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Standards for Investment Reporting

4000

**INVESTMENT REPORTING STANDARDS
APPLICABLE TO PUBLIC REPORTING
ENGAGEMENTS ON PRO FORMA
FINANCIAL INFORMATION**

The Auditing Practices
Board

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STANDARDS FOR INVESTMENT REPORTING

4000 - INVESTMENT REPORTING STANDARDS APPLICABLE TO PUBLIC REPORTING ENGAGEMENTS ON PRO FORMA FINANCIAL INFORMATION

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STANDARDS FOR INVESTMENT REPORTING

4000 - INVESTMENT REPORTING STANDARDS APPLICABLE TO PUBLIC REPORTING ENGAGEMENTS ON PRO FORMA FINANCIAL INFORMATION

SIR 4000 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 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 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.

For the purposes of the SIRs, an investment circular is defined as: “any document issued by an entity pursuant to statutory or regulatory requirements relating to listed or unlisted securities on which it is intended that a third party should make an investment decision, including a prospectus, listing particulars, circular to shareholders or similar document”.

SIR 1000 “Investment reporting standards applicable to all engagements involving an investment circular” contains basic principles and essential procedures that are applicable to all engagements involving an investment circular. 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 Rules of the UK Listing Authority. Readers are cautioned that these references may change subsequent to publication.

Introduction

1. Standard for Investment Reporting (SIR) 1000 “Investment Reporting Standards applicable to all engagements in connection with an investment circular” establishes the Investment Reporting Standards applicable to all engagements involving investment circulars. 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 Rules¹, or if required by the London Stock Exchange in respect of an AIM Admission Document.

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. 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 pro forma financial information:
 - (a) with respect to pro forma financial information the “**subject matter**” is the impact that the transaction, that is the subject of the investment circular, 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);
 - (b) “**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 CESR² (CESR Recommendations). 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
 - (c) with respect to pro forma financial information the “**outcome**”³ 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. For the purpose of this SIR “pro forma financial information” is defined to include 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. Under item 1 of Annex II of the PD Regulation the pro forma financial information must be accompanied by introductory text describing the

1 In the UK the Prospectus Directive is implemented into law through amendments to Part VI of FSMA and to certain secondary legislation. The Annexes to the PD Regulation have been incorporated into the Prospectus Rules issued by the FSA.

2 CESR issued “CESR’s Recommendations for the Consistent Implementation of the European Commission’s Regulation on Prospectuses No. 809/2004” in February 2005.

3 The “outcome” is sometimes described as “subject matter information”.

transaction, the businesses or entities involved, the period to which it refers and its purpose and limitations.

4. The Institute of Chartered Accountants in England and Wales (ICAEW) issued guidance entitled "Pro forma financial information - Guidance for preparers under the Listing Rules"⁴ in September 1998 (the "ICAEW Guidance") to assist directors when preparing pro forma financial information for inclusion in documents subject to approval by the FSA prior to their issue. While aspects of this guidance remain of assistance to directors there are differences between the requirements of the PD Regulation, the CESR Recommendations and the requirements on which the ICAEW guidance was based. The Annexure has been prepared to assist in determining which parts of the ICAEW guidance continue to be relevant.

Compilation process

5. The compilation of pro forma information is the gathering, classification and summarisation of relevant financial information. The process followed by the preparer would be expected to include the following:
 - (a) the accurate extraction of information from sources permitted under the PD Regulation;
 - (b) 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;
 - (c) arithmetic computation of the pro forma information;
 - (d) consideration of accounting policies;
 - (e) appropriate disclosure to enable the intended users to understand the pro forma financial information; and
 - (f) appropriate consideration of the pro forma financial information and approval by the directors of the entity.

Engagement acceptance and continuance

6. SIR 1000.1 and SIR 1000.2 set out the basic principles and essential procedures, with respect to engagement acceptance and continuance, that are applicable to all engagements involving an investment circular.
7. When accepting or continuing an engagement to report publicly on pro forma information, the reporting accountant ascertains whether the directors intend to comply

4 TECH 18/98

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. SIR 1000.3 and SIR 1000.4 set out the basic principles and essential procedures with respect to agreeing the terms of the engagement. Examples of engagement letter clauses are set out in Appendix 3 of this SIR.

