results with management;
    d. Applying analytical procedures to the financial information; and
    e. Obtaining from management an understanding of the principal transaction flows, internal controls, information systems and reporting arrangements of the business.

34. If this process indicates that there are factors which may give rise to a modification of the accountant's opinion or an emphasis of matter and other matter paragraphs then such factors are reported immediately to those responsible for the investment circular, usually the directors, and any other responsible parties.

35. **When performing the risk assessment, the reporting accountant shall take into account the evidence obtained from all other relevant work performed in connection with the investment circular. (SIR 2000.7)**

36. The reporting accountant may be undertaking other relevant work related to the transaction giving rise to the accountant's report. For example, the reporting accountant may have been commissioned to prepare a long form report, or a comfort letter on a statement of sufficiency of working capital.

37. If other relevant work has been performed by another firm the reporting accountant requests the issuer to provide access to the documentation of such work. If the reporting accountant is not allowed access to such documentation it considers the implications for its report.

Materiality

38. The reporting accountant determines both materiality and performance materiality for the purposes of the reporting accountant's work independently from the auditor, if any, who audited the underlying financial statements, and accordingly the reporting accountant's determination of materiality and performance materiality may differ from that of the auditor. In determining materiality and performance materiality for the purposes of reporting on historical financial information, regard is had to the context in which the opinion is to be given (which includes the fact that the information may relate to a trend of results over a three-year period).

The reporting accountant's procedures

39. In approaching the procedures to be performed in response to the assessed risk of material misstatement at the assertion level, the reporting accountant considers the extent to which the procedures that the reporting accountant wishes to perform have previously been performed by an auditor. Where such procedures have been performed by an auditor, the reporting accountant may, subject to the considerations discussed in this SIR, use the evidence obtained by the auditor from those procedures as part of the reporting accountant's own evidence.

40. In exceptional circumstances a reporting accountant may judge it necessary to depart from a relevant requirement in an ISA (UK) to achieve the aim of that requirement. In such circumstances the reporting accountant performs alternative procedures to achieve the

aim of that requirement. When such a situation arises the reporting accountant documents the reason for the departure.

41. Where applicable auditing standards have changed during the period covered by the historical financial information, or it is not practicable for the reporting accountant to undertake procedures that meet the requirements of ISAs (UK), the reporting accountant considers the implications for the reporting accountant's exercise, having regard to its risk assessment. The reporting accountant may be able to conclude that it is unnecessary to apply certain requirements of the ISAs (UK) throughout the three-year period covered by the accountant's report because:

    a. It is sufficient to apply them with respect to the latest period only, because sufficient appropriate evidence relating to earlier periods can be obtained from the latest period; or

    b. The auditing standards that were applicable at the time met the same objectives as the requirements of ISAs (UK). In such cases the reporting accountant documents the reason or justification for not meeting the requirement and why omitting it does not have an impact on its opinion.

Evidence

42. **When the reporting accountant intends to use audit evidence obtained by the auditor, it shall evaluate whether the audit procedures performed by the auditor adequately respond to the reporting accountant's assessment of the risks (including significant risks) of material misstatement of the financial information to be included in the investment circular. (SIR 2000.8)**

43. **The reporting accountant's procedures shall include:**

    a. Examining material adjustments from previously published historical financial statements made during the course of preparing the historical financial information and considering the responsible party's basis for satisfying itself that the adjustments are necessary and whether they have been correctly determined;

    b. Evaluating whether all necessary adjustments to previously published historical financial statements have been made; and

    c. Where the information is based on previously published financial statements, comparing the historical financial information to those financial statements and assessing whether the information has been accurately extracted therefrom. (SIR 2000.9)

44. The timing of the reporting accountant's own work will inevitably be dictated by the timing of the preparation of the historical financial information and the related investment circular and this may be some time after the end of the periods to which the report relates. In certain areas therefore, use of the work of the auditor may be the only practicable means of obtaining the evidence necessary to support the reporting accountant's opinion[16].

[16] Procedures which require the reporting accountant to be physically present at a relevant date (for example attendance at physical inventory counting) will clearly be impossible to perform

Where the reporting accountant concludes that it cannot rely on the auditor's work, then it considers the implications for its report.

45. Where the financial information to be reported on has previously been subject to audit, the audit documentation will be a useful source for the evidence which the reporting accountant may need to support its opinion on the financial information.

46. If planning to use the work of the auditor, the reporting accountant considers whether:

    a. The work of the auditor was conducted to an appropriate materiality level; and

    b. The auditor complied with the auditing standards that were applicable to the auditor's work.

47. The reporting accountant accepts evidence in audit documentation as being prima facie truthful and genuine, but in considering that evidence adopts an attitude of professional scepticism, whether the documentation was produced by an auditor from the reporting accountant's own firm or by another auditor. However, with respect to audit documentation from the reporting accountant's own firm, the reporting accountant is more familiar with the detailed quality control procedures that will have been applied in the conduct of the audit. The application of professional scepticism will include considering the evidence contained in the audit documentation in the light of the understanding of the entity and its environment, including its internal control and such other evidence as the reporting accountant obtains directly.

48. The extent to which independent testing of the evidence obtained by the auditor (for example, reperformance of tests performed by the auditor) will be necessary is a matter for the reporting accountant's judgment on the basis of the information available at the time, including the reporting accountant's evaluation of the auditor's work.

49. **The reporting accountant shall evaluate the quality of the audit evidence obtained by the auditor that the reporting accountant intends to rely on. Where the reporting accountant concludes that such audit evidence is either not sufficient or is inappropriate for the purposes of the reporting accountant's exercise the reporting accountant should determine what additional procedures are to be performed by the reporting accountant and perform those procedures. Where the evidence is not available, the reporting accountant should consider the implications for its report. (SIR 2000.10)**

50. Where relevant information is not available from the audit documentation, the reporting accountant will need to obtain the relevant evidence directly. The audit documentation is unlikely, for example, to contain information concerning post balance sheet events up to the date of signing the accountant's report or to contain evidence relating to any adjustments made to the financial statements in preparing the historical financial information.

Obtaining access to information in audit documentation

51. When the company's auditor, or former auditor, is not appointed as the reporting accountant, the auditor will be aware that the reporting accountant may need access to information contained in the audit documentation. The auditor or former auditor is normally

prepared, in accordance with relevant professional guidance, to make the audit documentation available to reporting accountants for the purpose of work under this SIR.

52. Access may be granted only on the basis that the auditor accepts no responsibility or liability to the reporting accountant in connection with the use of the audit documentation by the reporting accountant. This has no effect on the reporting accountant's judgment regarding the extent to which reliance is placed on such audit documentation.

53. In cases where the reporting accountant is not able to obtain access to information in audit documentation, the reporting accountant will have no option other than to obtain the relevant evidence directly.

54. **The reporting accountant shall obtain, either from the directors or from the auditor, copies of all relevant communications sent by the auditor to those charged with governance of the entity, including those required to be sent by auditing standards applicable at the time, and copies of any responses to such communications made by management. A relevant communication would, for example, be one that discussed internal control and other weaknesses. (SIR 2000.11)**

55. Where the evidence used by the reporting accountant includes that contained within the audit documentation of an auditor, the reporting accountant's documentation identifies the working papers reviewed and the nature of the work performed. Whilst it is not necessary for the reporting accountant's documentation to replicate all of the detailed findings contained in the audit documentation reporting accountants do document the basis on which the auditor addressed the particular risks identified in the reporting accountant's risk assessment procedures.

Events occurring up to the date of the accountant's report

56. Unless an event after the balance date event indicates that there has been an error in the preparation of the historical financial information in an earlier period, the reporting accountant will, having regard to the convention for treating post balance sheet events for the purposes of historical financial information in an investment circular (as referred to in the Annexure), only consider the impact of post balance sheet events occurring up to the date of the accountant's report on the final period presented.

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

57. **If, in the period between the date of the accountant's report and the completion date of the transaction, the reporting accountant becomes 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, the reporting accountant shall discuss the implications of them with those responsible for the investment circular and take additional action as appropriate. (SIR 2000.12)**

58. After the date of the accountant's report, the reporting accountant has no obligation to perform procedures or make enquiries regarding the investment circular.

59. Under [Placeholder for finalized rules/references].. of the Prospectus Rules, a supplementary prospectus must be prepared if, after the date the prospectus has been formally approved by the FCA and before the final closing of the offer of securities to the public or the commencement of trading in the relevant securities, there is a significant change affecting any matter contained in the document or a significant new matter has arisen (or a material mistake or inaccuracy is noted).

60. If, as a result of discussions with those responsible for the investment circular concerning a subsequent event that occurred prior to the completion date of the transaction, the reporting accountant is either uncertain about or disagrees with the course of action proposed, the reporting accountant may consider it necessary to take legal advice with respect to an appropriate course of action.

Going concern

61. **Where the reporting accountant concludes that a material uncertainty relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern exists at the time the accountant's report is signed, and which will not be resolved by a satisfactory outcome to the transaction to which the investment circular relates, the reporting accountant shall determine whether appropriate disclosure of the nature and implications of the uncertainty has been made in the basis of preparation note to the historical financial information. Where appropriate disclosure has been made, the reporting accountant shall include a "Material Uncertainty Related to Going Concern" paragraph in the reporting accountant's report immediately after the reporting accountant's opinion on the financial information**. **(SIR 2000.13)**

62. **Where the reporting accountant concludes that an uncertainty relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern exists at the time the accountant's report is signed, and which may be resolved if the outcome of transactions to which the investment circular containing the report relates is satisfactory (e.g., the successful raising of money through a share issue or shareholder approval of a transaction), the reporting accountant considers such matters as whether the transaction(s) is likely to be successful and the extent to which the transaction(s) mitigate the uncertainty in determining whether a material uncertainty exists. (SIR 2000.14)**

Representations

63. A number of specific representations are required by ISAs (UK). Where representations have been obtained by the auditor, subject to the considerations set out in this SIR, it may not be necessary for the reporting accountant to seek further representations covering the same matters, other than in relation to the period since the audit opinion relating to the final period included in the historical financial information was given.

64. Representations additional to those pursuant to ISAs (UK) that a reporting accountant may consider for incorporation in the letter of representation or board minute include:

- Confirmation from the directors or management of the entity that they are responsible for the preparation of the historical financial information.

- Confirmation that any adjustments made to historical financial statements for the purposes of preparing the historical financial information are necessary, have been correctly determined and that there are no other adjustments that are necessary.

65. In relation to a Class 1 acquisition, the acquirer may not be in a position to make representations in relation to the historical financial information of the target entity on matters such as fraud, non-compliance with laws and regulation and related parties. In such circumstances representations may be sought from the management of the target entity. In the event that such representations are not forthcoming, the reporting accountant considers the implications for its report.

Reporting

66. The reporting accountant's opinion is usually expressed in terms of whether, for the purpose of the relevant investment circular, the financial information gives a true and fair view of the state of affairs and profits, cash flows and statement of changes in equity. Appendices 2 and 3 set out illustrative examples of accountant's reports on historical financial information.

67. When there is a limitation on the scope of the reporting accountant's work, the reporting accountant considers whether the limitation results in a lack of sufficient appropriate evidence necessary to form an opinion. When the possible effect is, in the opinion of the reporting accountant, material to the financial information, there will be insufficient evidence to support an unqualified opinion. The nature of the work of reporting accountants is such that in the absence of reliable contemporary evidence relating to significant accounts and balances it may not be possible to form an opinion on the financial information. This might be the case where there has been no audit of the underlying financial information in the past or where the auditor has given a qualified opinion because of a limitation in the scope of work.

68. As a consequence of the purpose for which financial information is presented and the importance which may be attached to it by readers of the document, a reporting accountant does not normally agree to be associated with financial information where a disclaimer of opinion needs to be given on the information for the entire period.

69. The reporting accountant needs to be satisfied that the financial information adequately describes both the applicable financial reporting framework used in the preparation of the financial information and any of the accounting conventions from the Annexure that have been used. Usually these are referred to within the financial information in a basis of preparation note.

70. Where the financial information has been prepared fully in accordance with a recognised financial reporting framework such as ''International Financial Reporting Standards as adopted by the European Union'' the accountant's opinion is expressed in terms of the financial information giving a true and fair view in accordance with that framework (see Appendix 2 for an illustration).

71. Where the financial information has not been prepared fully in accordance with a recognised financial reporting framework but, for example, in accordance with a financial reporting framework modified by applying a convention described in the Annexure to this SIR, the accountant's opinion is expressed in terms of the financial information being prepared in accordance with the basis of preparation described in a note to the financial information, rather than in accordance with the financial reporting framework. The basis of preparation note states which accounting convention has been applied and how it departs from the requirements of the recognised financial reporting framework. A statement is made in the note that in all other respects the recognised financial reporting framework has been applied (see Appendix 3 for an illustration of the accountant's report).

Other information – references to previous audit opinions

72. The reporting accountant's opinion is arrived at independently of any audit opinion previously given on the financial statements which form the basis for the financial information to be reported on. It is not part of the reporting accountant's role to explain (where this is the case) why the reporting accountant's opinion differs from the opinion of the auditor. In some cases, however, there may be an obligation on an issuer to disclose details of modified opinions contained in auditor's reports prepared by the statutory auditor. In such cases, the reporting accountant considers the disclosures made by the issuer relating to such modified opinions and whether any matters disclosed might give rise to questions as to how the reporting accountant has dealt with matters giving rise to the modified opinions. If the reporting accountant is not satisfied with the disclosures, the reporting accountant discusses the matter with those responsible for the investment circular and ensures that the appropriate information is included by the issuer or is included in the accountant's report. Where the audit has been undertaken by another firm, the reporting accountant does not normally refer to the name of the auditor in the accountant's report.

Comparatives

73. The reporting accountant is required to provide a report on each period included in the historical financial information to which the reporting requirement relates. In consequence the financial information does not constitute either ''comparative information'', ''corresponding figures'' or ''comparative financial statements'' as contemplated by ISA (UK) 710 ''Comparative information – corresponding figures and comparative financial statements''. Accordingly, ISA (UK) 710 is not relevant to the work of the reporting accountant.

Effective date

74. A reporting accountant is required to comply with the requirements in this Investment Reporting Standard for reports signed on or after xxxx [To be confirmed.]

APPENDIX 1: EXAMPLES OF ENGAGEMENT LETTER CLAUSES

These examples of engagement letter clauses are intended for consideration in the context of an accountant's report. They should be tailored to the specific circumstances and supplemented by such other clauses as are relevant and appropriate. Suitably adapted, this example may be used for reporting accountant's engagements with respect to other relevant engagements.

For a prospectus

Financial information upon which the report is to be given

We understand that the directors of ABC plc will include in the Prospectus historical financial information for the [three] years ended [ ] in relation to ABC plc, the last [two years] of which will be presented and prepared in a form consistent with that which will be adopted in ABC plc's next published annual financial statements, having regard to accounting standards and policies and legislation applicable to such annual financial statements in accordance with the requirements of Annex I item 20.1 of the Prospectus Rules.

Responsibilities

The directors of ABC plc are responsible for the historical financial information. It is our responsibility to form an opinion as to whether the financial information gives a true and fair view for the purposes of the Prospectus and to report our opinion to the directors of ABC plc.

Scope of work

We shall expect to obtain such evidence as we consider sufficient and appropriate to enable us to draw reasonable conclusions therefrom. The nature and extent of our procedures will vary according to our assessment of the appropriate sources of evidence. Our work will be directed to those matters which in our view materially affect the overall financial information upon which our opinion is to be given, and will not be directed to the discovery of errors or misstatements which we consider to be immaterial. It is expected that a substantial part of the evidence which we may require will be contained in the audit files of LMN Accountants. ABC plc has agreed that it will use its best endeavours to ensure that the relevant files are made available to us. Our work may also depend upon receiving without undue delay full co-operation from all relevant officials of ABC plc and their disclosure to us of all the accounting records of ABC plc and all other records and related information (including certain representations) as we may need for the purposes of our examination.

For a Class 1 circular

Financial information upon which the report is to be given

We understand that the directors of ABC plc will include in the Class 1 Circular a historical financial information table for the [three] years ended [ ] in relation to XYZ Limited which will be presented and prepared in a form consistent with the accounting policies adopted in ABC plc's latest annual consolidated accounts in accordance with the requirements of chapter 13 of the Listing Rules.

Responsibilities

The directors of ABC plc are responsible for the historical financial information table. It is our responsibility to form an opinion as to whether the financial information gives a true and fair view for the purposes of the Class 1 circular and whether the financial information table has been prepared in a form that is consistent with the accounting policies adopted in ABC plc's latest annual accounts and to report our opinion to the directors of ABC plc.

Scope of work

We shall expect to obtain such evidence as we consider sufficient and appropriate to enable us to draw reasonable conclusions therefrom. The nature and extent of our procedures will vary according to our assessment of the appropriate sources of evidence.

Our work will be directed to those matters which in our view materially affect the overall financial information upon which our opinion is to be given, and will not be directed to the discovery of errors or misstatements which we consider to be immaterial.

It is expected that a substantial part of the evidence which we may require will be contained in the audit files of LMN Accountants. ABC plc has agreed that it will use its best endeavours to ensure that the relevant files are made available to us. Our work may also depend upon receiving without undue delay full co-operation from all relevant officials of ABC plc and XYZ Limited and their disclosure to us of all the accounting records of XYZ Limited and all other records and related information (including certain representations) as we may need for the purposes of our examination.

APPENDIX 2: EXAMPLE OF AN ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

Date

Reporting accountant's address

Addressees, as agreed between the parties in the engagement letter

Dear Sirs

[ABC plc]/[XYZ Limited]

We report on the financial information [set out in paragraphs .... to ....] [which comprises[17]], for the [*specify periods*].

[We have not audited or reviewed the financial information for the [*26 weeks ended ...]* [which has been included for comparative purposes only,] and accordingly do not express an opinion thereon.[18]]

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the [*describe Document*] dated ....., a true and fair view of the state of affairs of [ABC plc]/[XYZ Limited] as at [*specify dates]* and of its profits, cash flows and [statement of comprehensive income] [changes in equity] for the [specify periods] in accordance with International Financial Reporting Standards as adopted by the European Union

[17] Where paragraph numbers are not referred to specify the titles of the primary statements on which the opinion is being expressed and refer to the notes of those primary statements.

[18] This wording is relevant where financial information for an interim period is required to be reported on in circumstances where comparative information for the same interim period in the prior financial period is also to be presented, but not reported on.

[Material Uncertainty Relating to Going Concern]

Basis of Preparation

This financial information has been prepared for inclusion in the [describe Document[19]] dated..........of ABC plc on the basis of the accounting policies set out in paragraph [ ]. This report is required by [*Relevant Regulation*] and is given for the purpose of complying with that [paragraph] and for no other purpose.

Responsibilities

The Directors of ABC plc are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

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[19] For example, “prospectus”, “listing particulars”, “Class 1 Circular” or “AIM admission document”.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Financial Reporting Council in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Declaration[20]

For the purposes of [Prospectus Rule [5.5.3R(2)(f)] [5.5.4R(2)(f)]] [Paragraph a of Schedule Two of the AIM Rules] we are responsible for [this report as part] [the following part(s)] of the [prospectus] [registration document] [AIM admission 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] [AIM admission document] in compliance with [item 1.2 of annex 1 of the Prospectus Regulation] [item 1.2 of annex 3 of the Prospectus Regulation] [Schedule Two of the AIM Rules].

Yours faithfully

Reporting accountant

[20] This declaration is a requirement of the Prospectus Rules and is appropriate for inclusion when the report is included in a Prospectus, see Appendix 2 of SIR 1000. It is also appropriate for inclusion in an AIM admission document under Schedule Two of the AIM Rules.

APPENDIX 3: EXAMPLE OF AN ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION PREPARED IN ACCORDANCE WITH THE BASIS DESCRIBED IN A BASIS OF PREPARATION NOTE

Date

Reporting accountant's address

Addressees, as agreed between the parties in the engagement letter

Dear Sirs

[ABC plc]/[XYZ Limited]

We report on the financial information [set out in paragraphs .... to ....] [which comprises[21]], for the [*specify periods*].

