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***Standards for  
Investment  
Reporting***

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

The Auditing Practices  
Board

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- Standards and guidance for auditing;
- Standards and guidance for the work of reporting accountants in connection with investment circulars; and
- Standards and guidance for auditors' and reporting accountants' integrity, objectivity and independence

with the objective of enhancing public confidence in the audit process and the quality and relevance of audit services in the public interest.

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# STANDARDS FOR INVESTMENT REPORTING

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

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## STANDARDS FOR INVESTMENT REPORTING

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

*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.*

*This SIR replaces SIR 100 “Investment circulars and reporting accountants” issued in December 1997.*

*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. 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<sup>1</sup>. 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<sup>2</sup>’ 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.

2. 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 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

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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.”

matter. Examples of outcomes are historical financial information and a directors' profit forecast and related disclosures that are included in an investment circular.

3. 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.

Such engagements are private reporting engagements.

4. 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 "Investment reporting standards applicable to public reporting engagements on historical financial information";
  - (b) SIR 3000 "Investment reporting standards applicable to public reporting engagements on profit forecasts"; and
  - (c) SIR 4000 "Investment reporting standards applicable to public reporting engagements on pro forma financial information."
5. Appendix 1 summarises public reporting engagements that reporting accountants may be required to undertake under the Prospectus Rules.

## Engagement acceptance and continuance

6. **The reporting accountant should accept (or continue where applicable) a reporting engagement only if, on the basis of a preliminary knowledge of the engagement circumstances, nothing comes to the attention of the reporting accountant to indicate that the requirements of relevant ethical standards and guidance, issued by the Auditing Practices Board and the professional bodies of which the reporting accountant is a member, will not be satisfied. (SIR 1000.1)**
7. **The reporting accountant should accept (or continue where applicable) a reporting engagement only if:**
  - (a) **the scope of the engagement is expected to be sufficient to support the required report;**

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

**(c) those persons who are to perform the engagement collectively possess the necessary professional competencies. (SIR 1000.2)**

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 should agree the terms of the engagement with those from whom they accept instructions. All the terms of the engagement should be recorded in writing. (SIR 1000.3)**
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 should 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 1000.4)**
17. The engagement letter sets out the express terms governing the reporting accountant's contractual responsibilities in connection with the transaction to those instructing them. Reporting accountants do not accept responsibility beyond the matters or entities in respect of which they are specifically instructed. Nor are they expected to comment or report on matters which more properly fall within the skill and experience of other experts or advisers. They understand, however, the need to apply their own professional skill and experience in interpreting and carrying out their instructions. The reporting accountant may find information outside the defined scope of the engagement 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 should comply with the applicable ethical standards issued by the Auditing Practices Board. The reporting accountant should also adhere to the relevant ethical guidance of the professional bodies of which the reporting accountant is a member. (SIR 1000.5)**
19. 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**

20. **The reporting accountant should be familiar with the applicable laws and regulations governing the report which is to be given. (SIR 1000.6)**

21. 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 change subsequent to publication of this SIR.

## Quality control

22. **The reporting accountant should comply with the applicable standards and guidance set out in International Standard on Quality Control (UK and Ireland) 1 and ISA (UK and Ireland) 220. (SIR 1000.7)**
23. International Standard on Quality Control (UK and Ireland) 1 “Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements” provides standards and guidance on the system of quality control that a firm establishes.
24. The quality control procedures that an engagement partner applies are those set out in ISA (UK and Ireland) 220 “Quality control for audits of historical financial information”. In applying ISA (UK and Ireland) 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”.
25. **When undertaking any engagement involving an investment circular a partner with appropriate experience should be involved in the conduct of the work. (SIR 1000.8)**
26. Reporting accountants are frequently 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.
27. 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

28. **The reporting accountant should develop and document a plan for the work so as to perform the engagement in an effective manner. (SIR 1000.9)**
29. Planning is an essential component of all reporting accountant’s engagements. Examples of the main matters to be considered include:
- The terms of the engagement.