Ethical requirements

9. SIR 1000.5 sets out the basic principles and essential procedures with respect to the ethical requirements that apply to a reporting accountant⁵.

Legal and regulatory requirements

10. 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 require any pro forma financial information included in a Class 1 circular to be reported on in the same way. References in the SIR to the PD Regulation apply equally to the Listing Rules where those Rules apply.
11. SIR 1000.6 sets out the basic principles with respect to the legal and regulatory requirements applicable to a reporting accountant.
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. 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.

Quality control

13. SIR 1000.7 and SIR 1000.8 set out the basic principles and essential procedures with respect to the quality control of engagements to report on pro forma financial information.

Planning and performing the engagement

14. SIR 1000.9 and SIR 1000.10 set out the basic principles and essential procedures with respect to the planning of all reporting engagements. Additional basic principles, essential procedures and guidance are set out below.

5 In January 2006 the APB issued an Exposure Draft of an Ethical Standard for Reporting Accountants (ESRA).

15. **The reporting accountant should obtain an understanding of the key factors affecting the subject matter sufficient to identify and assess the risk of the pro forma financial information not being properly compiled and sufficient to design and perform evidence gathering procedures including:**
- (a) **the nature of the transaction being undertaken by the issuer;**
 - (b) **the entity's business; and**
 - (c) **the procedures adopted, or planned to be adopted, by the directors for the preparation of the pro forma financial information. (SIR 4000.1)**
16. 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.
17. The reporting accountant uses professional judgment to determine the extent of the understanding required of the entity's business.
18. 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.
19. **The reporting accountant should 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)**

Materiality

20. 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.
21. 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.

- Failure to make an adjustment required by the PD regulation.
 - Making an adjustment that does not comply with the PD regulation.
 - A mathematical or clerical mistake.
 - Inadequate, or incorrect, disclosures.
22. 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:
- (a) 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
 - (b) make reasonable economic decisions on the basis of the pro forma financial information.

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

23. “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 issuer⁶.
24. SIR 1000.11 and SIR 1000.12 set out the basic principles and essential procedures, with respect to obtaining evidence, that are applicable to all engagements involving an investment circular. Additional basic principles, essential procedures and guidance relating to engagements to report on pro forma financial information are set out below.
25. **The reporting accountant should 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;**

6 The PD Regulation requires a positive and unmodified opinion – for this reason there is no risk that the reporting accountant will inappropriately modify its opinion.

- (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 and complete for the purpose for which the pro forma financial information is presented; and**
- (c) **checking that the calculations within the pro forma financial information are arithmetically correct. (SIR 4000.3)**

26. Item 5 of Annex II of the PD Regulation permits pro forma financial information to be published only in respect of:
- (a) the current financial period;
 - (b) the most recently completed financial period; and
 - (c) 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.

Unadjusted financial information of the issuer

27. The reporting accountant considers whether the period in respect of which the pro forma financial information is proposed to be published is permitted under the PD Regulation. The reporting accountant also considers 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.
28. The reporting accountant is not required to perform specific procedures on the unadjusted financial information of the issuer other than as described in paragraph 27. 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.
29. The reporting accountant checks the 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 be:
- (a) clearly shown and explained;
 - (b) directly attributable to the transaction; and
 - (c) factually supportable.
31. In addition, in respect of a pro forma profit and loss or cash flow statement, they must be clearly identified as to 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 CESR Recommendations and those parts of the ICAEW Guidance that remain relevant (see Annexure).
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 the directors have taken to identify relevant adjustments and whether such adjustments are permitted to be made.
34. If, as a result of these 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.
35. 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).
36. 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".
37. The reporting accountant considers whether the adjustments have been clearly shown and explained and, in respect of a pro forma profit and loss or cash flow statement, 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.
38. The reporting accountant obtains appropriate evidence that the directors of the issuer have factual support for each adjustment. Sources of such evidence would include 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

39. 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.
40. 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.
41. 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

42. 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

43. **The reporting accountant should 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 4000.4)**
44. It is the responsibility of the directors of the issuer to ensure that in accordance with item 4 of Annex II of the PD Regulation the pro forma financial information is prepared in a manner consistent with either the accounting policies adopted in the last, or to be adopted in the next, financial statements of the issuer.
45. 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. Guidance for directors with respect to the consistency of accounting policies is provided by the ICAEW Guidance.