[We have not audited or reviewed the financial information for the [*26 weeks ended ...]* [which has been included for comparative purposes only,] and accordingly do not express an opinion thereon.[22]]

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the [*describe Document*] dated ....., a true and fair view of the state of affairs of [ABC plc]/[XYZ Limited] as at [*specify dates]* and of its profits, cash flows and [statement of comprehensive income] [changes in equity] for the [specify periods] in accordance with the basis of preparation set out in note x[23].

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21 Where paragraph numbers are not referred to specify the titles of the primary statements on which the opinion is being expressed and refer to the notes of those primary statements.

22 This wording is relevant where financial information for an interim period is required to be reported on in circumstances where comparative information for the same interim period in the prior financial period is also to be presented, but not reported on.

23 Where the financial information has not been prepared fully in accordance with a recognised financial reporting framework but, for example, in accordance with a financial reporting framework modified by applying a convention described in the Annexure to this SIR, the accountant's opinion is expressed in terms of the financial information being prepared in accordance with the basis of preparation described in note x to the financial

[Material Uncertainty Relating to Going Concern]

Basis of Preparation

This financial information has been prepared for inclusion in the [describe Document[24]] dated..........of ABC plc on the basis of the accounting policies set out in paragraph [ ]. This report is required by [*Relevant Regulation*] and is given for the purpose of complying with that [paragraph] and for no other purpose.

Responsibilities

The Directors of ABC plc are responsible for preparing the financial information on the basis of preparation set out in note x to the financial information.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Financial Reporting Council in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

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information, rather than in accordance with the financial reporting framework. The basis of preparation note states which accounting convention has been applied and how it departs from the requirements of the recognised financial reporting framework. A statement is made in the note that in all other respects the recognised financial reporting framework has been applied.

[24] For example, "prospectus", "listing particulars", "Class 1 Circular" or "AIM admission document".

Declaration[25]

For the purposes of [Prospectus Rule [5.5.3R(2)(f)] [5.5.4R(2)(f)]] [Paragraph a of Schedule Two of the AIM Rules] we are responsible for [this report as part] [the following part(s)] of the [prospectus] [registration document] [AIM admission 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] [AIM admission document] in compliance with [item 1.2 of annex 1 of the Prospectus Regulation] [item 1.2 of annex 3 of the Prospectus Regulation] [Schedule Two of the AIM Rules].

Yours faithfully

Reporting accountant

[25] This declaration is a requirement of the Prospectus Rules and is appropriate for inclusion when the report is included in a Prospectus, see Appendix 2 of SIR 1000. It is also appropriate for inclusion in an AIM admission document under Schedule Two of the AIM Rules.

ANNEXURE: ACCOUNTING CONVENTIONS COMMONLY USED IN THE PREPARATION OF HISTORICAL FINANCIAL INFORMATION IN INVESTMENT CIRCULARS

This Annexure has been compiled by the FRC from a number of sources 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. It does not include basic principles, essential procedures, or guidance promulgated by the FRC.

Introduction

1. The purpose of this Annexure is to provide guidance concerning the conventions commonly applied for preparation and presentation of Historical Financial Information for inclusion in investment circulars.

2. Preparers[26] have regard to accepted conventions which have been developed for the preparation and presentation of historical financial information in investment circulars. They seek to assist preparers, to the extent consistent with established accounting principles, to meet the obligation that the annual financial statements should give a true and fair view for the purposes of the relevant investment circular. The conventions are described in the material presented below.

Disclosure of the financial reporting framework adopted

3. Preparers summarise the applicable financial reporting framework within the notes to the financial information. Where one of the conventions described in this Annexure is applied and its application has a material effect on the financial information or is necessary for an understanding of the basis of preparation of the financial information, it is appropriate to describe the treatment adopted in the basis of preparation note in the historical financial information.

Adjustments to the financial information

4. Preparers make adjustments, only in respect of material items, in order to:

    a. Present the financial information for all relevant years on the basis of consistent, acceptable and appropriately applied accounting policies, in accordance with the applicable requirements;
    b. Correct errors; and
    c. Record adjusting post balance sheet events where appropriate (see paragraph 16 below).

[26] The directors and management of an entity are responsible for the preparation and presentation of the financial statements of an entity. In this Annexure they are collectively referred to as ‘‘the preparers’’.

5. The historical financial information presented will be based on the records of the entity whose historical financial information is presented in the investment circular (referred to as ‘‘the entity’’ throughout this Annexure), for the periods reported on. These records reflect the representations and intentions of the entity’s management at the time the underlying financial information was drawn up. Matters such as the selection of accounting policies, accounting estimates and valuation judgments form part of the responsibilities of management in compiling a record of their stewardship.

6. In presenting historical financial information in an investment circular, except insofar as necessary to achieve the objectives set out above, preparers do not seek to replace accounting policies, accounting estimates or valuation judgments with alternatives subsequently selected by themselves. They consider whether the specific application of the basis of accounting originally adopted by management falls within an acceptable range of alternatives (if not, the conclusion will usually be that an error has occurred, which may need to be adjusted). Furthermore, it is not normally appropriate for adjustments to be made to eliminate items of earned income or expenses incurred, nor, in any circumstances, to recognise notional items of income or expense. The historical financial information presented in the investment circular is thus a version of the historical record as presented by the entity’s management and adjustments are introduced only to achieve those specific objectives set out in paragraph 4 of this Annexure

Trend of results

7. The historical financial information included in an investment circular presents a trend of results for the relevant period and is therefore an important aspect of the presentation of a true and fair view. In this respect the financial information may be distinguished from the financial information contained in statutory accounts.

8. Notional, or other, adjustments that impact net profits or net assets are not introduced in order to make the ‘‘track record’’ more consistent with the entity’s expected operations or structure following the transaction. Such adjustments would anticipate future events and are not consistent with the principle that the historical financial information should record the events which actually occurred during the period of the historical financial information.

Adjustments for change in basis of accounting

9. Adjustments are made to ensure that, wherever practicable, the financial information is stated on the basis of consistent accounting policies. Under the PD Regulation (subject to certain transitional provisions in Article 35 of the PD Regulation), the financial information for the most recent year (where audited historical financial information is required for the latest 2 financial years) or most recent 2 years (where audited historical financial information is required for the latest 3 financial years) is required to be prepared and presented in a form consistent with that which will be adopted in the issuer’s next published annual financial statements (having regard to accounting standards and policies and legislation applicable to such annual financial statements).

10. The requirement for having two years’ financial information which is consistent with the next financial statements only applies to where the issuer has changed their accounting framework. The requirements do not prevent entities from presenting the financial information for all periods in a form which is consistent with that which will be adopted in the next published financial statements if they so choose. In other contexts, such as in a

Class 1 transaction, the objective may be for the financial information for all periods to be presented in a form consistent with the accounting policies adopted by the acquirer in its latest annual consolidated accounts.

11. When considering the adjustments that may be necessary where a new International Financial Reporting Standard or other relevant accounting standard has been introduced during, or (where applicable under the regulations) subsequent to, the period to which the regulations apply, a relevant factor will be whether the requirements for implementing the new accounting standard provide that it should be applied retroactively once adopted. Further complexity may arise when different rules apply for an entity which is a first-time adopter of IFRS. Where adoption of a new accounting standard leads to the inclusion of a prior year adjustment in the accounts, adjustments are made, to the extent practicable, to reflect the effect of the policy in any relevant earlier period. Where the adoption of a new accounting standard does not lead to the inclusion of a prior year adjustment, for example where the accounting standard is stated to apply to transactions first accounted for after a certain date; no such adjustment is made to the financial information. Where an entity chooses to adopt a new accounting standard early and this is permitted or encouraged, although not required, by that standard, the financial information reflects the same treatment as adopted by the entity.

12. Although adjustments may be made for changes in accounting policies, adjustments are not normally made for changes in the methods of applying an accounting policy. However, in some cases (for example a Class 1 purchase of a private company) the entity and the target may have applied different options when adopting a new standard. IFRS 15 *Revenue from Contracts for Customers*, for example, allows either retrospective adoption or 'modified retrospective adoption' (except for first time adopters of IFRS). In these circumstances, consideration needs to be given to the potential tensions between regulatory requirements and IFRS when presenting restated historical financial information in an investment circular or prospectus.

13. The effect of correcting an estimate in a later period is normally reflected in the result of that period. Consideration may be given to whether an understanding of the trend of results would be assisted by separate or additional disclosure in relation to changes in the methods of applying accounting policies or the impact of a correction of an accounting estimate.

14. Occasionally, an accounting policy may have been applied on the basis of considerations other than relevant economic ones (for example where financial statements measure the carrying amount of depreciable fixed assets in accordance with depreciation policies which are influenced by taxation considerations – as is the case in certain jurisdictions). Those presenting historical financial information in an investment circular may determine that an adjustment is necessary in order for the financial information to present a true and fair view, for the purposes of the relevant investment circular.

Audit qualifications relating to non-compliance with accounting standards

15. Where the auditor's report(s) on the underlying financial statements was qualified on grounds for example of failure to comply with an applicable accounting standard or disagreement over an accounting treatment, it may be possible to make adjustments so as to remove the need for a similar qualification in a report on the adjusted historical financial information.

Post balance sheet events

16. In determining whether adjustment is to be made for post balance sheet events, subject to the guidance set out above, it is normal practice to consider events only up to the date on which the audit report on the relevant underlying financial statements was originally signed by the auditors except in relation to the final period presented. In respect of this final period, it will be necessary for post balance sheet events to be reflected up to the date on which the historical financial information to be presented in the investment circular is approved by the responsible party. Where the financial information is based upon financial records which were not audited, the relevant date for post balance sheet event considerations in the earlier periods is normally taken to be the date at which the underlying balance sheet was finalised.

Presentation of the financial information

17. Subject to the requirements of any applicable regulation, the financial information is presented on a consistent and comparable basis from period to period and includes such presentational changes to the financial information as are necessary in order to achieve this.

18. Presentational changes might be made to:

    a. Present the financial information in a comparable way; and
    b. Give due prominence to matters of particular importance in the context of the document in which the financial information is included.

19. The financial information contained in the entity's records may not have been presented on a comparable basis from period to period because the convention for presenting financial information adopted in earlier periods may have been different from that adopted in later periods.

20. Whenever practicable, financial information is presented in such a way that information which a user of the investment circular might wish to compare, is in fact comparable. Presentational changes of this nature may be categorised as follows:

    a. Reclassifications (for example, cost of sales reclassified as distribution costs);
    b. Re-analyses (for example, restatements of analyses between continuing and discontinued activities);
    c. Grossing up of items netted off in earlier periods (for example, matched assets and liabilities previously left off balance sheet);
    d. Derivation or computation of information undisclosed in earlier periods (for example, profit and loss account subtotals or cash flow statements); and
    e. Harmonisation of note disclosures (for example the editing of notes for earlier periods to integrate them with notes for later periods).

21. For example, a business classed as a continuing operation in one year may have been designated a discontinued activity in financial statements drawn up for a later period. It will be desirable for the relevant information within continuing operations in the earlier periods to be reclassified as discontinued. Where separate disclosure of information relating to entities acquired during the period has been presented in the financial statements, it is customary to reclassify such information for the purposes of the historical financial information as continuing activities, other than in respect of acquisitions made in the final period of the track record.

22. Changes are not, however, made to the presentation adopted in the financial statements on which the financial information is based, unless such changes are consistent with the requirement to give a true and fair view for the purposes of the investment circular.

23. Where it is considered that the significance of certain items to an understanding of the financial information may be obscured by the presentation adopted in the financial statements, it is usually appropriate for that presentation to be changed, relevant disclosures to be made or relevant explanations to be introduced to highlight their significance. This approach may be adopted for example to highlight certain categories of expense, such as proprietors' remuneration, in the trading record of a company seeking flotation. It may also be adopted to highlight the results of different classes of business, particularly in cases where there are proposals that a class of business is to be discontinued.

24. However, in all cases, changes in presentation would be inappropriate if they are in conflict with applicable accounting standards.

Entities under common management and control

25. Where the entities have been under common control but do not form a legal group, the historical financial information will normally be presented on a combined basis. Under this method, the results and net assets of the relevant entities are aggregated (with eliminations for intercompany transactions and balances), as are the related share capital balances and reserves. If the information is not presented on a combined or aggregated basis then separate historical financial information for entities accounting for substantially the whole of the historical revenue earning record is likely to be required.

26. In the context of carve-out financial statements, the traditional captions in equity (share capital, share premium, retained earnings etc) are often not relevant. Therefore, it is common for the equity section of the statement of financial position to be a single line item.

Carve outs

27. The objective of carve-out financial statements is to present historical financial information of components that have not in the past represented a reporting entity. Where a business has formed part of a larger group (''overall group'') during the three-year period, but has not been accounted for separately, it may be desirable to present a separate track record (a ''carve out'') for that business (''carve out business''), derived from the records of the overall group. This approach may be preferable to the alternative approach of presenting the track record of the overall group, with appropriate disclosures of operations

discontinuing or not acquired. Circumstances where a carve out approach might be followed include flotations of businesses in a demerger and Class 1 acquisitions of divisions of a selling group.

28. When considering whether it is appropriate or even practicable to present carve out financial information, the following factors will be relevant:

    a. The extent to which the carve out business has been separately managed and financially controlled within the overall group; and, therefore
    b. The extent to which it is possible to identify verifiable and accurate historical financial information.

29. Where the omission of the results and assets of those operations not the subject of the transaction concerned would be misleading in the context of the circumstances in which the historical financial information is to be presented, it will generally be appropriate to adopt the approach of presenting financial information on the overall group. Disclosures are made to assist the user to understand the contribution made by the operations not the subject of the transaction concerned. However, each case will need to be assessed on its own facts and circumstances.

30. In preparing the track record for the carve out business, the guidance in paragraph 6 of this Annexure will be relevant. The objective will be, so far as possible, to present a historical record reflecting the events which actually occurred in the reporting period. Whilst it may be possible to identify certain transactions and balances which clearly relate to the carve out business, there will often be cases where the accounting records do not differentiate between items which relate to the carve out business and items which relate to the remainder of the overall group's business. Examples include management overheads, funding arrangements, working capital balances, the use of common suppliers, and shared assets (including inventories). The guidance below discusses some of the elements typically encountered in preparing a carve out track record.

31. Clear and comprehensive disclosure in the notes to the historical financial information will normally be needed about the basis of preparation in order it to be clearly understood. The description would be expected to give a general indication of the process adopted for the preparation of the historical financial information, and describe any factors which are particularly important to an understanding of the manner in which the information has been prepared.

32. The accounting policies to be adopted in the carve out accounts will need to reflect the requirements relating to the presentation of historical financial information and may differ from those previously adopted. The question of functional currency should also be considered having regard to the economic environment of the carve out business, which may lead to the adoption of a different functional currency from that of the overall group.

Allocations

33. Where transactions or balances are not accounted for within the overall group in a manner which clearly attributes them to the carve out business, it will generally be desirable for a method for allocating the relevant amounts to the carve out business to be identified with a view to providing the fairest approximation to the amounts actually attributable to the

carve out business. Any method should be adopted and applied on a rational and consistent basis, and that basis disclosed where material. It will not, however, be appropriate to make allocations where there is no rational or consistent basis for doing so.

Bases for allocating transactions and balances

34. The appropriate basis for allocating group income and expenditure to a carve out business will vary according to the circumstances. It may, for example, be appropriate to allocate centrally accounted-for human resources costs on the basis of headcount (but account might be taken also of relative levels of staff turnover or other factors which indicate greater or less than average use in deciding whether the approach was in fact appropriate). The costs of a head office accounts department might be allocated by reference to the relevant sizes of the carve out business and remaining group. Again, if other factors suggest that size is not a good indicator – if for example a disproportionate number of the accounting team is engaged in work for one part of the business and not the other – refinements to the approach might be considered appropriate.

35. It is important to recognise that the purpose of the allocation is to attribute an appropriate element of the overall group record to the carve out business. As a consequence, the position shown will frequently not be that which might have existed if the carve out business had been a stand-alone business. The position will be affected by the arrangements which apply to the group as a whole, which are a matter of historical fact and which it is not the purpose of the carve out financial information to alter. Frequently, disclosure will be made accompanying the financial information highlighting that the information presented may not be representative of the position which may prevail after the transaction.

36. Since the objective of allocations is to give a fair presentation of the carved-out business, then it is important to ensure that those allocations are reliable and verifiable. In the case of particularly complex or judgemental areas such as group third party debt and leases, consideration is given to the existence of formal separation agreements which may help in allocation decisions, or the extent to which leases are related to specific assets. Where the objective of the allocation process is unlikely to be met, consideration may be given to qualitative disclosures as an alternative.

Relationship with the remaining group

37. In addition to transactions with 'third parties', the results of the business will also include transactions with the part of the overall group which is not part of the carve out business (the ''remaining group''). Hence, for example, sales which were previously regarded as 'intra group' will need to be re-examined to determine whether they relate to entities within the carve out business or outside it.

38. The remaining group will normally also be regarded as a related party for the purposes of disclosing related party transactions, and it will normally be necessary to identify the extent of the relationships between the carve out business and the remaining group. Balances with the remaining group may have comprised elements of trading balances and short term or long-term funding balances, which may or may not have been interest bearing. Balances of a trading nature will normally be presented as an element of debtors or creditors. Balances which are considered to be funding in nature (having regard inter alia to the use made of the balances, the period for which they remain outstanding and the level of other capital) will normally be classified according to their general nature.

39. Balances with the remaining group may also contain elements of third-party debtors or creditors which have been accounted for on behalf of the carve out business by the remaining group. Examples might be VAT costs, payroll taxes, certain customers or suppliers common to the carve out business and the remaining group, and external funding balances. Such elements of the balance with the remaining group would be expected to be reallocated to the appropriate third-party captions.

Pension costs

40. The employees of the carve out entity may have participated and/or continue to participate in the parent's employee benefit plans, which may include a defined benefit scheme. If a contractual agreement exists that allocates the costs, assets and liabilities of the scheme at the date of the carve out, then the accounting reflects the substance of that agreement, with the historic costs allocated on the basis which reflects the agreed position.

41. Where there is a lack of precision on how the assets, liabilities and ongoing costs associated with the defined benefit scheme will be allocated post the carve out an allocation method may be adopted. The most appropriate allocation method may depend on:

    a. whether it is possible to identify the past contributions associated with the employees of the carve out entity;
    b. whether the existing employee benefit plans will become multi-employer plans, and if so, whether actuarial allocations to each part of the business will be possible; and
    c. the profile of the employees of the carve out business compared with the profile of the employees of the continuing business.

42. Disclosures need to be sufficient to allow users to understand the method adopted in the carve-out accounts, the judgments and estimates made in arriving at the figures presented in the accounts and the ongoing implications for the carve out business.

Acquisitions

43. Acquisitions will be treated in accordance with the guidance in paragraph 46 of this Annexure. It should be noted that acquisitions previously regarded as too small for separate disclosure in the overall group accounts may become sufficiently material to require separate disclosure in the context of the carve out business.

Disposals, non-recurring and exceptional items

44. Non-recurring and exceptional items are generally allocated to the carve out business and accounted for in accordance with the applicable accounting standard. The treatment of disposals follows that described in paragraph 52 of this Annexure.

Taxation

45. Tax charges are generally allocated to the carve out business to reflect the proportion of the overall group charge attributable to the carve out business. The approach will typically involve the aggregation of the tax charges actually incurred by the companies within the carve out business (and will therefore reflect the benefits, reliefs and charges arising as a result of membership of the overall group), after taking account of the tax effects of any adjustments. Where the information relating to the tax charges actually incurred is not available, the tax charge may be recomputed on the basis of the results of the carve out business. The tax rate applied is selected having regard to the tax position of the overall group and might thus include the impact of benefits, reliefs and charges arising as a result of membership of the overall group, to the extent that they would have been available to or imposed upon the carve out business.