- Ethical considerations.
  - Whether the timetable is realistic.
  - The reporting accountant's understanding of the entity and its environment.
  - Identifying potential problems that could impact the performance of the engagement.
  - The need for the involvement of specialists.
30. 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.
31. 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.
32. 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.
33. **The reporting accountant should consider materiality in planning its work in accordance with its instructions and in determining the effect of its findings on the report to be issued. (SIR 1000.10)**
34. 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.
35. 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.
36. **The reporting accountant should obtain sufficient appropriate evidence on which to base the report provided. (SIR 1000.11)**

37. 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, 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.
38. 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.
39. **If the reporting accountant becomes aware of any withholding, concealment or misrepresentation of information, it should 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 1000.12)**
40. 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.
41. 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. The reporting accountant may need to seek legal advice in such circumstances, giving due consideration to any public interest considerations.
42. **The reporting accountant should obtain appropriate written confirmation of representations from the directors of the entity. (SIR 1000.13)**
43. 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.

44. 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 made available to the reporting accountant all significant information, relevant to the report, of which they have knowledge;
  - (b) the report is factually accurate, no material facts have been omitted and the report is not otherwise misleading; and
  - (c) the report accurately reflects any opinion or statements attributed therein to the directors, management, employees or agents of the entity.
45. 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. 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

46. **The reporting accountant should 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 1000.14)**
47. **The reporting accountant should 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. (SIR 1000.15)**
48. The information to be recorded in working papers is a matter of professional judgment since it is neither necessary nor practical to document every matter considered by the reporting accountant. When applying professional judgment in assessing the extent of documentation to be prepared and retained, the reporting accountant may consider what is necessary to provide an understanding of the work performed and the basis of the principal decisions taken to another person, such as a reporting accountant, who has no previous experience with the engagement. 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.
49. The form and content of working papers are affected by matters such as:
- The nature and scope of the engagement.
  - The form of the report and the opinion, if any, to be given.
  - The nature and complexity of the entity's business.
  - The nature and condition of the entity's accounting and internal control systems.

- The needs in the particular circumstances for direction, supervision and review of the work of members of the reporting accountant's team.
- The specific methodology and technology that the reporting accountant uses.

## **Professional scepticism**

50. **The reporting accountant should plan and perform an engagement with an attitude of professional scepticism. (SIR 1000.16)**
51. 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.
52. Whilst the reporting accountant may proceed on the basis that information and explanations provided by the directors and management of the issuer are reliable, 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**

53. **In all reports the reporting accountant should:**
- (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) identify the matters to which the report relates;**
  - (c) address all matters that are required by the engagement letter;**
  - (d) explain the basis of the reporting accountant's work;**
  - (e) give, where applicable, a clear expression of opinion;**
  - (f) include the reporting accountant's manuscript or printed signature;**
  - (g) include the reporting accountant's address; and**
  - (h) date the report. (SIR 1000.17)**
54. **In all public reporting engagements the reporting accountant should 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)**

55. Certain of the reports prepared in connection with investment circulars are public reporting engagements and, therefore, intended for publication in the investment circular. Examples of such reports are accountant's reports, reports on profit forecasts and reports on pro forma financial information. 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; and
  - (c) reports on pro forma financial information, in SIR 4000.
56. 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.

In some private reporting engagements those engaging the reporting accountant agree with the reporting accountant the procedures to be performed<sup>3</sup>. In such cases it may be unnecessary for the report of the reporting accountant to repeat the description of the procedures that is set out in the engagement letter.

57. **Before signing the report, the reporting accountant should 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)**
58. 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.

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3 These are often referred to as "agreed-upon procedures engagements"

59. 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.
60. 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.
61. 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.

## Modified opinions

62. **The reporting accountant should 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)**
63. Where not precluded by regulation, the reporting accountant expresses a qualified opinion when the effect of a matter described in paragraph 62 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.

64. 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.

### **Pre-existing financial information**

65. 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**

66. **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 should, 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 should 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)**

67. **The reporting accountant should 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)**

68. 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 item 23.1 of Annex I of the Prospectus Rules, to be included in the Prospectus;
  - (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 item 23.1 of Annex I of the Prospectus Rules, 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 28.4 requires a similar consent requirement in respect of a public report on a profit forecast. Rule 28.5 requires a similar consent in connection with a subsequent document issued in connection with the offer; and
  - (e) under the AIM Rules. The consent requirements of item 23.1 of Annex I of the Prospectus Rules apply.
69. 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.
70. 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 such that the reporting accountant would not wish to be associated with it.
71. 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 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.

72. 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. As discussed in paragraph 65, an example would be the inclusion or incorporation by reference in a prospectus of a previously published audit report or interim review report.
73. 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. For example, as noted in paragraph 68 above, Rule 28.5 of the City Code requires a profit forecast made and reported on in one document to be confirmed in any subsequent document in connection with the same offer, and for the reporting accountant to indicate that it has no objection to its report continuing to apply. In such a case, before issuing its consent 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.
74. Letters of consent are dated the same date as the relevant document. The City Code requires the letter of consent to be available for public inspection. The letter of consent may be made available for public inspection in other cases.