Presentation of pro forma financial information

46. **The reporting accountant should 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 4000.5)**
47. The reporting accountant reads the pro forma financial information to assess whether:
- (a) as required by item 1 of Annex II 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, does not represent the company's actual financial position or results;
 - (b) in accordance with the normal form of presentation under item 3 of Annex II of the PD Regulation, the pro forma financial information is presented in columnar format composed of (a) the historical unadjusted information, (b) the pro forma adjustments and (c) the resulting pro forma financial information in the final column; and
 - (c) disclosures, in the notes to the pro forma financial information, concerning omitted adjustments are satisfactory (see paragraphs 40 and 41 above).

Representation letter

48. SIR 1000.13 sets out the basic principles and essential procedures, with respect to representation letters, that are applicable to all engagements involving an investment circular. Examples of management representation letter clauses are set out in Appendix 4 of this SIR.

Documentation

49. SIR 1000.14 and SIR 1000.15 set out the basic principles and essential procedures with respect to the reporting accountant's working papers.

Professional scepticism

50. SIR 1000.16 sets out the basic principle with respect to the attitude of professional scepticism adopted by the reporting accountant in planning and performing an engagement.

Reporting

51. SIRs 1000.17, SIR 1000.18 and SIR 1000.19 set out the basic principles and essential procedures, with respect to reporting, that are applicable to all engagements involving an investment circular. Additional basic principles and essential procedures relating to engagements to report on pro forma financial information are set out below.

Responsibilities

52. **In all reports on pro forma financial information in investment circulars the reporting accountant should 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 4000.6)**
53. The reporting accountant's responsibility in relation to the opinion required by the PD Regulation is limited to the provision of the report and the opinion expressed.

Basis of preparation of the pro forma financial information

54. **The reporting accountant should 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. (SIR 4000.7)**
55. 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

56. **The report on the pro forma financial information should contain a clear expression of opinion that complies with applicable regulatory requirements. (SIR 4000.8)**
57. 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.
58. In providing the opinion required by the PD Regulation the reporting accountant is not providing any assurance in relation 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.
59. 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 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

60. SIR 1000.20 sets out the basic principles and essential procedures, with respect to modified opinions, that are applicable to all engagements involving an investment circular. Additional basic principles and essential procedures relating to engagements to report on pro forma financial information are set out below.
61. 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.
62. **As the PD Regulation requires a positive and unmodified opinion, the reporting accountant should 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 4000.9)**
63. 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.

Consent

64. SIR 1000.21 and SIR 1000.22 set out the basic principles and essential procedures with respect to the giving of consent by the reporting accountant.

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

65. SIR 1000.23 sets out the basic principles and essential procedures with respect to events occurring between the date of the reporting accountant's report and the completion date of the transaction.
66. 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 Article 16 of the Prospectus Directive, 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.

67. 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.
68. After the date of its report, the reporting accountant has no obligation to perform procedures or make enquiries regarding the investment circular.

Effective date

69. A reporting accountant is required to comply with the Investment Reporting Standards contained in this SIR for reports signed after 31 March 2006. Earlier adoption is encouraged.

APPENDIX 1

REPORTING ACCOUNTANT'S CRITERIA

	Annex I of PD Regulation	Annex II of PD Regulation	CESR Recommendations
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.	20.2		
The pro forma information must normally be presented in columnar format composed of:		3	
<ul style="list-style-type: none"> a) the historical unaadjusted information; b) the pro forma adjustments; and c) the resulting pro forma financial information in the final column 			
The sources of the pro forma financial information have to be stated.		3	
The pro forma information must be prepared in a manner consistent with the accounting policies adopted by the issuer in its last or next financial statements and shall identify the following:		4	
<ul style="list-style-type: none"> a) the basis upon which it is prepared; b) the source of each item of information and adjustment. 			
Pro forma adjustments related to the pro forma financial information must be:		6	
<ul style="list-style-type: none"> a) clearly shown and explained. 			
Pro forma adjustments related to the pro forma financial information must be:		6	
<ul style="list-style-type: none"> b) directly attributable to the transaction. 			