Cash flow statements

46. A cash flow statement is prepared for the carve out business based on the carve out information. Where the overall group operates a central cash account, cash flows relating to centrally settled costs are allocated to the carve out business to the extent that the related balances are allocated to the carve out business.

Treatment of other items

47. Dividends are expected to be reflected in the track record of the carve out business where companies within the carve out business have paid dividends to members of the remaining group.

48. In relation to the disclosure of directors' remuneration, it is normal to present information for those individuals who are to be directors of the carve out business or who were employed by the overall group in a capacity equivalent to that of a director of the carve out business. The information disclosed will reflect the salaries and benefits paid in respect of services to the carve out business by any member of the overall group to those individuals (irrespective of whether the individuals were directors or not) during the period covered by the track record. No information is presented for proposed directors of the carve out business who were not employed by the overall group, or for individuals who served as directors of companies within the carve out group but who are not to be directors of the carve out group's holding company following the transaction.

49. A segmental analysis is prepared for the carve out business to reflect the segments which the carve out business has decided to adopt (as with any other company).

Alternative Performance Measures (APMs)[27]

50. An allocation methodology is unlikely to result in accurate or meaningful results when applied to APMS. Costs are therefore allocated based on the conventions and approaches described in this guidance, and then APMs are presented by the carved-out entity in the appropriate way.

[27] See ESMA *Guidelines on Alternative Performance Measures* for further relevant useful guidance.

Acquisitions

51. Entities acquired during the period covered by the historical financial information will typically be accounted for, in the records of the acquiring entity, in accordance with the accounting treatment applicable, having regard to the set of accounting standards adopted. Hence, for example, if the accounting standards require acquisition accounting, the acquired subsidiary will be accounted for from the date of acquisition by the acquiring entity.

Disposals

52. Disposals of subsidiaries or a discontinuation of a material section of the business are reflected by separate analysis between the continuing business and the disposed or discontinued business, either under the relevant headings in the profit and loss table or in the notes to the historical financial information. It is not normally appropriate to make adjustments to eliminate the results of subsidiaries that have been disposed of or discontinued operations from the trading record. However, it may not be necessary to introduce the results of a subsidiary that has been disposed of or a discontinued operation into specially prepared consolidated accounts or combined accounts prepared having regard to the considerations set out in paragraphs 52 to 56 of this Annexure, unless the inclusion of such information is relevant to an understanding of the business to which the historical financial information relates.

Financial information on newly formed issuers

53. In many cases, investment circulars are prepared in relation to newly formed companies (for example startup businesses, investment trusts, newly formed holding companies etc). Generally, such companies will not have prepared accounts for a financial year at the time the investment circular is to be issued and consequently financial statements will need to be prepared for the purposes of the investment circular. If the newly formed company has not yet commenced operations, preparers generally make a statement to this effect and do not include historical financial information for it.

Changes in the legal form of entities

54. There may be circumstances where businesses have been carried on during the period covered by the report by different legal entities with the consequence that the relevant financial information may be found in the accounts of different legal entities. A typical example is a management buy-out, where prior to the buy-out, the business might have been accounted for in the financial statements of a subsidiary undertaking of the vendor, but, following the buy-out, the financial information may be that of the entity formed to effect the acquisition.

55. In cases where the legal entity accounting for the business has changed (for example where a business has been transferred from one entity to another – typically a newly formed company) but where there is no essential change in the underlying business, it is

normal for the financial information to be presented as part of a single table, with the results of the predecessor entity shown next to those of the successor entity (generally on a combined basis in the period during which the transaction took place).

56. A consequence of the change in legal entity may be a change in the capital structure. Frequently, where there is a management buy-out, debt becomes a significant part of the capitalisation of the business. In order to highlight for the reader, the potential lack of comparability between periods, a statement is often included within the introduction or beneath the profit and loss account (and in the relevant notes) referring to the change in capital structure and alerting the reader to the fact that the information relating to financing costs may not be comparable throughout the period. In circumstances where, as in the case of a management buy-out, fair value adjustments have been made during the period covered by the historical financial information, it is inappropriate to attempt to show the impact of such adjustments on the results prior to the acquisition. However, the impact of the fair value adjustments is, where practicable, highlighted in respect of the post-acquisition results.

Earnings per share (EPS)

57. Consideration will need to be given as to whether it is appropriate to present an EPS figure in all circumstances. For example, in the case of a carve out, any EPS figure may be almost impossible to calculate with confidence or may not provide meaningful information.

58. In cases where there has been a capital reorganisation since the date at which the last balance sheet was drawn up, it will usually be appropriate for the earnings per share figures disclosed to be adjusted to reflect the reorganisation (to the extent that it involves issues of shares for no consideration, issues containing a bonus element, share splits, Long Term Incentive Plan/Options vesting as a result of the transaction, etc). In such cases, the number of shares used in the earnings per share calculation is adjusted so that the shares originally in issue are replaced by the number of new shares, representing the shares originally in issue, following the reorganisation. Where shares have been issued during the period, this is taken into account in calculating the equivalent weighted average number of post-reorganisation shares. Where the reconstruction involves conversions, for example of preference shares or loan stock, the earnings figures used in the calculation of earnings per share may also need to be adjusted to eliminate the effect of any related preference dividends or interest.

59. Difficulties may also arise over the relevance of the earnings per share figure in certain cases, for example where prior to flotation a new holding company has been created. In such cases an earnings per share figure based on the share capital of the subsidiary may be of limited significance to investors. Accordingly, it is usually appropriate to include a supplementary earnings per share figure, in addition to the historical earnings per share figure, based on the relevant number of shares in the new parent company (before the issue of shares to raise new funds). This approach is also generally adopted in the case of a carve out business which did not have share capital during the reporting period. Where the effect is material and where practicable, the number of shares used for the purposes of the calculation is adjusted to reflect variations in the levels of capital funding the operations arising, for example, from issues of equity for cash during the period under review. In some circumstances, such as where there has been a management buyout during the period reported on, the differences in the capital structure may be such that a comparison of the earnings per share figures is not meaningful. Where this is the case,

the statement to be included beneath the profit and loss table mentioned above generally refers also to the lack of comparability of the earnings per share information.

Reporting currency

60. Where historical financial information is to be presented on a target entity, and that target has reported historically in a currency other than that of the acquiring entity, it is normal to present the financial information in the target's original reporting currency.

Contents

SIR 3000 – Investment Reporting Standards Applicable to Public Reporting Engagements on Profit Forecasts

Preface

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, including for example those which relate to Ethics and Quality Control.

SIR 3000 contains only specific 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 involving the examination of Profit Forecasts published by a securities exchange offeror or the offeree company.

SIR 3000 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.

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.

To assist readers, SIRs contain references to, and extracts from, certain legislation and chapters of the City Code on Takeovers and Mergers (the "*City Code*"). Readers are cautioned that these references may change subsequent to publication.

[Placeholder – to note that revisions to this SIR anticipate the removal of the requirement for an accountant's report on a profit forecast included within a prospectus as part of the implementation of the new prospectus rules. Should this be revisited before finalization of the SIR then references will be added back]

Introduction

1. The purpose of this SIR is to establish specific additional Investment Reporting Standards and provide guidance on the reporting accountant's responsibilities and procedures when engaged to report publicly on the proper compilation of a profit forecast or profit estimate in accordance with Rule 28.1 of *The City Code on Takeovers and Mergers* (the "*City Code*"). The requirements of Rule 28.1 of the City Code apply to offeree companies and securities exchange offerors[28], but do not apply to cash offerors.

2. An engagement to report publicly on the proper compilation of a profit forecast 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 a profit forecast:

   (a) with respect to a profit forecast the ''subject matter'' is the directors' expectation of the issuer's profit for the period of the forecast;

   (b) ''suitable criteria'' to be used by directors in the preparation of the profit forecast are provided by the requirements of the *City Code*. In forming its opinion as to whether the profit forecast has been properly compiled the reporting accountant considers whether those criteria (''reporting accountant's criteria'') have been properly applied.; and

   (c) with respect to a profit forecast the ''outcome''[29] is the directors' profit forecast and related disclosures, that is included in the investment circular, and on which the reporting accountant expresses an opinion (in the ''reporting accountant's report'') as to whether that forecast is properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of the issuer.

3. The *City Code* defines a profit forecast as ''a form of words which expressly states or by implication indicates a figure or a minimum or maximum figure for the likely level of profits or losses for the current financial period and/or financial periods subsequent to that period, or contains data from which a calculation of such a figure for future profits or losses may be made, even if no particular figure is mentioned and the word ''profit'' is not used''.

4. A profit forecast may include historical financial information relating to a past period. For example, a forecast made on 15 October 20xx for the profit for the year ended 31 December 20xx may include the profit for the six months ended 30 June 20xx included in the issuer's half yearly report and amounts extracted from management accounts for July and August. A profit estimate is a profit forecast for a financial period which has expired, and for which audited results have not yet been published.

5. In this SIR requirements relating to ''profit forecasts'' also apply to statements typically referred to as ''profit estimates''. The Reporting Standards in this SIR are applied to the whole period of the profit forecast including historical financial information included therein.

[28] Any bidder, or potential bidder, other than a cash bidder.
[29] The *''outcome''* is sometimes described as *''subject matter information''*.

The nature of profit forecasts

6. A profit forecast is, by definition, uncertain because events and circumstances may not occur as expected or may not be predicted at all, or because the directors may take actions different to those previously intended. A profit forecast will usually include disclosures which provide information to assist the intended users understand the uncertainties involved.

7. A profit forecast is usually based on assumptions, relating to the expected outcome of future events and possible actions by the entity. As assumptions on which any forward-looking element of a profit forecast is based are a critical element of the profit forecast, the City Code requires, among other things, the disclosure of the principal assumptions on which it is based, including a clear distinction between those which the directors (or other members of the company's management) can influence and those which they cannot.[30]

8. The extent to which a profit forecast will differ materially from the actual out-turn will depend on a profit forecast's particular circumstances. The length of the period into the future to which the profit forecast relates is only one, and not necessarily the most significant, factor. For example, an established business may be able to predict with greater certainty its results for the following year, particularly if it operates in a very stable environment, than a start-up business or an established business entering a new field. The fact that a profit forecast does not correctly predict the actual out- turn does not mean that the profit forecast was not properly compiled.

9. Guidance is available for preparers of prospective financial information to assist directors in meeting the needs of the intended users of such information and of regulators and to promote the production of high quality prospective financial information, including profit forecasts.[31]

10. The *City Code* requires that profit forecasts must be:

    a. understandable: *it must not be so complex or include such extensive disclosure that it cannot be readily understood*[32];

    b. reliable: reliable: *it must be supported by a thorough analysis of the offeree company's and/or the offeror's business and must represent factual and not hypothetical strategies, plans and risk analysis*[33]; and

    c. comparable[34].

    Consequently, these three principles are considered to be suitable criteria for the evaluation of profit forecasts by the reporting accountant. The role of the reporting accountant is to report on whether a profit forecast, that the directors have decided to include in an investment circular, has been properly compiled.

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[30] *The City Code on Takeovers and Mergers*, 28.4

[31] *Guidance for preparers of prospective financial information* (ICAEW, xx 2019)

[32] *The City Code on Takeovers and Mergers*, 28.3.b.i

[33] *The City Code on Takeovers and Mergers*, 28.3.b.ii

[34] *The City Code on Takeovers and Mergers*, 28.3.b.iii

Understandability

11. Understandable information will enable the intended users to identify readily the main points being made and to infer appropriately how significant they are to decision-making. This is likely to be assisted by a clear layout and presentation of the information in a way that effectively summarises and draws attention to these points. In order to be understandable, the profit forecast should be coherent, easy to follow, clear and logical, and at a level of aggregation that results in sufficiently relevant but concise subject matter information.

12. To be understandable a profit forecast also contains the information necessary for intended users to appreciate the degree of uncertainty attaching to the information and how that uncertainty might impact it. This requires the disclosure of assumptions and other matters relevant to the basis of preparation of the profit forecast which are of importance in assisting the intended users' understanding.

13. What constitutes reasonable disclosure will therefore depend upon the particular circumstances of each profit forecast but will need to take into consideration:

    (a) sources of uncertainty and the related assumptions made relating to uncertainties;

    (b) the factors that will affect whether assumptions will be borne out in practice; and

    (c) alternative outcomes, being the consequences of assumptions not being borne out

    The omission of important information may prevent a profit forecast from being understandable and equally, if the disclosure is too complex or too extensive the understandability of the profit forecast may be also impaired.

14. Any profit forecast also needs to be understandable in the context of the overall investment circular and advises preparers to take care "to ensure that there is alignment of information in the investment circular."[35]

Reliability

15. Reliable information in the context of a profit forecast represents what it purports to represent (sometimes referred to as 'faithful representation'); and:

    - is materially complete;
    - accurately represents factually based strategies, plans and risk analyses. (free from material error); and,
    - is without bias (neutrality).

    This requires the underlying data and source information to also be created, collected and processed in a manner that maintains its integrity. Unsubstantiated claims are unlikely to meet this requirement.

16. A profit forecast, including the assumptions used, is more likely to possess the above attributes when the issuer has undertaken an analysis of the underlying business and its

[35] ICAEW, *Guidance for preparers of prospective financial information*, (xx, 2019, p.49, para 33)

strategies, plans and risks (the directors' business analysis), and the sensitivity of assumptions.[36] The reliability of a profit forecast is, therefore, a function of:

(a) the quality of the analysis undertaken; and

(b) the degree to which that analysis is reflected in the profit forecast.

Comparability

17. The usefulness of a profit forecast is derived partly from its comparability, namely the expectation that it will be possible to compare it to the actual results and that it can be compared to equivalent information for other reporting periods. For this to be the case profit forecasts need to be prepared and presented on a basis comparable with the actual financial information for that period and will involve the application of the accounting policies used by the entity in preparing the historical financial information included in the investment circular.[37]

Compilation process

18. The compilation of a profit forecast is the gathering, classification, summarizing and presenting of relevant financial information. The process followed by the preparer would be expected[38] to include:

    a. an appropriate analysis of the business (what is appropriate will depend on a number of factors including the complexity and predictability of the business and the length of the period being forecast and accordingly the content, degree of detail and presentation of such analyses may vary significantly);

    b. identification of material uncertainties, risks and opportunities;

    c. sensitivity analysis to determine the impact on the forecast result in the event that identified risks crystallise;

    d. selection of appropriate assumptions;

    e. where relevant, identification of and reference to, appropriate third-party information (e.g. market research reports);

    f. arithmetic computation of the profit forecast;

    g. appropriate disclosures to enable the intended users to understand the profit forecast; and

[36] ICAEW, *Guidance for preparers of prospective financial information*, (xx, 2019, p.48-9, paras 27-29)

[37] On comparability see also ICAEW, *Guidance for preparers of prospective financial information*, (xx, 2019, p.51, paras 45 -47)

[38] See ICAEW, *Guidance for preparers of prospective financial information*, (xx, 2019, p.52-59)

h. appropriate consideration of the profit forecast and approval of it by the directors of the entity.

19. The *City Code* requires in Rule 28.1 (a) (ii)[39] that a preparer is required to include in its profit forecast publication a report by their financial advisers that the profit forecast has been prepared with due care and consideration, as well as the reporting accountant's opinion on proper compilation. It is therefore common for preparers to consult with financial advisers and reporting accountants on an ongoing basis during the compilation process. The reporting accountant considers whether sufficient time has been built into the compilation process to ensure that the reporting accountant, financial advisers and key individuals from the business can properly engage with the process.

Engagement acceptance and continuance

20. When accepting or continuing an engagement to report publicly on a profit forecast, the reporting accountant ascertains whether the directors intend to comply with all relevant requirements of the *City Code*, in particular those that are the basis of the reporting accountant's criteria: reliability, understandability and comparability.[40]

Agreeing the terms of the engagement

21. The reporting accountant considers whether it will require access to the work of the relevant financial advisers who are responsible for the report under the *City Code* that the Profit Forecast has been prepared with due care and consideration when agreeing the terms of engagement with directors.

22. Examples of engagement letter clauses are set out in Appendix 1 of this SIR.

Legal and regulatory requirements

23. The *City Code* contains provisions in relation to profit forecasts included in offer documents and requires reports from the auditors or reporting accountants in certain circumstances.[41]

Planning and performing the engagement

24. The reporting accountant shall obtain an understanding of the key factors affecting the subject matter sufficient to identify and assess the risk of the profit forecast not being properly compiled and sufficient to design and perform evidence gathering procedures including:

- **the background to and nature of the circumstances in which the profit forecast, which is included in the investment circular, was made;**

[39] *The City Code on Takeovers and Mergers*,28.1.a.ii

[40] *The City Code on Takeovers and Mergers*,28.4.b&c.

[41] *The City Code on Takeovers and Mergers*,28.1.a.

- **the entity's business;**

- **the procedures adopted, or planned to be adopted, by the directors for the preparation of the profit forecast; and**

- **the identity of the relevant financial advisers who are preparing the report required under the *City Code* that the profit forecast has been prepared with due care and consideration. (SIR 3000.1)**

25. The reporting accountant gains an understanding of the background to and nature of the circumstances in which the profit forecast is being prepared, by discussion with the directors or management of the issuer and by reading relevant supporting documentation. In particular, the reporting accountant ascertains whether the profit forecast is being made for the first time or whether it is a forecast that has previously been made by the issuer that may be required to be updated by the directors.

26. The reporting accountant uses professional judgment to determine the extent of the understanding required of the entity's business. In a start-up situation or where an established business is entering a new field the reporting accountant's understanding of the prospective business is necessarily limited to general knowledge of the field being entered and an understanding of the business analysis undertaken by the entity.

27. Reporting on the proper compilation of a profit forecast generally requires an understanding of the entity's management accounting, budgeting and forecasting systems and procedures beyond that normally considered necessary for an audit of historical financial statements.

28. Discussion with the preparers of a profit forecast will identify the process by which the profit forecast has been, or will be prepared, the sources of information used, areas of significant uncertainty where assumptions have been made and the basis for those assumptions and how those assumptions have been documented. Specific matters for consideration include:

    - The organisational structure of the entity and the extent to which subsidiaries or local operating units have been involved in the preparation of the profit forecast.

    - Whether the profit forecast is prepared on a basis comparable with the most recent historical financial information in the investment circular.

    - The extent to which the period of the forecast includes historical financial information.

    - Whether the profit forecast will be capable of comparison to subsequently published historical financial information.

29. Where profit forecasts are regularly prepared by the entity either for internal management purposes or for publication, the reporting accountant considers the closeness to actual out-turns achieved in previous forecasts and the analysis of any variances. As well as helping to provide an understanding of the entity's business this may be helpful in identifying those aspects of the business which are subject to significant uncertainty.

Materiality

30. The reporting accountant shall 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 3000.2)

31. The *City Code* sets out the matters which are required to be included in a profit forecast, and the criteria which must be used in its' preparation. However, it does not prescribe the content elements in detail, and therefore the preparer will need to make judgments about the information to be included within the profit forecast in order to satisfy the requirement that it be understandable, reliable and comparable.

32. Matters are material if their omission or misstatement could, individually or collectively, influence the economic decisions of users of the outcome. Materiality depends on the size and nature of the omission or misstatement judged in light of the surrounding circumstances. The size or nature of the matter, or a combination of both, could be the determining factor.

33. An error in the context of the proper compilation of a profit forecast includes:

- Assumptions that are not consistent with the analysis of the business.
- Mathematical or clerical mistakes in the compilation of the profit forecast.
- Misapplication of accounting policies.
- Misapplication of a stated assumption.
- Known misstatements in historical financial information embodied in the forecast without adjustment.

34. Additionally, there may be deficiencies in the presentation of a profit forecast which may impair the understandability or comparability of the forecast in a way that is material. An error could, therefore, also include:

   a. failure to disclose an assumption or other explanation which is necessary for an understanding of the forecast; or

   b. presenting the forecast in a way that it is not capable of being compared with subsequent published results.

35. Evaluating whether an omission or misstatement could influence economic decisions of the intended users of the profit forecast, and so be material, requires consideration of the characteristics of those intended users. The intended users are assumed to:

   a. have a reasonable knowledge of business and economic activities and accounting and a willingness to study the profit forecast with reasonable diligence;

   b. understand that profit forecasts are prepared, presented and reported on to levels of materiality;

   c. recognise the uncertainties inherent in prospective financial information and the consideration of future events; and

d. make reasonable economic decisions on the basis of the profit forecast.

The determination of materiality, therefore, takes into account how intended users with such characteristics could reasonably be expected to be influenced in making economic decisions.

Public reporting engagement risk

36. "Public reporting engagement risk" is the risk that the reporting accountant expresses the positive and unmodified opinion required by the *City Code* when the profit forecast has not been properly compiled on the basis stated or the basis of accounting used for the profit forecast is not consistent with the accounting policies of the issuer.

37. To form an opinion that the profit forecast has been properly compiled, the reporting accountant shall obtain sufficient appropriate evidence that the forecast is free from material error in its compilation by:

- **obtaining evidence that the directors have applied the criteria derived from the *City Code* and set out in this SIR;**
- **checking that the profit forecast has been accurately computed based upon the disclosed assumptions and the preparer's accounting policies;**
- **considering whether the assumptions used are consistent with the directors' business analysis and the reporting accountant's own knowledge of the business; and**
- **where applicable, evaluating the basis on which any historical financial information included in the profit forecast has been prepared. (SIR 3000.3)**

38. The reporting accountant considers the business analysis carried out by the preparer of the profit forecast and whether there is prima facie evidence that it has been used by the directors in compiling the profit forecast. The extent and nature of the analysis that is necessary to support a forecast, and therefore the extent of the reporting accountant's consideration of such analysis, will be dependent upon the specific circumstances in which the forecast is being prepared. The reporting accountant discusses the preparer's plans, strategies and risk analysis with the preparer of the profit forecast, considers documentary support for them and assesses whether they are consistent with the analysis of the business. Where the outcome is dependent upon the intent of the directors and management the reporting accountant will ordinarily obtain representations from the directors concerning such matters.

39. The preparer can be expected to document the assumptions that have been made relating to matters significant to the profit forecast. The reporting accountant will, therefore, obtain from preparers of the profit forecast details of those assumptions identified as being relevant to the compilation of the profit forecast. It will usually be the case that not all of the assumptions made in support of the profit forecast will be published. This is because only those that are material to an understanding of the profit forecast are required to be disclosed.

40. There may be a range of appropriate assumptions which can be used as the basis for a profit forecast and the resulting forecast may differ significantly depending on which assumptions are adopted. The reporting accountant is not required to express an opinion on the appropriateness of the assumptions used or the achievability of the results reflected in a profit forecast. The reporting accountant however considers:

   - if any of the assumptions adopted by the directors which, in the opinion of the reporting accountant are necessary for a proper understanding of the profit forecast, have not been adequately disclosed; and

   - whether any material assumption made by the directors appears to be unrealistic.

41. When checking whether the profit forecast has been accurately computed the reporting accountant considers whether cash flow statements and balance sheets have been prepared to act as checks against omissions and inconsistencies. If cash flow statements and balance sheets have not been prepared, in circumstances where the reporting accountant considers this to be necessary, the reporting accountant discusses with the directors whether their preparation is necessary in order to properly compile the profit forecast.

Historical financial information

42. When evaluating the basis on which any historical financial information included in the profit forecast has been prepared the reporting accountant shall:

   - **consider whether any element of that historical financial information has been audited or reviewed by the auditors and, if so, the results of that audit or review;**

   - **evaluate the suitability of unaudited historical financial information included in the profit forecast;**

   - **evaluate how the historical financial information has been embodied into the profit forecast; and**

   - **if adjustments have been made to previously published historical financial information evaluate whether the adjustments appear appropriate in the circumstances. (SIR 3000.4)**

43. If historical financial information has been audited or reviewed the reporting accountant evaluates the scope of the audit or review procedures performed. In performing such an evaluation, the reporting accountant seeks access to the working papers of the auditor or reviewer and considers whether the results of those procedures indicate that the historical financial information may be unreliable or reveal uncertainties that ought to require the directors to make and disclose assumptions in the forecast. If the reporting accountant is not allowed access to such documentation it considers the need for alternative procedures, and where these cannot provide sufficient alternative evidence, considers the implications for its report.

44. In order to evaluate the suitability of unaudited historical financial information included in the profit forecast the reporting accountant:

   - understands the internal control environment of the entity relevant to the historical financial information;

- discusses with the management of the issuer the accounting policies applied and any differences from the method of preparing the entity's published financial statements;

- enquires of management, including internal audit, whether there have been any changes in the financial reporting systems or internal controls, or any breakdowns in systems and controls, which might affect the reliability of the financial information;

- enquires about changes in the entity's procedures for recording, classifying and summarising transactions, accumulating information for disclosure, and preparing the financial information;

- considers the accuracy of unaudited historical financial information by comparing it to audited financial statements for the same period;

- compares the historical financial information to previous budgets or forecasts prepared by the entity in respect of the period covered by the historical financial information and gains an understanding of the reasons for any significant differences; and

- checks the historical financial information used in the profit forecast agrees to, or reconciles with, the underlying accounting records of the entity.

45. Where the reporting accountant determines that it is not able to obtain sufficient appropriate evidence from the above procedures to indicate that the financial information for the expired part of the forecast period forms a suitable basis for inclusion in the profit forecast the reporting accountant discusses the matter with the directors of the issuer and, if appropriate, the issuer's advisers.

46. In considering historical financial information included in a profit forecast, it is important that the reporting accountant understands the manner in which such information has been included in the profit forecast. Where different systems or processes have been used to produce prospective financial information and the historical information, there is a risk that there may be inconsistencies in the cut-off between these two sources of information which could lead to a material error in the compilation of the profit forecast.

Consistent accounting policies

47. The reporting accountant shall compare the accounting policies used in connection with the profit forecast with those used by the entity in preparing the most recent historical financial information in the investment circular and evaluate whether they are consistent with each other and continue to be appropriate so far as concerns the profit forecast. (SIR 3000.5)

48. Where the profit forecast relates to the expansion of an existing business the reporting accountant's primary consideration is the consistency of the accounting policies used. However, the reporting accountant also considers the ongoing appropriateness of the accounting policies in the light of the business plans underlying the profit forecast.

49. Where the profit forecast relates to a start-up situation the reporting accountant considers the appropriateness of the accounting policies chosen.

Presentation of the profit forecast

50. The reporting accountant shall consider whether it has become aware of anything to cause it to believe that:

- **the profit forecast is presented in a way that is not understandable;**
- **a material assumption is unrealistic;**
- **an assumption or other information which appears to it to be material to a proper understanding of the profit forecast has not been disclosed; or**
- **the profit forecast is not capable of subsequently being compared with historical financial information.**

If the reporting accountant is aware of such matters it shall discuss them with the parties responsible for the profit forecast and with those persons to whom its report is to be addressed and consider whether it is able to issue its opinion. (SIR 3000.6)

51. The *City Code* requires[42] that assumptions should provide useful information as to its reasonableness and reliability. They must:

(i) be readily understandable;

(ii) be specific and precise; and

(iii) not relate to the general accuracy of the estimates underlying the profit estimate.

There must be a clear distinction between assumptions about factors which the directors (or other members of the company's management) can influence and those which they cannot influence.

52. When evaluating the presentation of a profit forecast the reporting accountant considers whether the components of the profit forecast are clearly described and whether the descriptions are adequate to allow an intended user to understand the profit forecast. For example, if a profit forecast is presented as a single figure for profit before tax, and *this* was to be achieved by the inclusion of a significant non-recurring profit from the sale of a fixed asset, consideration is given as to whether additional disclosure is necessary to make the profit forecast understandable. It is important that useful information is not obscured through the inclusion of immaterial items or the use of headings or financial measures which are not meaningful to, or may be misunderstood by, the intended users.

53. When evaluating whether the disclosures made in respect of a profit forecast are reasonable, the reporting accountant considers whether the degree of uncertainty inherent in the information is clearly disclosed. Disclosure of an assumption may not make the profit forecast understandable if the significance of that assumption is not apparent from the disclosure made.

54. Where a profit forecast is subject to significant uncertainty it is common practice for the preparers to perform a sensitivity analysis in respect of those assumptions which are either believed to be subject to the greatest uncertainty and/or where the profit forecast is most

[42] *The City Code on Takeovers and Mergers*,28.4.b&c.

sensitive to variations in such assumptions. The reporting accountant considers such sensitivity analysis, as it may assist in the identification of material assumptions or other aspects of the profit forecast where the uncertainty requires additional disclosure to enable it to be understood.

55. The manner in which the profit forecast is presented in the investment circular will also be considered in respect of whether the profit forecast is capable of being compared with subsequent historical financial information. The choice of captions and disclosure or emphasis of particular numbers or attributes may determine how the profit forecast will be interpreted and consideration is given as to whether this is consistent with the purpose for which the profit forecast has been prepared. In addition, the City Code has specific requirements in respect of the use of quotations and pictorial representations:

- *Since the use of a quotation will carry the implication that the quotation is endorsed by the party to the offer using it, quotations must not be used unless the party is prepared, where appropriate, to corroborate or substantiate them and they are covered by the directors' responsibility statement.* [43]

- *Pictorial representations, charts, graphs and diagrams must be presented without distortion and, when relevant, must be to scale.* [44]

Representation letter

56. Some of the assumptions used in the compilation of a profit forecast will be dependent on the intent of the directors and management. Consequently, the representations of directors and management as to their intent are a particularly important source of evidence for the reporting accountant. Examples of representation letter clauses are set out in Appendix 2 of this SIR.

Reporting

57. **Before finalising its report and opinion on the proper compilation of a profit forecast the reporting accountant shall consider the implications for its opinion of the report by the company's financial advisers on whether the forecast has been prepared with due care and consideration**. **(SIR 3000.7)**

Responsibilities

58. In all reports on profit forecasts in investment circulars the reporting accountant shall explain the extent of its responsibility in respect of the profit forecast by including in its report:

- **a statement that the reporting accountant's responsibility is to form an opinion as required by the *City Code* on the compilation of the profit forecast and to report its opinion to the addressees of the report; and**

[43] *The City Code on Takeovers and Mergers*,19.1.3.

[44] *The City Code on Takeovers and Mergers*, 19.1.4.

- **a statement that the profit forecast and the assumptions on which it is based are the responsibility of the directors. (SIR 3000.8)**

Basis of preparation of the profit forecast

59. The reporting accountant shall include a basis of preparation section of its report that cross refers to disclosures that explain the basis of preparation of the profit forecast including:

- **assumptions made;**

- **the accounting policies applied; and**

- **where appropriate, the source of historical financial information embodied in the profit forecast. (SIR 3000.9)**

60. Where the entity is reporting on the expansion of an established business it is usual for it to report that the basis of accounting is consistent with the existing accounting policies. Where the accounting policies used in the profit forecast differ from those previously published a more detailed explanation of the accounting policies used in the preparation of the profit forecast will be appropriate.

Basis of opinion

61. The reporting accountant shall include in its report a statement that, where the profit forecast and any assumptions on which it is based relate to the future and may, therefore, be affected by unforeseen events, the reporting accountant does not express any opinion as to whether the actual results achieved will correspond to those shown in the profit forecast. (SIR 3000.10)

62. By its nature financial information relating to the future is inherently uncertain. For a profit forecast to be understandable sufficient information must be disclosed to allow an intended user to understand this uncertainty. As the reporting accountant is not required to form or express an opinion on the achievability of the result shown in the profit forecast, it is inappropriate for the reporting accountant to include in the basis of preparation section of its report cautionary language relating to uncertainty beyond that referred to above.

Expression of opinion

63. The report shall contain a clear expression of opinion that complies with applicable regulatory requirements. (SIR 3000.11)

64. In forming its opinion the reporting accountant takes account of those events or information which the reporting accountant becomes aware of occurring up to the date on which the reporting accountant signs the report, that affect the opinion expressed in the report.

65. The investment 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 profit forecasts. 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 reports set out in Appendix 3 of this SIR.

Modified opinions

66. The *City Code* requires a positive and unmodified opinion. Therefore, the reporting accountant shall not express an opinion when the directors have not applied the criteria set out in this SIR and in the reporting accountant's judgment the effect of not doing so is, or may be, material. (SIR 3000.12)

67. In the event that the reporting accountant concludes that it is unable to report in the manner prescribed it invites those responsible for the profit forecast to consider whether the profit forecast can be amended to alleviate its concerns or whether the profit forecast should be omitted from the investment circular.

Confirmations of the profit forecast continuing to apply - subsequent documents

68. If a profit forecast has been included in any document or announcement published by an offeror or offeree, the *City Code* requires any subsequent document published by the offeror or offeree during an offer period, to include a statement by the directors that the profit forecast remains valid (unless superseded by information included in the new document, in which case a new report from the reporting accountant would be required). In addition, the document is required to include a statement by the directors that the reporting accountant has confirmed that its report continues to apply.

69. In determining whether it can provide such a confirmation, the reporting accountant makes such enquiries of the directors (and, in the case of an offeror's statement, with relevant management within the offeree if possible) as it considers necessary.

70. The reporting accountant considers:

    a. any material uncertainties that existed at the date of its report;

    b. the evidence that was relied upon in forming its opinion in the context of the matters discussed with the directors; and

    c. the procedures performed by the directors in determining the continued validity of the profit forecast

    and determines whether such matters give any reason to conclude that the report no longer continues to apply.

71. The procedures performed, and enquiries made by the directors may include matters such as:

    In relation to an offeror statement:

    a. further data and other information from relevant personnel within the offeror's business and/or the offeree's business following the publication of the profit forecast;

    b. public statements issued by the offeree in relation to the offer;

c. updated versions of the profit statement as a result of discretionary changes in management's intentions;

In relation to an offeree statement

a. facts and circumstances outside the control of the offeree that may impact the profit forecast, for example changes in legislation or economic conditions;

b. latest management information;

c. further data and other information from relevant personnel within the offeree's business following the publication of the profit forecast; and

d. new announcements by the offeree related to the offer which might contain relevant information.

72. The reporting accountant considers obtaining updated or additional written representations from the persons responsible for preparing the profit forecast.

73. The reporting accountant satisfies itself about the form and context in which reference is made to the confirmation that the reporting accountant's report continues to apply and provides the Company with that confirmation in writing.

74. In the event the reporting accountant concludes it is unable to issue a confirmation letter the reporting accountant discusses its concerns with the directors and the financial adviser to explore whether a resolution can be found. If, as a result of these discussions, the reporting accountant is either uncertain about or disagrees with the course of action proposed the reporting accountant may consider it necessary to take legal advice with respect to its responsibilities in the particular circumstances.

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

75. If, as a result of discussion with those responsible for the investment circular concerning an event that occurred prior to the completion date of the transaction, the reporting accountant is either uncertain about or disagrees with the course of action proposed the reporting accountant may consider it necessary to take legal advice with respect to its responsibilities in the particular circumstances.

76. After the date of its report, the reporting accountant has no obligation to perform procedures or make enquiries regarding the investment circular, other than those described above in respect of confirmations.

Effective date

77. A reporting accountant is required to comply with the requirements in this Investment Reporting Standard for reports signed after **xxxx** [To be confirmed]

APPENDIX 1: 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 profit forecast. 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 [investment circular] will contain a profit [forecast] [estimate] for the company for the period [ending] [ended] [date] (the "PFI") prepared and presented in accordance with the requirements of the *City Code*. We will prepare a report on the profit [forecast] [estimate] addressed to [...] expressing our opinion on the profit [forecast] [estimate], in the form described below, to be included in the [investment circular].

We will ask the Directors to make certain representations to us regarding the PFI. If the PFI is intended only to be a hypothetical illustration, or the Directors are unable to make such representations to us, we will not wish to be associated with the PFI and accordingly, will be unable to report publicly on it.

Responsibilities

The preparation and presentation of the profit forecast will be the responsibility solely of the Directors. [This responsibility includes the identification and disclosure of the assumptions underlying the profit forecast. (omit if no assumptions)] The Directors are also responsible for ensuring that the PFI is prepared and presented in accordance with the requirements of the City Code.

We will require the Directors to formally adopt the PFI before we report on it.

It is our responsibility to form an opinion as to whether the profit [forecast] [estimate] has been properly compiled on the basis stated and whether such basis is consistent with the accounting policies normally adopted by ABC plc.

If the results of our work are satisfactory and having regard to the requirements of the *City Code*, we shall prepare a report on the profit [forecast] [estimate] for inclusion in the [investment circular]. An illustration of the form of our report is attached.

Scope of work

Our work will be undertaken in accordance with Standard for Investment Reporting (SIR) 3000 "Investment Reporting Standards Applicable to Public Reporting Engagements on Profit Forecasts" issued by the Financial Reporting Council and will be subject to the limitations described therein.

We draw your attention in particular to paragraph 66 of SIR 3000 which would preclude us from expressing any opinion if the Directors have not complied with the requirements of the City Code.

As the purpose of our engagement is restricted as described above and since the PFI and the assumptions on which it is based relate to the future and may be affected by unforeseen events, we will not provide any opinion as to how closely the actual result achieved will correspond to the profit [forecast] [estimate]. Accordingly, we neither confirm nor otherwise accept responsibility for the ultimate accuracy and achievability of the PFI.

Assumptions

We will discuss the assumptions with the persons responsible for preparing the PFI together with the evidence they have to support the assumptions, but we will not seek to independently verify or audit those assumptions. We are not responsible for identifying the assumptions.

In the event that anything comes to our attention to indicate that any of the assumptions adopted by the Directors which, in our opinion, are necessary for a proper understanding of the PFI have not been disclosed or if any material assumption made by the Directors appears to us to be unrealistic we will inform the directors so that steps can be taken to resolve the matter. However, we are required to comment in our report if an assumption is published which appears to us to be unrealistic or an assumption is omitted which appears to us to be important to an understanding of the PFI.

APPENDIX 2: EXAMPLES OF MANAGEMENT REPRESENTATION LETTER CLAUSES

Similar clauses to those below could be amended to be used in connection with a report on a profit estimate.

Introduction

We refer to the forecast of [insert description of items forecast], profit for the financial year and earnings per share of ABC plc ("the Company") and its subsidiaries together ("the ABC Group") for the year ending [date] ("the profit forecast") set out on page [xx] of the Offer Document to be issued on [date]. We acknowledge that we are solely responsible for the profit forecast and the assumptions on which it is based as set out on page [xx] and confirm on behalf of the Directors [and Proposed Directors] of the Company to the best of our knowledge and belief, having made appropriate enquiries of officials of the Company, the following representations made to you in the course of your work:

Specific representations

- The profit forecast is based on our assessment of the financial position and results of operations and cash flow for the period and is presented on a basis consistent with the accounting policies [normally] [to be] adopted by the ABC Group and has been prepared in accordance with relevant legislative requirements.[1]
- We believe the forecast results are likely to be achieved although achievement of the forecast may be favourably or unfavourably affected by unforeseeable and uncontrollable events.
- We have made available to you all significant information relevant to the profit forecast of which we have knowledge.
- All significant assumptions have been disclosed and the assumptions underlying the profit forecast are reasonable and appropriate.
- The results shown in the [audited/unaudited] financial results for the six months ended [date] and the unaudited management accounts for the [•] months ended [date] which are included in the profit forecast have been prepared in accordance with the accounting policies [normally] [to be] adopted by the ABC Group and are free from material misstatement. There are no contingencies, (other than those which have been taken into account in making the forecast), that are material in the context of the profit forecast which should be disclosed or taken into account in the profit forecast.
- The profit forecast is presented in a manner which is balanced and fair and not misleading and contains all information necessary for a proper understanding of the profit forecast.