	Annex I of PD Regulation	Annex II of PD Regulation	CESR Recommendations
"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.			Para 88
Pro forma adjustments related to the pro forma financial information must be: c) factually supportable.		6	
"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 transaction 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.			Para 87
In respect of a pro forma profit and loss or cash flow statement, the adjustments must be clearly identified as to those expected to have a continuing impact on the issuer and those which are not.		6	
The accounting treatment applied to adjustments should be presented and prepared in a form consistent with the policy the issuer would adopt in its last or next published financial statements.			Para 89 ¹

¹ Paragraph 89 of the CESR guidance also makes recommendations that do not constitute criteria but provide useful guidance with respect to this criterion.

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

	PD Regulation	Annex I of PD Regulation	Annex II of PD Regulation	CESR Recommendations
	Recital 9			
<p>(9) Pro forma financial information is needed in case of significant gross change, i.e. a variation of more than 25% relative to one or more indicators of the size of the issuer's business, in the situation of an issuer due to a particular transaction, with the exception of those situations where merger accounting is required.</p>				
<p>For these purposes, "Significant gross change" is described in recital 9 of the PD Regulation.</p> <p>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%.</p> <p>A non-exhaustive list of indicators of size is provided below:</p> <ul style="list-style-type: none"> - Total assets - Revenue - Profit or loss <p>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.</p> <p>The appropriate indicators of size should refer to figures from the issuer's last or next published annual financial statements.</p>				<p>Paras 90 to 94</p>

	PD Regulation	Annex I of PD Regulation	Annex II of PD Regulation	CESR Recommendations
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	Article 5			
This pro forma financial information is to be presented as set out in Annex II and must include the information indicated therein. Pro forma financial information must be accompanied by a report prepared by independent accountants or auditors.		20.2		
The pro forma information must include a description of the transaction, the businesses or entities involved and the period to which it refers.			1	
The pro forma information must clearly state the purpose to which it has been prepared			1	
The pro forma information must clearly state that it has been prepared for illustrative purposes only			1	
The pro forma information must clearly state that, because of its nature, it addresses a hypothetical situation and, therefore, does not represent the company's actual financial position or results.			1	
In order to present pro forma financial information, a balance sheet and profit and loss account, and accompanying explanatory notes, depending on the circumstances may be included			2	

	PD Regulation	Annex I of PD Regulation	Annex II of PD Regulation	CESR Recommendations
Where applicable the financial statements of the acquired businesses or entities must be included in the prospectus.			3	
Pro forma information may only be published in respect of: a) the current financial period; b) the most recently completed financial period; and/or c) the most recent interim period for which relevant unaudited information has been or will be published or is being published in the same document			5	

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.

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 presentation (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 items 1 to 6 of Annex II of the PD Regulation.

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 item 7 of Annex II of the PD Regulation, 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 62 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.

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.

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 [CESR's Recommendations for the Consistent Implementation of the European Commission's Regulation on Prospectuses No. 809/2004"] [and, to the extent applicable, with Technical Release TECH 18/98 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 item 6 of Annex II of the PD Regulation, 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 item 6 of Annex II of the PD Regulation 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.]*

EXAMPLE 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....., which 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 adopted¹] by ABC plc in preparing the financial statements for the period [ended/ending] [date]. This report is required by [Relevant Regulation] [guidance issued by the London Stock Exchange with respect to the AIM market] and is given for the purpose of complying with that [Relevant Regulation] [guidance issued by the London Stock Exchange] and for no other purpose.

Responsibilities

It is the responsibility of the directors of ABC plc to prepare the Pro forma financial information in accordance with [item 20.2 of Annex I of the PD Regulation] [guidance issued by the London Stock Exchange].

It is our responsibility to form an opinion, as required by [item 7 of Annex II of the PD Regulation] [guidance issued by the London Stock Exchange], 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.

1 See paragraph 44 of SIR 4000

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board 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.]