- The profit forecast together with the assumptions and the representations in this letter have been approved by the board of directors.

Representations in respect of specific assumptions such as:

- The assumed like for like increase in sales of 5% in the last quarter of 200X incorporates expected price increases of 2% based on preliminary discussions with three of our major customers.
- The assumed increase in gross margin of 2 percentage points from 1 July 200X is based on manufacturing cost savings as a result of the realisation of efficiencies resulting from the factory reorganisation which we expect to be completed by the end of May 200X.
- The assumed increase in sales prices by 2% more than the general level of inflation in 200Y is based upon the expectation that our major competitor will announce a price increase of at least that amount in November 200X. Our expectation takes account of similar timing of increases in previous years and information derived from conversations with mutual customers.
- The opening of two new sales outlets in the current financial year assumes that negotiations to agree a lease on one out of the three potential units in Guildford will be completed and that refitting and pre-opening will be completed within 10 weeks which is 25% longer than the historical average due to additional building works being required in one of the potential sites.
- The profit forecast assumes that a forward sale of $x million will be designated as a hedge against expected US$ income.

APPENDIX 3: ILLUSTRATIVE REPORT

ACCOUNTANT'S REPORT ON A PROFIT FORECAST

The Board of Directors (the "Directors")

XX plc PO Box 55

Address

xx xxxx 20xx

Addressees

Directors of the company publishing the Profit Forecast; the financial advisers responsible for the due care and consideration report.

Published Profit Forecast by XX plc ("XX")

We report on the profit forecast (the "Profit Forecast") by the Directors included in the [ref to document] dated xx xxxx xxxx to the effect that:

[DETAILS OF THE STATEMENT]

Opinion

In our opinion, the Statement has been properly compiled in all material respects on the basis stated.

The Statement has been made in the context of the disclosures in..[ref]..of the Announcement setting out thebasis of the Directors' belief (including the principal assumptions and sources of information) supporting the Profit Forecast and their analysis and explanation of the underlying constituent elements.

This report is required by Rule [*28.1(a*)] of the City Code on Takeovers and Mergers (the "City Code") and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the Directors/Board to prepare/make the Profit Forecast in accordance with the requirements of Rule 28 of the City Code.

It is our responsibility to form an/our opinion, as required by Rule [*28.1(a)(i)*] of the City Code, as to the proper compilation of the Statement and to report that opinion to you as to whether the Statement has been properly compiled on the basis stated.

Basis of preparation of the Statement

The Profit Forecast has been prepared on the basis stated in..[ref]..to the Announcement.

Basis of opinion

We have discussed the Profit Forecast, together with the underlying plans (including sources of information and assumptions), with the Directors and [other relevant – financial and legal advisers etc.]. Our work did not involve any independent examination of any of the financial or other information underlying the Profit Forecast. We conducted our work in accordance with

Standard for Investment Reporting 3000 issued by the Financial Reporting Council of the United Kingdom.

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 Profit Forecast has been properly compiled on the basis stated.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in [jurisdictions] and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Since the Profit Forecast and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we can express no opinion as to whether the actual profits achieved will correspond to those anticipated in the Statement and the differences may be material

Yours faithfully,

Contents

SIR 4000 – Investment Reporting Standards Applicable to Public Reporting Engagements on Pro Forma Financial Information

Preface

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, including for example those which relate to Ethics and Quality Control.

SIR 4000 contains specific 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 pro forma financial information, which is included within an investment circular prepared for issue in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom.

SIR 4000 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.

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.

To assist readers, SIRs contain references to certain legislation, regulations and Listing Rules Readers are cautioned that these references may change subsequent to publication.

Introduction

1 The purpose of this SIR is to establish specific additional Investment Reporting Standards and provide guidance for a reporting accountant engaged to report publicly on pro forma financial information to be included in an investment circular under the PD Regulation, the Listing Rules, or if required in respect of an AIM Admission Document. [Placeholder to revise references to prospectus rules as necessary]

2 An engagement to report publicly on the proper compilation of pro forma financial information is a public reporting engagement as described in SIR 1000:

I. with respect to pro forma financial information the "**subject matter**" is the impact that the transaction would have had on the earnings of the issuer (assuming that the transaction had been undertaken at the commencement of the financial period used for the illustration) or on the assets and liabilities of the issuer (assuming that the transaction had been undertaken at the end of the financial period used for the illustration);

II. "**suitable criteria**" to be used by directors in the preparation of the pro forma financial information are provided by the requirements of the PD Regulation and the guidance issued by ESMA guidelines[45] (as updated from time to time). In forming its opinion as to whether the pro forma financial information has been properly compiled the reporting accountant considers whether certain of those criteria ("**reporting accountant's criteria**") have been properly applied. Reporting accountant's criteria are set out in Appendix 1 of this SIR; and

III. with respect to pro forma financial information the "**outcome**"[46] is the pro forma financial information and related disclosures that are included in the investment circular and on which the reporting accountant expresses an opinion (in the "**reporting accountant's report**") as to whether that information is properly compiled on the basis stated and whether such basis is consistent with the accounting policies of the issuer.

The nature of pro forma financial information

3 Under EU prospectus rules and UK Listing Rules, a company which issues a prospectus must, in the case of a 'significant gross change', include a description of the how the transaction might have affected the assets and liabilities and earnings of the issuer, had the transaction been undertaken at the commencement of the period being reported on or

[45] See also ESMA update of the CESR recommendations "The Consistent implementation of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Regulation" (20 March 2013); ESMA *Questions and Answers – Prospectuses* (January 2019) [Placeholder to revise references to prospectus rules as necessary]

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

at the date reported. This requirement will 'normally' be satisfied by the inclusion of pro forma financial information, which is a hypothetical illustration of the impact of a transaction or transactions on an issuer's assets, liabilities and earnings. A 'significant gross change' means a variation of more than 25 % to one or more indicators of the size of the issuer's business. For class 1 circulars, the FCA considers that the requirement in LR 13.4.1R(5) (information to be included in a Class 1 Circular) is similar in approach to the Prospectus Rules.[47] [Placeholder to revise references to prospectus rules as necessary]

4 For the purpose of this SIR ''pro forma financial information'' is defined to include financial information such as net assets, or profits that demonstrate the impact of a transaction on previously published financial information together with explanatory notes. Under..[Placeholder to revise references to prospectus rules as necessary]..of the PD Regulation the pro forma financial information must be accompanied by introductory text setting out: its purpose, including a description of the transaction or significant commitment and the businesses or entities involved; the period or date which it covers and the fact that because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the company's actual financial position or results.

5 The Institute of Chartered Accountants in England and Wales (ICAEW) issues and periodically updates "Guidance for preparers of pro forma financial information'' (the ''ICAEW Guidance'').[48] The ICAEW guidance does not deal with the role of reporting accountants.

Compilation process

6 The compilation of pro forma information is the gathering, classification, summarisation and presentation of relevant financial information illustrating the impact of a significant gross change as if the transaction had been undertaken at an earlier date. The process followed by the preparer would be expected to include the following:

- the accurate extraction of information from sources permitted under the PD Regulation; [Placeholder to revise references to prospectus rules as necessary]
- the making of adjustments to the source information that are arithmetically correct, appropriate and complete for the purpose for which the pro forma financial information is presented;
- arithmetic computation of the pro forma information;
- consideration of consistency of accounting policies;
- appropriate disclosure to enable the intended users to understand the pro forma financial information; and
- appropriate consideration of the pro forma financial information and approval by the directors of the entity.

[47] UKLA/TN/633.1 *Pro forma financial information*.
48 ICAEW, TECH 06/15CFF.

Engagement acceptance and continuance

7 When accepting or continuing an engagement to report publicly on pro forma information, the reporting accountant ascertains whether the directors intend to comply with all relevant regulatory requirements, in particular those that constitute the reporting accountant's criteria set out in Appendix 1 of this SIR.

Agreeing the terms of the engagement

8 Examples of engagement letter clauses are set out in Appendix 3 of this SIR.

Legal and regulatory requirements

9 The PD Regulation requires any pro forma financial information included in a prospectus to be reported on by independent accountants or auditors (referred to in this SIR as the ''reporting accountant'') and specifies the form of opinion to be given. The Listing Rules applicable to companies with a Premium Listing require any pro forma financial information included in a Class 1 circular, a related party circular or a circular relating to the purchase by the company of 25% or more of its issued equity shares (excluding treasury shares) to be reported on in the same way.[49] References in the SIR to the PD Regulation apply equally to the Listing Rules where those Rules apply. [Placeholder to revise references to prospectus rules as necessary]

10 In a hostile takeover, where an offeror does not have access to the relevant offeree information, the FCA "would not normally expect to see pro forma financial information" included in either a Class 1 circular or prospectus, because it is not normally possible for the reporting accountant to confirm that the information is compiled on a consistent basis with the accounting policies of the issuer. In those cases, the relevant requirements are addressed via a narrative description covering the expected effect of the takeover or merger on the earnings or assets and liabilities of the group rather than through the use of pro forma financial information.[50]

11 Any pro forma financial information included in a prospectus (whether or not there has been a significant gross change) must be prepared in accordance with the prospectus regulations, including an accountant's report. This includes pro forma financial information included in a prospectus on a voluntary basis.[51]

12 Appendices 1 and 2 to this SIR set out those provisions of the PD Regulation and the CESR Recommendations, relating to the implementation of the Regulation, that provide the suitable criteria for directors. [Placeholder to revise references to prospectus rules as necessary] Those provisions that constitute criteria for a reporting accountant expressing an opinion on whether the pro forma information has been properly compiled are set out in Appendix 1 of this SIR.

Planning and performing the engagement

13 The reporting accountant shall obtain an understanding of the key factors affecting the subject matter sufficient to identify and assess the risk of the pro forma financial

[49] LR 13.3.3.R

[50] UKLA/TN/305.2 *Hostile takeovers*.

[51] UKLA/TN/633.1 *Pro forma financial information*.

information not being properly compiled and sufficient to design and perform evidence gathering procedures including:

i. **the nature of the transaction (or transactions) being undertaken by the issuer;**
ii. **the entity's business; and**
iii. **the procedures adopted, or planned to be adopted, by the directors for**

the preparation of the pro forma financial information. (SIR 4000.1)

14 The reporting accountant gains an understanding of the transaction, in respect of which the pro forma financial information is being prepared, by discussion with the directors or management of the issuer and by reading relevant supporting documentation.

15 The reporting accountant uses professional judgment to determine the extent of the understanding required of the entity's business for the purposes of reporting on the pro forma financial information.

16 Other matters for consideration by the reporting accountant include the availability of evidence to provide factual support for the proposed adjustments and the accounting policies that will form the basis of the adjustments to the pro forma financial information.

Materiality

17 The reporting accountant shall 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 4000.2)

18 Matters are material if their omission or misstatement could, individually or collectively, influence the economic decisions of the intended users of the pro forma financial information. Materiality depends on the size and nature of the omission or misstatement judged in light of the surrounding circumstances. The size or nature of the matter, or a combination of both, could be the determining factor.

19 A misstatement in the context of the compilation of pro forma financial information includes, for example:

- Use of an inappropriate source for the unadjusted financial information;
- Incorrect extraction of the unadjusted financial information from an appropriate source;
- In relation to adjustments, the misapplication of accounting policies or failure to use the accounting policies adopted in the last, or to be adopted in the next, financial statements;
- Omission of an adjustment required by relevant regulations;

- Making an adjustment that does not comply with the relevant regulations;

- A mathematical or clerical mistake;

- Inadequate, or incorrect or omitted disclosures.

20 Evaluating whether an omission or misstatement could influence economic decisions of the intended users of the pro forma financial information, and so be material, requires consideration of the characteristics of those intended users. The intended users are assumed to:

i. have a reasonable knowledge of business and economic activities and accounting and a willingness to study the pro forma financial information with reasonable diligence; and

ii. Understand that pro forma financial information is prepared, presented and reported on to levels of materiality;

iii. Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and

iv. make reasonable economic decisions on the basis of the pro forma financial information included as part of the investment circular.

The determination of materiality, therefore, takes into account how intended users with such characteristics could reasonably be expected to be influenced in making economic decisions.

Public reporting engagement risk

21 ''Public reporting engagement risk'' is the risk that the reporting accountant expresses an inappropriate opinion when the pro forma financial information has not been properly compiled on the basis stated or that basis is not consistent with the accounting policies of the issuer.[52]

22 **The reporting accountant shall obtain sufficient appropriate evidence that the pro forma financial information is free from material error in its compilation by:**

a) **checking that the unadjusted financial information of the issuer has been accurately extracted from a source that is both appropriate and in accordance with the relevant regulation;**

b) **obtaining evidence that the directors have applied the criteria set out in Appendix 1 of this SIR and, therefore, that the adjustments are appropriate**

[52] Regulations require a positive and unmodified opinion – for this reason there is no risk that the reporting accountant will inappropriately modify its opinion.

and complete for the purpose for which the pro forma financial information is presented; and

checking that the calculations within the pro forma financial information are arithmetically correct. (SIR 4000.3)

23 Item 2.2 of Annex 19 of the PD Regulation permits pro forma financial information to be published only in respect of:

i. the most recently completed financial period; and

ii. the most recent interim period for which relevant unadjusted information has been or will be published or is being published in the same investment circular.

[Placeholder to revise references to prospectus rules as necessary]

Unadjusted financial information of the issuer

24 The reporting accountant shall consider whether the period in respect of which the pro forma financial information is proposed to be published is permitted under the PD Regulation. (SIR 4000.4)

[Placeholder to revise references to prospectus rules as necessary]

25 The reporting accountant shall consider whether the source of the unadjusted financial information for the issuer is appropriate and whether the source of the unadjusted financial information is clearly stated. (SIR 4000.5)

26 The reporting accountant is not required to perform specific procedures on the unadjusted financial information of the issuer other than as described in paragraph 25. 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 pro forma financial information.

27 Factors that affect the appropriateness of the source from which the unadjusted financial information has been extracted include whether there is an audit or review report on the source and whether the source:

i. is clearly identifiable; and

ii. represents a reasonable starting point for compiling the pro forma financial information in the context of the transaction, including whether it is at an appropriate date or covers and appropriate period.

28 The source from which the unadjusted financial information has been extracted may be interim financial statements that have not been audited or reviewed whereas the entity's

financial statements for the immediately preceding financial year may have been audited. Where the unadjusted financial information has not been extracted from audited or reviewed financial information, the following procedures may be performed by the reporting accountant, in relation to the appropriateness of the source from which the unadjusted financial information has been extracted include:

- inquiring of the directors about:
  - The process by which the source has been prepared and the reliability of the underlying accounting records to which the source is agreed or reconciled.
  - Whether all transactions have been recorded.
  - Whether the source has been prepared in accordance with the entity's accounting policies.
  - Whether there have been any changes in accounting policies from the most recent audited or reviewed period and, if so, how such changes have been dealt with.
  - Its assessment of the risk that the source may be materially misstated as a result of fraud.
  - The effect of changes in the entity's business activities and operations.
- If the reporting accountant has audited or reviewed the immediately preceding annual or interim financial information, considering the findings of such audit or review and whether these might indicate any issues with the preparation of the source from which the unadjusted financial information has been extracted.
- Corroborating the information provided by the directors in response to the reporting accountant's inquiries when the responses appear inconsistent with the reporting accountant's understanding of the entity or the engagement circumstances.
- Comparing the source with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the directors.

29 The reporting accountant confirms the correct extraction of the unadjusted financial information from the source concerned.

Adjustments

30 Item 6 of Annex II to the PD Regulation requires pro forma adjustments to:

i. Be clearly shown and explained;

ii. present all significant effects directly attributable to the transaction; and

iii. be factually supportable.

[Placeholder to revise references to prospectus rules as necessary]

31 In addition, in respect of a pro forma profit and loss, they must be clearly identified as between those adjustments which are expected to have a continuing impact on the issuer and those which are not.

32 More detailed guidance for directors concerning the implementation of these requirements is provided by the ESMA Recommendations, ESMA Q&A, FCA/UKLA Technical Notes[53] and ICAEW Guidance. The annexure to SIR 5000 includes standards and guidance in respect of accounting policy reconciliations.

[Placeholder to revise references to prospectus rules as necessary]

33 The reporting accountant considers the way in which the directors have fulfilled their responsibilities. With its understanding of the transaction and the entity's business as background the reporting accountant discusses with the directors the steps they have taken to identify relevant adjustments and whether such adjustments are permitted to be made.

34 The reporting accountant obtains evidence regarding whether the directors have appropriately identified the necessary pro forma adjustments through a combination of procedures such as:

- Evaluating the reasonableness of the directors' approach to identifying the appropriate pro forma adjustments.
- Inquiring of relevant parties within an acquiree regarding the approach to extracting the acquiree financial information.
- Evaluating specific aspects of the relevant contracts, agreements or other documents.
- Inquiring of the entity's advisors regarding specific aspects of the event or transaction and related contracts and agreements that are relevant to the identification of appropriate adjustments.
- Evaluating relevant analyses and worksheets prepared by the directors and other entity personnel involved in compiling the pro forma financial information.
- Obtaining evidence of the directors' oversight of other entity personnel involved in compiling the pro forma financial information.

[53] UKLA/TN/633.1 *Pro forma financial information,* which covers the listing authority's interpretations and expectations, including those relating to adjustments for purchase price allocations (PPAs) and synergy benefits.

35 In the case of a divestment, matters for the reporting accountant to consider include, for example, whether income and expenses attributable to the divestee that are recorded at the consolidated level have been appropriately reflected in the pro forma adjustments.

36 If, as a result of these procedures and enquiries, the reporting accountant becomes aware of a significant adjustment which, in its opinion, ought to be made for the purposes of the pro forma financial information 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 and the issuer's advisers as to how the matter is to be resolved, it considers the consequences for its report.

37 The reporting accountant considers the adjustments to assess whether they are ''directly attributable'' to the transaction whose impact is being illustrated by the pro forma financial information, that is, they are an integral part of the transaction concerned. If a potential adjustment is not directly attributable to the transaction or transactions described in the investment circular, it cannot be made (although it may be appropriate to disclose by way of note to the pro forma financial information the nature of a prohibited potential adjustment and the effect it would have had if it had been permissible to include it).

38 In assessing whether adjustments are directly attributable to the transaction the reporting accountant considers whether the adjustments relate to future events and/or decisions. This is because adjustments that are related to the transaction being illustrated but which are dependent on actions to be taken once the transaction has been completed, cannot be said to be ''directly attributable''.

39 The reporting accountant considers whether the adjustments have been clearly shown and explained and, in respect of a pro forma profit and loss account, whether they have been clearly identified as to those which are expected to have a continuing impact on the issuer (that is, relate to events or circumstances that are expected to recur) and to those which are not.

40 The reporting accountant obtains sufficient appropriate evidence that the directors of the issuer have factual support for each adjustment. Sources of such evidence could include (for example):

- published financial statements;
- other financial information or valuations disclosed elsewhere in the investment circular;
- purchase and sale agreements and other agreements relating to the transaction.

Omitted adjustments

41 In view of the specific restrictions on the nature of the adjustments permitted to be made under item 6 of Annex II of the PD Regulation, the directors may not be permitted to make all the adjustments that they would otherwise wish to. For example, an adjustment which is directly attributable but which is not factually supportable could not be included in pro forma financial information. [Placeholder to revise references to prospectus rules as necessary]

42 If any adjustments are excluded because of the requirement in item 6 of Annex II of the PD Regulation for adjustments to be factually supportable, the reporting accountant considers the effect on the pro forma financial information and in particular whether the exclusion renders the pro forma financial information misleading. In such circumstances, the reporting accountant may consider that disclosure in the notes to the pro forma financial information of the fact that such an adjustment has not been made is sufficient in the context of the overall purpose of the pro forma financial information. [Placeholder to revise references to prospectus rules as necessary]

43 However, if the reporting accountant concludes that an omitted adjustment is so fundamental as to render the pro forma statement misleading in the context of the investment circular, it discusses the matter with the directors and, if necessary, the issuer's advisers and in the event that acceptable changes to the disclosures are not made, considers whether it is able to issue its report.

Checking the calculations

44 The reporting accountant ascertains whether the adjustments made in the pro forma financial information are included under the appropriate financial statement caption as well as the arithmetical accuracy of the calculations within the pro forma financial information itself.

Consistent accounting policies

45 The reporting accountant shall evaluate whether the adjustments made to the unadjusted financial information are consistent with the accounting policies adopted in the last, or to be adopted in the next, financial statements of the entity presenting the pro forma financial information. (SIR 4000.6)

46 Where the reporting accountant is not the auditor of the issuer or has not otherwise reported on the financial information relating to the subject of the transaction, it evaluates the steps taken to ensure that the pro forma financial information has been prepared in a manner consistent with the accounting policies of the issuer.[54]

Presentation of pro forma financial information

[54] ICAEW, TECH 06/15CFF.

47 **The reporting accountant shall consider whether it has become aware of anything to cause it to believe that the pro forma financial information 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 parties responsible for the pro forma financial information and with those persons to whom its report is to be addressed and consider whether it is able to issue its report. (SIR 4000.7)**

48 The reporting accountant reads the pro forma financial information to assess whether:

i. as required by item xx of Annex xx of the PD Regulation, the pro forma financial information includes a description of the transaction, the businesses or entities involved and the period to which it refers and clearly states the purpose for which it has been prepared, that it has been prepared for illustrative purposes only and that, because of its nature, it addresses a hypothetical situation and, therefore, may differ from the company's actual financial position or results; [Placeholder to revise references to prospectus rules as necessary]

ii. in accordance with the normal form of presentation under item x of Annex xx of the PD Regulation, the pro forma financial information is presented in columnar format composed of (a) the historical unadjusted information, (b) accounting policy adjustments, where necessary; (c) the pro forma adjustments and (d) the results of the pro forma financial information in the final column; and [Placeholder to revise references to prospectus rules as necessary]

iii. disclosures, in the notes to the pro forma financial information, concerning omitted adjustments are satisfactory.

49 The reporting accountant considers the relevant guidance for preparers of pro forma financial information:

> *Even where pro forma financial information satisfies the regulatory conditions relating to its preparation, it could still be misleading if it gives users of the investment circular a view of the effect of the transaction on the unadjusted information contrary to that which ought reasonably to be given if the illustration appropriately reflects the effect and, thereby materially affects users' assessment of the transaction. The action of 'standing back' and considering pro forma financial information….can safeguard against this risk.*[55]

Representation letter

[55] ICAEW, TECH 06/15CFF, para.34.

50 Examples of management representation letter clauses are set out in Appendix 4 of this SIR.

Reporting

Responsibilities

51 In all reports on pro forma financial information in investment circulars the reporting accountant shall explain the extent of its responsibility in respect of the pro forma financial information by including in its report:

a. **a statement that the reporting accountant's responsibility is to form an opinion (as required by the applicable regulatory requirements) on the proper compilation of the pro forma financial information and to report its opinion to the addressees of the report; and**

b. **a statement that the pro forma financial information is the responsibility of the directors. (SIR 4000.8)**

Basis of preparation of the pro forma financial information

52 The reporting accountant shall include a basis of preparation section of its report that cross refers to disclosures that explain the basis of preparation of the pro forma financial information. [56] **(SIR 4000.9)**

53 The basis of preparation section of the report will make clear whether the accounting policies applied in the preparation of the pro forma information are those adopted by the entity in preparing the last published financial statements or those that it plans to adopt in the next published financial statements.

Expression of opinion

54 The report on the pro forma financial information shall contain a clear expression of opinion that complies with applicable regulatory requirements. (SIR 4000.10)[57]

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[56] In the case of an accountant's report on voluntary pro forma financial information, references to requirements should be amended in accordance with UKLA/TN/633.1 *Pro forma financial information*.

[57] See xx; ESMA Q&A 55 (Jan 2019) [Placeholder to revise references to prospectus rules as necessary]

55 In forming its opinion, the reporting accountant takes account of those events which the reporting accountant becomes aware of occurring up to the date on which the reporting accountant signs the report, that affect the opinion expressed in the report.

56 In providing the opinion required by the PD Regulation the reporting accountant's assurance does not extend to any source financial information on which the pro forma financial information is based beyond that opinion. In particular, the reporting accountant is not refreshing or updating any opinion that it may have given in any other capacity on that source financial information.

57 The investment circular in which the reporting accountant's report is included may be made available in other countries, which have their own standards for accountants when reporting on pro forma financial information. 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 set out in Appendix 5 of this SIR.

Modified Opinions

58 In the event that the reporting accountant concludes that it is unable to report in the manner prescribed it considers, with the parties to whom it is to report, whether the pro forma financial information can be amended to alleviate its concerns or whether the pro forma information should be omitted from the investment circular and the requirement for information to be given on the effect of the transaction satisfied in some other way.

59 **As the PD Regulation requires a positive and unmodified opinion[58], the reporting accountant shall not express an opinion when the directors have not applied the criteria set out in Appendix 1 of this SIR and, in the reporting accountant's judgment the effect of not doing so is, or may be, material. (SIR 4000.11)** [Placeholder to revise references to prospectus rules as necessary]

60 An example of a report on pro forma financial information expressing a positive and unmodified opinion, pursuant to the PD Regulation, is set out in Appendix 5 of this SIR. [Placeholder to revise references to prospectus rules as necessary]

[58] See ESMA Q&A (January 2019), 55.2. Note that the ESMA guidance does not absolutely prohibit the inclusion of an Emphasis of Matter in the opinion, but does recommend that they are not because included because, "….it feels that emphasis of matter paragraphs in this context will only serve to reduce the clarity of the statement." [Placeholder to revise references to prospectus rules as necessary]

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

61 Under Section 81 and 87G of the FSMA, Prospectus Rule 3.4 and Listing Rule 4.4.1, a supplementary investment circular must be prepared if, after the date the investment circular has been formally approved by a regulator and before dealings in the relevant securities commence, the issuer becomes aware that there has been a significant change affecting any matter contained in the document or a significant new matter has arisen, the inclusion of information in respect of which would have been required if it had arisen at the time of its preparation. A similar obligation arises, under xxx of the PD Regulation, in respect of the period following registration of the investment circular during which an agreement in respect of the securities can be entered into in pursuance of the offer contained in the investment circular. [Placeholder to revise references to prospectus rules as necessary]

62 If, as a result of discussions with those responsible for the investment circular concerning an event that occurred prior to the completion date of the transaction, the reporting accountant is either uncertain about or disagrees with the course of action proposed it may consider it necessary to take legal advice with respect to its responsibilities in the particular circumstances.

63 After the date of its report, the reporting accountant has no further obligation to perform procedures or make enquiries regarding the investment circular.

Effective Date

64 A reporting accountant is required to comply with the requirements in this Investment Reporting Standard for reports signed after…. [TBC]

Appendix 1: REPORTING ACCOUNTANTS CRITERIA

[Placeholder to revise references to prospectus rules as necessary]

	Annex 19 of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129	ESMA update of CESR Recommendations (2013)	ESMA Q&A (Jan 2019)
In the case of a significant gross change, a description of how the transaction might have affected the assets and liabilities and earnings of the issuer, had the transaction been undertaken at the commencement of the period being reported on or at the date reported. This requirement will normally be satisfied by the inclusion of pro forma financial information.			50 a, 51
The pro forma financial information consists of a profit and loss account, a balance sheet or both, depending on the circumstances presented in columnar format composed of: a) historical unadjusted information; b) accounting policy adjustments, where necessary; c) pro forma adjustments; and d) The results of the pro forma financial information in the final column.	1.1.b		
ESMA considers that the expression "historical unadjusted information" <u>normally</u> refers to the statutory historical financial information that has been prepared by			50 b, 51

	Annex 19 of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129	ESMA update of CESR Recommendations (2013)	ESMA Q&A (Jan 2019)
the issuer normally to fulfil company law requirements or to statutory interim financial information prepared by the issuer.			
The sources of the pro -forma financial information have to be stated, and whether or not an audit or review report on the source has been published.	1.1.c.i		
The pro forma financial information shall explain the basis on which the pro forma financial information is prepared.	1.1.c.ii		
The accounting treatment applied to adjustments should be presented and prepared in a form consistent with the accounting policies adopted by the issuer in its last or next published financial statements.	2.1	89	
Pro forma adjustments must be clearly shown and explained, with the source and an explanation for each adjustment.	1.1.c.iii, 2.3.a		
In respect of a pro forma profit and loss statement, the adjustments must be clearly identified as to those expected to have a continuing impact on the issuer and those which are not.	1.1.c.iv		

	Annex 19 of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129	ESMA update of CESR Recommendations (2013)	ESMA Q&A (Jan 2019)
Pro forma adjustments must present all significant effects directly attributable to the transaction.	2.3.b		
''Directly attributable to transactions''. Pro forma information should only reflect matters that are an integral part of the transactions which are described in the prospectus. In particular, pro forma financial information should not include adjustments which are dependent on actions to be taken once the current transactions have been completed, even where such actions are central to the issuer's purpose in entering into the transactions.	n/a	88	
Pro forma adjustments must be factually supportable.	2.3.c		
"Factually supportable". The nature of the facts supporting an adjustment will vary according to the circumstances. Nevertheless, facts are expected to be capable of some reasonable degree of objective determination. Support might typically be provided by published accounts, management accounts, other financial information and valuations contained in the document, purchase and sale agreements and other agreements to the transactions covered by the prospectus. For instance in relation to management accounts, the interim figures for an undertaking being acquired may be derived from the consolidation schedules underlying that undertaking's interim statements.	n/a	87	

Appendix 2: OTHER REGULATORY PROVISIONS RELEVANT TO THE PREPARERS OF PRO FORMA FINANCIAL INFORMATION

[Placeholder to revise references to prospectus rules as necessary]

	Delegated Act (Jan 2019)	Annex 19 of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129	ESMA update of CESR Recommendations (2013)	ESMA Q&A (Jan 2019)
‘significant gross change’ means a variation of more than 25 % to one or more indicators of the size of the issuer’s business. *For these purposes, ‘‘Significant gross change’’ is described in recital 9 of the PD Regulation. Thus, in order to assess whether the variation to an issuer’s business as a result of a transaction is more than 25%, the size of the transaction should be assessed relative to the size of the issuer by using appropriate indicators of size prior to the relevant transaction. A transaction will constitute a significant gross change where at least one of the indicators of size is more than 25%. A non-exhaustive list of indicators of size is provided below:* *- Total assets* *- Revenue* *- Profit or loss*	Article 1.e	n/a	90-94	52, 53

	Delegated Act (Jan 2019)	Annex 19 of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129	ESMA update of CESR Recommendations (2013)	ESMA Q&A (Jan 2019)
Other indicators of size can be applied by the issuer especially where the stated indicators of size produce an anomalous result or are inappropriate to the specific industry of the issuer, in these cases the issuers should address these anomalies by agreement of the competent authority. The appropriate indicators of size should refer to figures from the issuer's last or next published annual financial statements.				
Pro forma financial information should be preceded by an introductory explanatory paragraph that states in clear terms the purpose of including this information in the prospectus.		*1.1.a.i*		
This pro forma financial information is to be presented as set out in Annex 19 and must include the information indicated therein. Pro forma financial information must be accompanied by a report prepared by independent accountants or auditors.				
Pro forma financial information should be identified as such in order to distinguish it from historical financial information.		2.1		
		1.1.a.i		

	Delegated Act (Jan 2019)	Annex 19 of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129	ESMA update of CESR Recommendations (2013)	ESMA Q&A (Jan 2019)
The introduction must state the purpose for which the pro forma financial information has been prepared.				
The introduction must include a description of the transaction or significant commitment, and the businesses or entities involved.		1.1.a.i		
The introduction must state the period or date to which the pro forma financial information refers.		1.1.a.ii		
The introduction must include an explanation illustrating the impact of the transaction as if the transaction had been undertaken at an earlier date.		1.1.a.iii		
The introduction must state that, because of its nature, it addresses a hypothetical situation and, therefore, may not represent the company's actual financial position or results.		1.1.a.iii		
In order to present pro forma financial information, a balance sheet and/or profit and loss account, and accompanying explanatory notes, depending on the circumstances may be included.		1.1.b		

	Delegated Act (Jan 2019)	Annex 19 of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129	ESMA update of CESR Recommendations (2013)	ESMA Q&A (Jan 2019)
Where applicable the financial information and interim financial information of the (or to be) acquired businesses or entities must be included in the prospectus.		1.1.d		
Pro forma information may only be published in respect of: a) the last completed financial period; and/or b) the most recent interim period for which relevant unadjusted information has been or will be published or are included in the registration document/prospectus.		2.2		
The most recently ***completed financial period****: ESMA considers that this expression refers to the last full financial year (normally 12 months) and not an interim period.* ***The most recent interim period for which relevant unadjusted information has been or will be published*** *or is being published in the same document: ESMA considers that the reference made to the relevant unadjusted information in this letter c) refers to the statutory interim financial information that will normally be half-yearly financial information (it could also refer to quarterly financial information as long as it has been prepared with the same level of quality and comfort as the half yearly information). This interim*				50 c, 51

	Delegated Act (Jan 2019)	Annex 19 of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129	ESMA update of CESR Recommendations (2013)	ESMA Q&A (Jan 2019)
information will normally be the one that has already been published by the issuer (for example to comply with the requirements under the Transparency Directive) or is being published in the prospectus where the pro forma information is being provided.				
The pro forma information must clearly state that it has been prepared for illustrative purposes only.				

Appendix 3: EXAMPLES OF ENGAGEMENT LETTER CLAUSES

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

[Placeholder to note that references to prospectus rules will be updated as necessary]

Financial information upon which the report is to be given

The [investment circular] will include a pro forma [balance sheet/profit and loss account] together with a description of the basis of preparation (including the accounting policies used) and supporting notes to illustrate how the transaction might have affected the financial information of the company had the transaction been undertaken at the beginning of the period[s] concerned or as at the date[s] stated (the ''pro forma financial information'').

Responsibilities

The pro forma financial information, which will be the responsibility solely of the directors, will be prepared for illustrative purposes only. This is required to be prepared in accordance with Sections 1 to 2 of Annex 19 of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129.

It is our responsibility to form an opinion as to whether the pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of ABC plc.

If the results of our work are satisfactory, and having regard to the requirements of Section 3 of Annex 19 of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129, we shall prepare a report on the pro forma financial information for inclusion in the [*describe document*]. An illustration of the form of our report is attached.

Scope of work

Our work will be undertaken in accordance with Standard for Investment Reporting (SIR) 4000 ''Investment Reporting Standards Applicable to Public Reporting Engagements on Pro Forma Financial Information'' issued by the Auditing Practices Board and will be subject to the limitations described therein.

We draw your attention in particular to paragraph 59 of SIR 4000 which would preclude us from expressing any opinion if the directors have not complied with the regulatory requirements set out in Appendix 1 of that SIR.

Appendix 4: EXAMPLES OF MANAGEMENT REPRESENTATION LETTER CLAUSES

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

[Placeholder to note that references to prospectus rules will be updated as necessary]

Introduction

We refer to the pro forma financial information set out in Part [...] of the [investment circular] dated...to be issued in connection with [...] dated. We acknowledge that we are solely responsible for the pro forma financial information 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 company], 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 pro forma financial information (which has been prepared in accordance with [Sections 1 & 2 of Annex 19 of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129] [ESMA update of the CESR recommendations ''The Consistent implementation of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Regulation'' (20 March 2013); [and, to the extent applicable, with Technical Release TECH 06/15CFF published by the Institute of Chartered Accountants in England and Wales].

We have considered the pro forma financial information and we confirm that, in our opinion, as required by item 20.2 of Annex I of the PD Regulation, the pro forma financial information provides investors with information about the impact of the transaction by illustrating how that transaction might have affected the [assets and liabilities] [and] [earnings] of the issuer, had the transaction been undertaken at the commencement of the period being reported on or at the date reported.

Furthermore, we confirm that, in our opinion, the pro forma financial information is not misleading.

We have considered the adjustments included in the pro forma financial information. We confirm that, in our opinion, the pro forma financial information includes all appropriate adjustments permitted by Sections 1 to 2 of Annex 19 of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129, of which we are aware, necessary to give effect to the transaction as if the transaction had been undertaken [at the date reported on} [at the commencement of the period being reported on].

[We have considered those adjustments which have been omitted by virtue of not being permitted to be included by Sections 1 to 2 of Annex 19 of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129 and the disclosures made in respect thereof. In our opinion the omission of these adjustments does not render the pro forma financial information misleading.]

[*Where the accounting policies in the issuer's next financial statements are used.* The accounting policies used in compiling the pro forma financial information are those to be adopted in the Company's next financial statements, and all changes necessary to reflect those policies have been made.]

[*Any specific representations relating to information included in the pro forma financial information*.]

Appendix 5: ILLUSTRATIVE REPORT

[Placeholder to note that references to prospectus rules will be updated as necessary]

REPORT ON PRO FORMA FINANCIAL INFORMATION IN ACCORDANCE WITH THE PD REGULATION OR THE LISTING RULES

Date

Reporting accountant's address

Addressees, as agreed between the parties in the engagement letter

Dear Sirs,

[ABC plc]

We report on the pro forma [financial information] (the ''Pro forma financial information'') set out in Part [...] of the [investment circular] dated.......

Opinion

In our opinion:

(a) the Pro forma financial information has been properly compiled in all material respects on

the basis stated;

and (b) such basis is consistent with the accounting policies of ABC plc.

Responsibilities

It is the responsibility of the directors of ABC plc to prepare the Pro forma financial information in accordance with Sections 1 & 2 of Annex 19 of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129

It is our responsibility to form an opinion, as required by Annex 19 supplementing of Commission Delegated Regulation (EU) 2019/XXXX supplementing Regulation (EU) 2017/1129, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

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 Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports, or opinions were addressed by us at the dates of their issue.

Basis of preparation of the Statement

The pro forma financial information has been prepared on the basis described [in note x], for illustrative purposes only, to provide information about how the [transaction] might have affected the financial information presented on the basis of the accounting policies [adopted/to be adopted] by ABC plc in preparing the financial statements for the period [ended/ending] [date]. This report is required by [Relevant Regulation] [guidance issuedwith respect to the AIM market] and is given for the purpose of complying with that [Relevant Regulation]and for no other purpose

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Financial Reporting Council in the United Kingdom. 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 comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of ABC plc.

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 Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of ABC plc.

[*This paragraph may be omitted if the document is not to be distributed outside the UK* - 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.]

Declaration[59]

For the purposes of [Prospectus Rule [5.5.3R(2)(f)] [5.5.4R(2)(f)]]we are responsible for [this report as part] [the following part(s)] of the [prospectus] [registration document] [AIM Admission 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] [AIM Admission Document] in compliance with [item 1.2 of Annex I of the PD Regulation] [item 1.2 of Annex III of the Prospectus Regulation].

Yours faithfully

Reporting accountant

[59] This declaration is a requirement of the Prospectus Rules and is appropriate for inclusion when the report is included in a Prospectus, see Appendix 2 of SIR 1000. It is also appropriate for inclusion in an AIM admission document under Schedule Two of the AIM Rules.

STANDARDS FOR INVESTMENT REPORTING

Contents

SIR 5000 – Investment Reporting Standards Applicable to Public Reporting Engagements on Financial Information Reconciliations under the Listing Rules

Preface

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, including for example those which relate to Ethics and Quality Control.

SIR 5000 contains only specific 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 under the Listing Rules, which are included within an investment circular prepared for issue in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom.

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.

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.