Opinion

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of ABC plc.

Declaration²

For the purposes of [Prospectus Rule [5.5.3R(2)(f)] [5.5.4R(2)(f)]] [guidance issued by the London Stock Exchange] 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] [guidance issued by the London Stock Exchange].

Yours faithfully

Reporting accountant

2 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

SECTIONS OF TECH 18/98 “PRO FORMA FINANCIAL INFORMATION – GUIDANCE FOR PREPARERS UNDER THE LISTING RULES”¹ (PUBLISHED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES) THAT REMAIN RELEVANT

This Annexure has been compiled by the APB to indicate those paragraphs of TECH 18/98 that continue to be relevant. (There are differences between the requirements of the PD Regulation and the CESR Recommendations compared to the requirements on which TECH 18/98 was based.) The Annexure does not include either basic principles, essential procedures, or guidance promulgated by the APB.

Paragraphs in TECH 18/98	Application under the PD Regulation
1 to 5	<i>Not applicable</i>
6	Principles still applicable, save that under Item 20.2 of Annex I of the PD Regulation inclusion of pro forma information is now normally included where there has been a “significant gross change” (as defined in Recital (9))
7 and 8	Principles still applicable
9	<p><i>Not applicable – replaced by the following: Item 20.2 of Annex 1 of the PD Regulation. 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.</i></p> <p><i>This requirement will normally be satisfied by the inclusion of pro forma financial information.</i></p> <p><i>This pro forma financial information is to be presented as set out in Annex II and must include the information indicated therein.</i></p> <p><i>Pro forma financial information must be accompanied by a report prepared by independent accountants or auditors.</i></p>
10 and 11	Principles still applicable
12 to 19	Principles still applicable save that there is no express requirement under the PD Regulation for all appropriate adjustments to be included, nor for the pro forma financial information not to be misleading
20	<p><i>Not applicable – replaced by the following (the words emphasised are additional to the original Listing Rule and certain other words have been deleted): Item 1 of Annex II of the PD Regulation. The pro forma information must include a description of the transaction, the businesses or entities involved and the period to which it refers, and must clearly state the following:</i></p>

¹ This Annexure applies to TECH 18/98 which was published by the ICAEW in 1998 and is available for download from its website. The ICAEW has indicated that it intends to update and reissue TECH 18/98. When it is issued this Annexure will no longer be applicable and should not be used.

	<p>a) the purpose <u>to</u> which it has been prepared;</p> <p>b) the fact that it has been prepared for illustrative purposes only;</p> <p>c) 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.</p> <p><i>Item 2 of Annex II of the PD Regulation In order to present pro forma financial information, a balance sheet and profit and loss account, and accompanying explanatory notes, depending on the circumstances may be included.</i></p>
21 to 24	Principles still applicable
25	<p><i>Not applicable – replaced by the following:</i></p> <p><i>Item 3 of Annex II of the PD Regulation. Pro forma financial information must normally be presented in columnar format, composed of:</i></p> <p>a) the historical unadjusted information;</p> <p>b) the <u>pro forma</u> adjustments; and</p> <p>c) the resulting pro forma financial information in the final column.</p> <p><u>The sources of the pro forma financial information have to be stated and, if applicable, the financial statements of the acquired businesses or entities must be included in the prospectus</u></p> <p><i>Item 4 of Annex II of the PD Regulation. The pro forma information must be prepared in a manner consistent with the accounting policies adopted by the issuer in its last or next financial statements and shall identify the following:</i></p> <p>a) the basis upon which it is prepared;</p> <p>b) the source of each item of information and adjustment.</p>
26	Principles still applicable
27	Principles still applicable, save that the accounting policies to be used in the next financial statements may also be applied
28 to 29	Principles still applicable
30	<i>Not applicable</i>
31 and 32	Principles still applicable
33	<i>Not applicable</i>
34	Applicable, save that the words “and, in the case of a pro forma balance sheet or net asset statement, as at the date on which such periods end or ended” are omitted
35 to 43	Principles still applicable
44 and 45	<i>Not applicable</i>
46 to 71	Principles still applicable
72 to 74	<i>Not applicable</i>

NOTICE TO READERS

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