To assist readers, SIRs contain references to, and extracts from, certain legislation, regulations and Listing Rules. Readers are cautioned that these references may change subsequent to publication.

Introduction

1. The purpose of SIR 5000 is to establish specific additional Investment Reporting requirements and guidance for a reporting accountant engaged to report publicly on reconciliations of the financial information of a ‘target' to the accounting policies of an issuer (financial information reconciliations) to be included in a Class 1 circular under the Listing Rules.

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:

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 (i.e. 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"** 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, in certain circumstances, 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 basis of the issuer's accounting policies but is presented on the basis of the target's accounting policies. Consequently, the reporting accountant's opinion described in SIR 2000 is not required and there are additional Listing Rules that apply. [60]

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[61] to include the following in the Class 1 circular:

a. a reconciliation of financial information on the target for all periods covered by the financial information table on the basis of the accounting policies used in the issuer's last published accounts;

b. a reporting 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;[62] 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, but a statement by the directors that no material adjustment needs to be made.

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. The need 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 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.

[60] See LR 13.5.27R & LR 13.5.3BR

[61] LR 13.5.27 R (2) (a)

[62] No reporting accountant's opinion is required in respect of half-yearly, quarterly or other financial information included in the Class 1 circular. LR 13.5.30R.

Engagement acceptance and continuance

10. 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.

11. In determining whether the persons who are to perform the engagement collectively possess the necessary professional competence the reporting accountant shall:

a. assess whether the engagement teams, 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)

12. 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 practices, the reporting accountant determines whether it has, or can obtain, the necessary professional competence to evaluate whether the financial information reconciliation has been prepared in accordance with the requirements of the Listing Rules.

13. 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 FCA.[63]

Agreeing the terms of the engagement

14. Examples of engagement letter clauses are set out in Appendix 2 of this SIR.

[63] The FCA 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.

Legal and regulatory requirements

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

Planning and performing the engagement

16. The reporting accountant shall 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 shall be sufficient to design and perform procedures to gather sufficient, appropriate audit evidence 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)**

17. 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.

18. 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.

19. 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.[64] Guidance in the Listing Rules indicates that "accounting policies" includes accounting standards and accounting disclosures".[65] 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.

20. 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.

Materiality

21. The reporting accountant shall 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)

22. 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. The judgment concerning materiality to comply with the Listing Rules is the responsibility of 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

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[64] LR 13.5.4R

[65] LR 13.5.5 G

prepared a financial information reconciliation, it discusses the matter with the directors of the issuer.

23. 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.

24. 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.

25. 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.
- A mathematical or clerical mistake.

26. 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.

27. Evaluating whether an omission or misstatement could influence economic decisions of the intended users of the financial information reconciliation, and so be material, requires consideration of the characteristics of those intended users. The intended users are assumed to:

a. have a reasonable knowledge of business and economic activities and accounting and a willingness to study the financial information reconciliation with reasonable diligence; and

b. Understand that the financial information reconciliation is prepared, presented and reported on to levels of materiality;

c. Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and

d. make reasonable economic decisions on the basis of the financial information reconciliation.

The determination of materiality, therefore, takes into account how intended users with such characteristics could reasonably be expected to be influenced in making economic decisions

Public reporting engagement risk

28. "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.

29. The reporting accountant shall 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 shall, having regard to the procedures and controls adopted by the directors:

a. **Confirm whether the source of the financial information is appropriate;**

b. **check whether the financial information of the target has been accurately extracted from an appropriate source;**

c. **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**

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

Consideration of directors' procedures and controls

30. 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.

31. 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.

32. 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

33. 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.

34. The reporting accountant is not required to perform specific procedures on the unadjusted financial information of the target other than as described in paragraph 29, 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.

35. 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 FCA. The reporting accountant would wish to see evidence, based on such discussions, of the agreement of the FCA to the proposed presentation of the rectification of the error.

Completeness of adjustments and consistency of accounting policies

36. 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.

37. 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 16) the reporting accountant discusses with the directors the steps the directors have taken to identify relevant adjustments.

38. As described in paragraph 19 the definition of accounting policies in the Listing Rules encompasses the description of the applicable financial reporting framework. The reporting accountant's assessment of the completeness of adjustments therefore includes 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 22 to 32 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.

39. The reporting accountant shall 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)

40. 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

41. 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.

42. 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

43. The reporting accountant shall 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)

44. 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

45. Examples of representation letter clauses applicable to financial information reconciliations are set out in Appendix 3.

Reporting

46. An example report on a financial information reconciliation prepared in accordance with the Listing Rules is set out in Appendix 4.

Responsibilities

47. In all reports on financial information reconciliations in Class 1 circulars the reporting accountant shall 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, in all material respects, on the basis stated and the adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent 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)**

48. 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.

49. 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

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

Expression of opinion

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

52. 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

53. 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 25 above), and in such circumstances considers the impact of such misstatements on its opinion.

54. 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 address the reporting accountant's concerns.

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

55. 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

56. A reporting accountant is required to comply with the requirements in this Investment Reporting Standard for reports signed after xxxx. [TBC]

	SIR 2000			SIR 5000		
	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 not publicly traded as defined by the listing rules.	LR 13.5.12R LR 13.5.14R	LR 13.5.21 R LR 13.5.22R	LR 13.5.25R	x	x	n/a
Class 1 Acquisition of a target that is admitted to trading….and a material adjustment needs to be made.	LR 13.5.12R LR 13.5.14R	X LR 13.5.21 R	n/a	LR 13.5.27R(2)(a) LR 13.5.30R(2)	LR13.5.27R(2)(a)	LR 13.5.27C R
Class 1 Acquisition of a target that is admitted to trading….and NO material adjustment needs to be made.	LR 13.5.12R LR 13.5.14R	X LR 13.5.21 R	n/a	X	X	n/a
Class 1 disposal	LR 13.5.12R	X LR 13.5.21R	n/a	x	x	n/a

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][and interim financial information relating to ABC Inc. reproduced in accordance with Listing Rule [13.5.30R(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)(a)]], 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 Financial Reporting Council 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
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.
- 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: ILLUSTRATIVE REPORT

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)(a) of the United Kingdom Listing Authority]]] and is given for the purpose of complying with [that] [those] Listing Rule[s] and for no other purpose.

Opinion

In our opinion:

(a) the Reconciliation has been properly compiled in all material respects on the basis stated; and

(b) the adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistentwith the Company's accounting policies.

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)].

It is our responsibility to form an opinion, as required by Listing Rule[s] [13.5.27R(2(a)]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 Financial Reporting Council in [the United Kingdom]. 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] - 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.]

Declaration

[This paragraph is only included if the investment circular is also a prospectus. For the purposes of [Prospectus Rule [5.5.3R(2)(0] [5.5.4R(2)(t)]] /[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].]

[Placeholder to revise references to prospectus rules as necessary]..

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 FRC 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 FRC.

Introduction

Financial information tables

1. With respect to Class 1 acquisitions, Chapter 13 of the Listing Rules of the Financial Conduct Authority (FCA) set out requirements for a financial information table relating to targets.[66]

2. A financial information table is required to include, for each of the periods covered by the table[67]:

   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[68], 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.

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.

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

[67] LR 13.5.18R.

[68] A target that is publicly traded is one that is admitted to trading on a regulated market or whose securities are either listed on an investment exchange that is not a regulated market or admitted to a multilateral trading facility, where appropriate standards as regards the production, publication and auditing of financial information are in place.[LR 13.5.27R]

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, 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 an individual (whether an internal or outside expert) having appropriate qualifications (see paragraph 17) 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 18).

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[69]:

    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;

    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.

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 21 that follow. In paragraphs 22 to 32 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 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 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

[69] Under LR 13.5.30R(2) similar requirements apply where the class 1 circular includes half-yearly or quarterly or other interim financial information for the target and a material adjustment needs to be made to the financial information presented in respect of the relevant interim period to achieve consistency with the issuer's accounting policies.

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. However, 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 FCA.

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 LR 13.5.5G 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"[70]. 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[71].

16. In the process of applying the entity's accounting policies, management makes various judgments, apart from those involving estimations (see paragraph 18) 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.[72]

[70] IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" paragraph 35

[71] IAS 1 "Presentation of financial statements" paragraph 118

[72] IAS 1 paragraphs 122

17. Examples of such judgments are:

    a. The classification of financial assets and liabilities.
    b. Whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue.
    c. 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.

Explanation of adjustments

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

20. 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

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

Processes for preparing a financial information reconciliation

Identification of all material differences

22. In order to identify all material differences between the accounting policies of the issuer and the accounting policies of the target the issuer's individuals 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

23. 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;

    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.

24. In practice these steps will need to be undertaken by the issuer's individuals 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 FCA.

25. The FCA 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

26. 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

27. 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.

28. 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.

29. 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

30. 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

31. 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.

Internal controls over the reconciliation

32. 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.

Contents

SIR 6000 – Investment Reporting Standards Applicable to Public Reporting Engagements on Quantified Financial Benefits Statements

Preface

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, including for example those which relate to Ethics and Quality Control.

SIR 6000 contains only specific 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 involving the examination of Quantified Financial Benefits Statements published by a securities exchange offeror or the offeree company.

SIR 6000 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.

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.

To assist readers, SIRs contain references to, and extracts from, certain legislation and provisions of the City Code on Takeovers and Mergers (the "*City Code*"). Readers are cautioned that these references may change subsequent to publication.

Introduction

1. The purpose of this SIR is to establish specific additional Investment Reporting Standards and provide guidance on the reporting accountant's responsibilities and procedures when engaged to report publicly on the proper compilation of a Quantified Financial Benefits Statement ("QFBS") in accordance with Rule 28.1 of *The City Code on Takeovers and Mergers* (the "City *Code*"). The requirements of Rule 28.1 of the City Code apply to offeree companies and securities exchange offerors[73], but do not apply to cash offerors.

2. An engagement to report publicly on the proper compilation of a QFBS is a public reporting engagement as described in SIR 1000:

   (a) with respect to a QFBS the ''subject matter'' is the synergy benefits and costs arising from a takeover, or the impact of measures taken by the offeree company in the event of the offer being withdrawn or lapsing;

   (b) ''suitable criteria'' to be used by directors in the preparation of the QFBS are provided by the *City Code*. In forming its opinion as to whether the QFBS has been properly compiled the reporting accountant considers whether certain of those criteria (''reporting accountant's criteria'') have been properly applied; and

   (c) the ''outcome''[74] is the directors' published QFBS, on which the reporting accountant expresses an opinion (in the ''reporting accountant's report'') as to whether that QFBS is properly compiled on the basis stated.

3. The *City Code* defines a QFBS as either:

   (a) a statement by a securities exchange offeror or the offeree company quantifying any financial benefits expected to accrue to the enlarged group if the offer is successful; or

   (b) a statement by the offeree company quantifying any financial benefits expected to accrue to the offeree company from cost saving or other measures and/or a transaction proposed to be implemented by the offeree company if the offer is withdrawn or lapses.

   Where, in competition with an offer or possible offer, an offeree company announces that it has agreed terms on which it intends to sell all or substantially all of the company's assets (excluding cash and cash equivalents) and that it intends to return to shareholders all or substantially all of the company's cash balances (including the proceeds of any asset sale), a statement by the offeree company quantifying the cash sum expected to be paid to shareholders (either as a specific amount or as a range) will be treated as a quantified financial benefits statement.

4. This SIR does not deal specifically with statements by offeree companies quantifying the cash sum expected to be paid to shareholders as described in the *City Code*.

[73] Any offeror, or potential offeror, other than a cash offeror.

[74] The ''outcome'' is sometimes described as ''subject matter information''

5. In order to provide an opinion on the proper compilation of a QFBS the reporting accountant carries out the procedures required by this SIR and SIR 1000, and any others it considers necessary, to satisfy itself that the QFBS is, as required by the *City Code*[75]:

   (a) understandable: it must not be so complex or include such extensive disclosure that it cannot be readily understood; and

   (b) reliable: it must be supported by a thorough analysis of the offeree company's and/or the offeror's business and must represent factual and not hypothetical strategies, plans and risk analysis.

6. The role of the reporting accountant is to report on whether a QFBS, that an offeree company or securities exchange offeror has published during an offer period (or in an announcement which commences an offer period)[76], has been properly compiled. The role of the reporting accountant does not include questioning the decision to publish a QFBS.

The nature of Quantified Financial Benefit Statements

7. A QFBS is inherently uncertain and the probability that a QFBS will correctly predict the actual financial benefits, including cost savings, is dependent upon the many factors which determine that uncertainty. Events and circumstances may not occur as expected or may not be predicted at all, or the directors may take actions different to those previously intended. A QFBS must include disclosures which provide information to assist the intended users understand the uncertainties involved. A QFBS describes the expected outcome of future events and possible actions by the entity. The *City Code* Rule 28.4.b bases for belief supporting the statement (including the principal assumptions and sources of information) must:

   (i) be readily understandable;

   (ii) be specific and precise; and

   (iii) Not relate to the general accuracy of the estimates underlying the QFBS.

8. The extent to which a QFBS estimate of financial benefits and costs will differ materially from the actual out-turn will depend on particular circumstances, and the nature of the financial benefits and costs identified. The length of the period into the future to which the QFBS relates is only one, and not necessarily the most significant, factor. For example, the quantification of financial benefits may be certain in respect of the elimination of duplicate costs (two boards), as opposed to the estimated benefits arising from the integration of complex processes or systems. Estimates may also be more reliable when

[75] *The City Code on Takeovers and Mergers*, Rules 28.3 (b) (i) & (ii).

[76] *The City Code on Takeovers and Mergers* Rule 28.1 (a) (i).

the management of both the offeror and offeree have worked together to identify those potential future benefits.

Understandability

9. Understandable information will enable the intended users to identify readily the main points being made and to infer appropriately how significant they are to decision-making. This is likely to be assisted by a clear layout and presentation of the information in a way that effectively summarizes and draws attention to these points. In order to be understandable, the QFBS should be coherent, easy to follow, clear and logical, and at a level of aggregation that results in sufficiently relevant but concise subject matter information.

10. To be understandable a QFBS must contain the information necessary for intended users to appreciate the degree of uncertainty attaching to the information and how that uncertainty might impact it. This requires the disclosure of assumptions and other matters relevant to the basis of preparation of the QFBS which are of importance in assisting the intended users' understanding.

11. What constitutes reasonable disclosure will depend upon the particular circumstances of each QFBS but will need to take into consideration:

    (a) sources of uncertainty and the related assumptions made relating to uncertainties;

    (b) the factors that will affect whether assumptions will be borne out in practice; and

    (c) Information about the process undertaken by management and the access to data and information sources.

    The omission of important information may prevent a QFBS from being understandable and equally, if the disclosure is too complex or too extensive the understandability of the QFBS may be also impaired.

Reliability

12. Reliable information in the context of a QFBS represents what it purports to represent (sometimes referred to as 'faithful representation'); and:

    - is materially complete;
    - accurately represents factually based strategies, plans and risk analyses. (free from material error); and
    - is without bias (neutrality).

    This requires the underlying data and source information to also be created, collected and processed in a manner that maintains its integrity. Unsubstantiated claims are unlikely to meet this requirement.

13. Estimates of synergy benefits and quantified financial benefits (including costs) are, by definition, forward looking ("prospective financial information") and therefore uncertain. The degree of uncertainty may be significantly increased in the context of a hostile takeover where the offeror may have prepared these estimates without the cooperation of

the offeree company and will therefore have limited access to relevant and granular information about the business and its operations. Nevertheless, the *City Code* requires that a QFBS must be reliable.

14. Guidance for preparers of prospective financial information, including QFBS, considers it reliable when it is prepared on the principle that it is supportable or based on sound business analysis. [77] Prospective financial information will be a faithful representation where it reflects an entity's underlying merger plans and/or estimates of cost savings in a way that is appropriate for the purpose for which the QFBS is being prepared. The fact that a QFBS does not correctly predict the actual out-turn once reported, does not necessarily mean that it was not reliable when made. The reliability of a QFBS is, therefore, a function of:

    a. the availability of information at a sufficiently granular level;

    b. the quality of the analysis undertaken; and

    c. the degree to which that analysis is reflected in the QFBS.

Compilation of a QFBS

15. The compilation of a QFBS involves a securities exchange offeror, or the offeree company, gathering, classifying, summarizing and presenting relevant information that quantifies either:

    - the financial benefits expected to accrue to the enlarged group if an offer is successful; or

    - any financial benefits expected to accrue to the offeree company from cost saving or other measures and/or a transaction proposed to be implemented by the offeree company if the offer is withdrawn or lapses.[78]

16. The process followed by the preparer would be expected to include:

    - Identifying the sources of information to be used in compiling the QFBS and extracting the information from that source.

      The source of that information will be heavily influenced by the nature of the proposed transaction and, in particular in the case of a statement by an offeror, the extent to which the offeror has direct access to information from the offeree company. Where a QFBS has been prepared on an 'outside in' basis then it is likely that the information will be drawn from published financial information including annual reports, interim financial statements or other market announcements. Information may also be sourced from internal documentation – from both the offeror and offeree company, including combined or joint merger plans.

[77] *Guidance for preparers of prospective financial information* (ICAEW, xx 2019)

[78] *The City Code on Takeovers and Mergers*.

- Identifying bases of belief which underpin the analysis of the information to be presented, including principal assumptions, the expected timing of benefits, and material uncertainties.

- Classification of the information between benefits (including costs to deliver those benefits), dis-benefits, recurring and non-recurring items, and the timing of when these are expected to occur.

- Arithmetic computation of the QFBS.

  Preparers may reflect their confidence in the maturity of synergy and cost estimates through the use of sensitivity analysis and apply a risk weighting when presenting them in the report.

- Providing appropriate disclosures to help intended users understand the QFBS, and the assumptions made (including the basis on which any subsequent updates or revisions have been made).

17. The *City Code* requires in Rule 28.1 (a) (ii)[79] that a preparer is required to include in its QFBS publication a report by their financial advisers that the QFBS has been prepared with due care and consideration, as well as the reporting accountant's opinion on proper compilation. It is therefore common for preparers to consult with financial advisers and reporting accountants on an ongoing basis during the compilation process. The reporting accountant considers whether sufficient time has been built into the compilation process to ensure that the reporting accountant, financial advisers and key individuals from the business can properly engage with the process.

Engagement acceptance and continuance

18. When accepting or continuing an engagement to report publicly on a QFBS, the reporting accountant ascertains whether the directors intend to comply with all relevant requirements of the *City Code*, including those that are the basis of the reporting accountant's criteria: reliability and understandability.[80]

19. The reporting accountant considers whether it will require access to the work of the relevant financial advisers who are responsible for the report under the *City Code* that the QFBS has been prepared with due care and consideration when agreeing the terms of engagement with directors.

[79] *The City Code on Takeovers and Mergers*, 28.1.a.ii

[80] *The City Code on Takeovers and Mergers*, Rules 28.4.b&c.

Legal and regulatory requirements

20. The *City Code* contains provisions in relation to QFBSs that an offeree company or securities exchange offeror has published during an offer period (or in an announcement which commences an offer period).[81]

21. The UK Listing Rules also contain requirements for listed companies when they publish details of estimated synergies or other quantified estimated financial benefits expected to arise from a transaction in a class 1 circular. These requirements do not include the inclusion of a report prepared by a reporting accountant.[82]

Planning and performing the engagement

22. **The reporting accountant shall obtain an understanding of the key factors affecting the subject matter sufficient to identify and assess the risk of the QFBS not being properly compiled and sufficient to design and perform evidence gathering procedures including:**

    (a) the background to and nature of the circumstances in which the QFBS was made;

    (b) the entities businesses;

    (c) the procedures adopted, or planned to be adopted, by the directors for the preparation of the QFBS; and

    (d) the identity of the relevant financial advisers who are preparing the report required under the *City Code* that the QFBS has been prepared with due care consideration. (SIR 6000.1)

23. The reporting accountant gains an understanding of the background to and nature of the circumstances in which the QFBS is being prepared, by discussion with the directors or management and by reading relevant supporting documentation. Specific issues to consider include:

    a. The extent to which the offeror and offeree are working on joint proposals, or whether the QFBS is being prepared in the context of a hostile takeover bid. In these circumstances additional risks may exist because of lack of information, or because of the potential for bias in the selection and presentation of key assumptions and estimates by both offeror and offeree.

    b. In the case of an updated QFBS, the basis on which changes to estimates of synergy benefits, costs and dis-benefits have been made.

    c. Whether the proposed takeover may be subject to regulatory approval or conditions, including any review by the Competition and Markets Authority (CMA).

[81] *The City Code on Takeovers and Mergers,* Rule 28.1.a.

[82] FCA Listing Rules, LR.5.9A.

d. Wider public and parliamentary interest in the proposed takeover, including information in the public domain which may contradict or otherwise undermine confidence in the information presented in the QFBS. For example, financial benefits or cost reductions which are predicated on moving or concentrating operations or business components to new locations may reasonably be expected to result in greater external scrutiny and may make those plans unachievable in their original form.

24. Reporting on the proper compilation of a QFBS may require an understanding of the entity's management accounting, budgeting and forecasting systems and procedures beyond that normally considered necessary for an audit of historical financial statements. In addition, the reporting accountant may also need to develop an understanding of the relevant systems and procedures of the offeree company in order to assess the reliability of information extracted and compiled into the QFBS

Materiality

25. **The reporting accountant shall 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 6000.2)**

26. The *City Code* sets out the matters which are required to be included in a QFBS, and the criteria which must be used in the preparation of the statement. However, it does not prescribe the content elements in detail, and therefore the preparer will need to make judgments about the information to be included within the QFBS in order to satisfy the requirement that it be understandable and reliable.

27. Matters are material if their omission or misstatement could, individually or collectively, influence the economic decisions of users of the outcome. Materiality depends on the size and nature of the omission or misstatement judged in light of the surrounding circumstances. The size or nature of the matter, or a combination of both, could be the determining factor.

28. An error in the context of the proper compilation of a QFBS might include:

- Bases of belief including assumptions that are not consistent with the analysis of the business;
- Mathematical or clerical mistakes in the compilation of the QFBS; and
- Misapplication of a stated basis of belief.

29. There may be material deficiencies in the presentation of a QFBS which breach specific requirements of the *City Code*. A material error could, therefore, also include:

a. Insufficient detail presented to allow users to understand the bases of belief (including the principal assumptions and sources of information) which underpin the QFBS;

b. to the QFBS not providing a quantum for the base figure which has been used to compare estimated financial benefits and dis-benefits with historical financial performance or with existing cost bases and structures;

c. to the QFBS not separately identifying dis-benefits which may arise from, for example, additional regulatory or legal costs. Net presentation of benefits and dis-benefits may not provide sufficient information to allow users to understand material uncertainties;

d. Insufficient information about the assumed timing or phasing of the realisation of synergy benefits;

e. Insufficient information about the nature and timing of the costs relating to the realisation of benefits;

f. Insufficient detail about whether financial benefits and dis-benefits are expected to be recurring or non-recurring;

g. In the case of an updated or revised QFBS, an absence of sufficient explanation for changes in the bases of belief, including assumptions and plans, which have resulted in changes to estimated synergies and benefits.

30. Evaluating whether an omission or misstatement could influence economic decisions of the intended users of the QFBS, and so be material, requires consideration of the characteristics of those intended users. The intended users are assumed to:

a. have a reasonable knowledge of business and economic activities and accounting and a willingness to study the QFBS with reasonable diligence; and

b. understand that QFBSs are prepared, presented and reported on to levels of materiality;

c. recognise the uncertainties inherent in prospective financial information and the consideration of future events; and

d. make reasonable economic decisions on the basis of the QFBS.

The determination of materiality, therefore, takes into account how intended users with such characteristics could reasonably be expected to be influenced in making economic decisions.

Public reporting engagement risk

31. ''Public reporting engagement risk'' is the risk that the reporting accountant expresses the positive and unmodified opinion required by *City Code* when the QFBS has not been properly compiled on the basis stated.

32. **To form an opinion that the QFBS has been properly compiled on the basis stated, the reporting accountant shall obtain sufficient appropriate evidence that the QFBS is free from material error in its compilation by:**

    a. **ensuring that information and data is appropriate for the purpose of preparing the QFBS, and has been extracted accurately;**

    b. **obtaining evidence that the directors have applied the criteria set out in the City Code;**

    c. **checking that the QFBS has been accurately computed based upon the disclosed bases of belief including assumptions; and**

    d. **considering whether the bases of belief including assumptions used are consistent with the directors' business analysis and the reporting accountant's own knowledge of the businesses – whether offeror or offeree. (SIR 6000.3)**

33. The reporting accountant considers the business analysis carried out by the preparer of the QFBS and whether there is prima facie evidence that it has been used by the directors in compiling the statement. The extent and nature of the analysis that is necessary to support a QFBS, and therefore the extent of the reporting accountant's consideration of such analysis, will be dependent upon the specific circumstances in which the QFBS is being prepared (including whether this is in the context of a hostile takeover). The reporting accountant discusses the preparer's plans, strategies and risk analysis with the preparer of the QFBS, considers documentary support for them and assesses whether they are consistent with the analysis of the business.[83]

34. The preparer can be expected to document the bases of belief including assumptions that have been made relating to matters significant to the QFBS. The reporting accountant will, therefore, obtain from the preparers details of those assumptions identified as being relevant. It will usually be the case that not all of the assumptions made in support of the QFBS will be published. This is because only those that are material to an understanding of the statement are required to be disclosed.

35. Relevant aspects of the business analysis for the reporting accountant to consider may include:

    a. Whether individuals with sufficient seniority and relevant knowledge about the business and its operations have contributed to the plan at an appropriate level of detail. This includes whether there has been proper Board engagement;

    b. Whether the business, or components within it, have a proven track record of achieving comparable financial benefits or cost reductions;

    c. The extent and expertise of any external expert advice;

    d. Whether plans, including timings and operational changes are operationally feasible;

[83] See specific guidance on QFBS business plans in *Guidance for preparers of prospective financial information* (ICAEW, xx 2019)

e. The relative weighting within the statement of financial benefits with a greater or lesser inherent uncertainty attached. Revenue synergies, for example, may depend to a greater degree on factors outside the control of the preparers of the QFBS. Similarly, estimates of financing synergies predicated on reductions of costs of capital or tax efficiencies, may also depend on the actions of lenders, credit agencies or tax authorities rather than being in the gift of the preparers;

f. Whether specific financial benefits or costs are expressed as a range, and whether that range reflects underlying plans;

g. Whether savings are direct cash savings;

h. Whether all material dis-benefits have been identified, including those which might be arise from cost savings (for example the costs to implement cost saving measures);

i. The reasonableness of key assumptions, including inflation;

j. Whether contingencies have been included;

k. The extent to which any revised assumptions or estimates included in updated QFBS are supported by new information, or have arisen from a different approach to analysing the original information;

l. The evidence supporting an offeree company statement on cost savings which could be made if the offer were to lapse or fall through can be achieved by the offeree company on a standalone basis. (for example, why were those cost savings not already known to the market?);

m. Whether assumptions made about remuneration, including for senior management after the business combination are realistic and properly costed;

n. Whether financial benefits have been ascribed to more intangible aspects of the proposed business combination – for example cultural fit – and the extent and nature of the evidence supporting them.

Presentation of the QFBS

36. **The reporting accountant shall consider whether it has become aware of anything to cause it to believe that:**

a. the QFBS is presented in a way that is not understandable;

b. a material basis of belief is unrealistic; or

c. a basis of belief including assumptions or other information which appears to it to be material to a proper understanding of the QFBS has not been disclosed.

If the reporting accountant is aware of such matters it shall discuss them with the parties responsible for the QFBS and with those persons to whom its report is to be addressed and consider whether it is able to issue its opinion. (SIR 6000.4)

37. Specific matters for consideration include whether the QFBS includes:

- Bases of belief supporting the statement (identifying the principal assumptions and sources of information[84]);
- An analysis, explanation and quantification of the constituent elements sufficient to enable the context and relative importance of those elements to be understood;
- A base figure where any comparison is made with historical financial performance or with existing cost bases and structures;
- Details of any dis-benefits expected to arise;
- A statement that the expected financial benefits will accrue as a direct result of the success of the offer and could not be achieved independently of the offer;
- An indication of when the financial benefits are expected to be realised;
- An indication of whether the expected financial benefits will be recurring, clearly identifying any non-recurring benefit(s);
- The recurring and non-recurring costs of realising the expected financial benefits;[85] and
- In the case of an updated QFBS, a clear explanation for the changes in assumptions and methods.

38. The manner in which the QFBS is presented in the investment circular will also be considered. The choice of captions and disclosure or emphasis of particular numbers or attributes may determine how the QFBS will be interpreted and consideration is given as to whether this is consistent with the purpose for which the QFBS has been prepared. In addition, the City Code has specific requirements in respect of the use of quotations and pictorial representations:

- *Since the use of a quotation will carry the implication that the quotation is endorsed by the party to the offer using it, quotations must not be used unless*

[84] The source for any fact which is material to an argument must be clearly stated, including sufficient detail to enable the significance of the fact to be assessed. *The City Code*, Note 2 to Rule19.1.

[85] *The City Code on Takeovers and Mergers*, Rule 28.6.

the party is prepared, where appropriate, to corroborate or substantiate them and they are covered by the directors' responsibility statement. [86]

- *Pictorial representations, charts, graphs and diagrams must be presented without distortion and, when relevant, must be to scale.* [87]

39. The *City Code* also prohibits certain 'unacceptable' statements, including those where: an offeror suggests that it may improve its offer, or make a change to the structure, conditionality or the non-financial terms of its offer, without committing itself to doing so and specifying the improvement or change.[88]

40. The reporting accountant therefore also considers the wider context in which the QFBS is presented, including public statements and presentations made by those responsible for the QFBS.

Representation letter

41. Some of the assumptions used in the compilation of a QFBS will be dependent on the intent of the directors and management. Consequently, the representations of directors and management as to their intent are a particularly important source of evidence for the reporting accountant. The reporting accountant therefore considers the extent to which those representations are:

    - Reasonable, and consistent with other evidence obtained; and

    - Whether those who have supplied the representations have sufficient specific knowledge about the relevant matters.

Reporting

42. **Before finalising its report and opinion on the proper compilation of a QFBS the reporting accountant shall consider the implications of any findings by the financial advisers on whether the statement has been prepared with due care and consideration for its opinion. (SIR 6000.5)**

Responsibilities

43. **In all reports on QFBSs in investment circulars the reporting accountant shall explain the extent of its responsibility in respect of the QFBS by including in its report:**

    (a) a statement that the reporting accountant's responsibility is to form an opinion (as required by the relevant regulatory requirement) on the compilation

[86] *The City Code on Takeovers and Mergers,* Note 3 to Rule 19.1.

[87] *The City Code on Takeovers and Mergers*, Note 4 to Rule 19.1.

[88] *The City Code on Takeovers and Mergers,* Rule 19.3.

of the QFBS and to report its opinion to the addressees of the report; and

(b) a statement that the QFBS and the assumptions on which it is based are the responsibility of the directors. (SIR 6000.6)

44. The *City Code* requires each document, announcement or other information published, or statement made, in the course of takeovers to be prepared with the highest standards of care and accuracy.[89] The language used must clearly and concisely reflect the position being described and the information given must be adequately and fairly presented.[90]

45. The Takeover Code requires that each document published in connection with an offer by or on behalf of an offeror or the offeree company, must state that the directors accept responsibility for the information contained in the document (including any expressions of opinion) and that, to the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in the document is in accordance with the facts and that it does not omit anything likely to affect the import of the information.[91] Where information is compiled by an offeror from published sources the directors only accept responsibility for ensuring that such information has been correctly and fairly reproduced and represented.

Basis of preparation

46. **The reporting accountant shall include a basis of preparation section of its report that cross refers to the basis of belief disclosures within the QFBS. (SIR 6000.8)**

Basis of opinion

47. **The reporting accountant shall include in its report a statement that where the QFBS and any bases of belief on which it is based relate to the future and may, therefore, be affected by unforeseen events, the reporting accountant does not express any opinion as to whether the actual results achieved will correspond to those shown in the QFBS. (SIR 6000.7)**

48. As the reporting accountant is not required to form or express an opinion on the achievability of the result shown in the QFBS, it is inappropriate for the reporting accountant to include in the basis of preparation section of its report cautionary language relating to uncertainty beyond that referred to above.

Expression of opinion

49. **The report shall contain a clear expression of opinion that complies with applicable regulatory requirements. (SIR 6000.8)**

50. In forming its opinion, the reporting accountant takes account of those events or information which the reporting accountant becomes aware of occurring up to the date on

[89] *The City Code on Takeovers and Mergers*, Rule 19.1.

[90] *The City Code on Takeovers and Mergers*, Rule 19.1.

[91] *The City Code on Takeovers and Mergers*, Rule 19.2.a.

which the reporting accountant signs the report, that affect the opinion expressed in the report.

51. The investment circular in which the reporting accountant's report is included may be required by regulation to be made available in other jurisdictions .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.

Modified opinions

52. **The *City Code* requires a positive and unmodified opinion. Therefore, the reporting accountant shall not express an opinion when the directors have not applied the criteria set out in this SIR and in the reporting accountant's judgment the effect of not doing so is, or may be, material. (SIR 6000.9)**

53. In the event that the reporting accountant concludes that it is unable to report in the manner prescribed it invites those responsible for the QFBS to consider whether the QFBS can be amended to alleviate its concerns or whether the QFBS should be omitted from the investment circular.

54. An example of a report on a QFBS expressing such positive and unmodified opinions are set out in Appendix 1 of this SIR.

Confirmations of the report continuing to apply - subsequent documents

55. If a QFBS has been included in any document or announcement published by an offeror or offeree, the City Code requires any subsequent document published by the offeror or offeree during an offer period, to include a statement by the directors that the QFBS remains valid (unless superseded by information included in the new document, in which case a new report from the reporting accountant would be required). In addition, the document is required to include a statement by the directors that the reporting accountant has confirmed that its report continues to apply.

56. In determining whether it can provide such a confirmation, the reporting accountant makes such enquiries of the directors (and, in the case of an offeror's statement, with relevant management within the offeree if possible) as it considers necessary.

57. The reporting accountant considers:

    a. any material uncertainties that existed at the date of its report;
    b. the evidence that was relied upon in forming its opinion in the context of the matters discussed with the directors; and
    c. the procedures performed by the directors in determining the continued validity of the QFBS statement

    and determines whether such matters give any reason to conclude that the report no longer continues to apply.

58. The procedures performed and enquiries made by the directors may include matters such as;

In relation to an offeror statement

a. data and other information from relevant personnel within the offeror's business and/or the offeree's business following the publication of the QFBS;

b. public statements issued by the offeree in relation to the offer;

c. new announcements by the offeror related to the offer which might contain relevant information; for example intention statements or post offer undertakings;

d. facts and circumstances outside the control of the directors that may impact the synergy plan, for example any actions required to be taken by competition regulators or other authorities or changes in legislation or economic conditions; and

e. updated versions of the synergy plan as a result of the above or as a result of discretionary changes in management's intentions for other reasons;

In relation to an offeree statement

f. facts and circumstances outside the control of the offeree that may impact the cost savings plan, for example changes in legislation or economic conditions;

g. latest management information including management accounts and internal status reports or progress trackers,

h. updated versions of the cost savings plan as a result of the above or as a result in other discretionary changes in management's intentions for other reasons;

i. further data and other information from relevant personnel within the offeree's business following the publication of the QFBS; and

j. new announcements by the offeree related to the offer which might contain relevant information.

59. The reporting accountant considers obtaining updated or additional written representations from the persons responsible for preparing the QFBS.

60. The reporting accountant satisfies itself about the form and context in which reference is made to the confirmation that the reporting accountant's report continues to apply, and provides the Company with that confirmation in writing. An illustrative example of a confirmation letter is set out at Appendix 2.

61. In the event the reporting accountant concludes it is unable to issue a confirmation letter the reporting accountant discusses its concerns with the directors and the financial adviser to explore whether a resolution can be found.

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

62. If, as a result of discussion with those responsible for the investment circular concerning an event that occurred prior to the completion date of the transaction, the reporting accountant is either uncertain about or disagrees with the course of action proposed the reporting accountant may consider it necessary to take legal advice with respect to its responsibilities in the particular circumstances.

63. After the date of its report, the reporting accountant has no obligation to perform procedures or make enquiries regarding the investment circular.

Effective date

64. A reporting accountant is required to comply with the requirements contained in this Investment Reporting Standard for reports signed after **xxxxx.** [TBC]

Appendix 1: ILLUSTRATIVE REPORT

ACCOUNTANT'S REPORT ON QUANTIFIED FINANCIAL BENEFITS STATEMENT

The Board of Directors (the "Directors")

XX plc PO Box 55

Address

xx xxxx 20xx

Addressees

Directors of the company publishing the QFBS; the financial advisers responsible for the due care and diligence report.

Published Report on Quantified Financial Benefits Statement by XX plc ("XX")

We report on the quantified financial benefits statement (the "Statement") by the Directors included in the [ref to document] dated xx xxxx xxxx to the effect that:

[DETAILS OF THE STATEMENT]

Opinion

In our opinion, the Statement has been properly compiled in all material respects on the basis stated.

The Statement has been made in the context of the disclosures in..[ref]..of the Announcement setting out the (*bases of belief*) basis of the Directors' belief (including the principal assumptions and sources of information) supporting the Statement and their analysis and explanation of the underlying constituent elements.

This report is required by Rule [*28.1(a*)] of the City Code on Takeovers and Mergers (the "City Code") and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the Directors/Board to prepare/make the Statement in accordance with the requirements of Rule 28 of the City Code.

It is our responsibility to form an/our opinion, as required by Rule [*28.1(a)(i)*] of the City Code, as to the proper compilation of the Statement and to report that opinion to you as to whether the Statement has been properly compiled on the basis stated.

Basis of preparation of the Statement

The Statement has been prepared on the basis stated in..[ref]..to the Announcement.

Basis of opinion

We have discussed the Statement, together with the underlying plans (relevant bases of belief/including sources of information and assumptions), with the Directors and [other relevant – financial and legal advisers etc.]. Our work did not involve any independent examination of any of the financial or other information underlying the Statement. We conducted our work in accordance with *Standard for Investment Reporting 6000* issued by the Auditing Practices Board of the United Kingdom.

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 Statement has been properly compiled on the basis stated.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in [jurisdictions] and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

We do not express any opinion as to the achievability of the benefits identified by the Directors in the Statement.

Since the Statement and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we can express no opinion as to whether the actual benefits achieved will correspond to those anticipated in the Statement and the differences may be material

Yours faithfully,

Appendix 2: CONFIRMATIONS

Date

Addressees, as agreed between the parties in the engagement letter

[Salutation]

[ABC plc]

We refer to the quantified financial benefits statement made by the directors of ABC plc and our report thereon set out in the [describe document] dated [date].

We also refer to the statement by the directors of ABC plc confirming that the quantified financial benefits statement remains valid as contained in the [describe document] [to be] dated [date].

We confirm that our report dated [date], referred to above, continues to apply.

This letter is required by Rule 27.2(d) (ii) of the City Code and is given for the purpose of complying with that rule and for no other purpose. [Insert the following text where the quantified financial benefits statement is made by an offeree. Accordingly, we assume no responsibility in respect of this letter to the Offeror or any person connected to, or acting in concert with, the Offeror, or to any other person who is seeking or may in future seek to acquire control of ABC plc (‘an Alternative Offeror’) or to any person connected to, or acting in concert with, an Alternative Offeror.]

[Save for any responsibility which we may have to those persons to whom this letter is expressly addressed, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this letter.]

Yours faithfully

Reporting Accountant

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