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

75. **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 should discuss the implications of them with those responsible for the investment circular and take additional action as appropriate. (SIR 1000.23)**
76. 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.

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

### **Effective date**

78. A reporting accountant is required to comply with the Investment Reporting Standards contained in this SIR for reports signed after 31 August 2005. Earlier adoption is encouraged.

## APPENDIX 1

## SUMMARY OF POSSIBLE REPORTING ACCOUNTANT'S PUBLIC REPORTING ENGAGEMENTS UNDER THE PROSPECTUS RULES

In the following table possible reporting accountant's responsibilities, as set out in the Prospectus Rules, are shaded.

	Shares	Debt, units < €50k	Debt, units =/> €50k	Derivatives, units < €50k	Derivatives, units =/> €50K	Asset backed securities, units < €50k	Asset backed securities, units =/> €50k	Depository receipts, units < €50k	Depository receipts, units =/> €50k	Banks issuing anything other than equity securities
<b>Applicable annex:</b>										
Registration document	I, II	IV	IX	IV	IX	VII	VII	X	X	XI
Securities note	III	V	XIII	XII	XII	VIII	VIII	X	X	As relevant instrument type
<b>Historical financial information</b>	I, 20.1	IV, 13.1	IX, 11.1	IV, 13.1	IX, 11.1	VII, 8.2	VII, 8.2 bis	X, 20.1	X, 20.1 bis	XI, 11.1
Number of years	3 years with latest 2 years on new GAAP	2 years with latest year on new GAAP	2 years with latest year on new GAAP	2 years with latest year on new GAAP	2 years with latest year on new GAAP	2 years with latest year on new GAAP	2 years with latest year on new GAAP	3 years with latest 2 years on new GAAP	3 years with latest 2 years on new GAAP	2 years with latest year on new GAAP

	Shares	Debt, units < €50k	Debt, units => €50k	Derivatives, units < €50k	Derivatives, units => €50k	Asset backed securities, units < €50k	Asset backed securities, units => €50k	Depository receipts, units < €50k	Depository receipts, units => €50k	Banks issuing anything other than equity securities
GAAP	National GAAP or IFRS <sup>1</sup> as applicable to EU issuer. IFRS or GAAP equivalent to IFRS for non-EU issuers	National GAAP or IFRS <sup>1</sup> as applicable to EU issuer. Non-EU IFRS or GAAP equivalent to use local GAAP with a narrative description of differences	National GAAP or IFRS <sup>1</sup> as applicable to EU issuer. Non-EU IFRS or GAAP equivalent to use local GAAP with a narrative description of differences	National GAAP or IFRS <sup>1</sup> as applicable to EU issuer. Non-EU IFRS or GAAP equivalent to use local GAAP with a narrative description of differences	National GAAP or IFRS <sup>1</sup> as applicable to EU issuer. Non-EU IFRS or GAAP equivalent to use local GAAP with a narrative description of differences	National GAAP or IFRS <sup>1</sup> as applicable to EU issuer. IFRS or GAAP equivalent to IFRS for non-EU issuers	National GAAP or IFRS <sup>1</sup> as applicable to EU issuer. Non-EU IFRS or GAAP equivalent to use local GAAP with a narrative description of differences	National GAAP or IFRS <sup>1</sup> as applicable to EU issuer. Non-EU IFRS or GAAP equivalent to use local GAAP with a narrative description of differences	National GAAP or IFRS <sup>1</sup> as applicable to EU issuer. Non-EU IFRS or GAAP equivalent to use local GAAP with a narrative description of differences	National GAAP or IFRS <sup>1</sup> as applicable to EU issuer. IFRS or GAAP equivalent to IFRS for non-EU issuers
Issuers operating less than one year	Special purpose financial information must be included	Special purpose financial information must be included	Special purpose financial information must be included	Special purpose financial information must be included	No additional requirements	Special purpose financial information must be included	No additional requirements	No additional requirements	No additional requirements	Special purpose financial information must be included
Report on financial information	Auditor's report or accountant's report as applicable	Auditor's report or accountant's report as applicable	Auditor's report or accountant's report as applicable	Auditor's report or accountant's report as applicable	Auditor's report or accountant's report as applicable	Auditor's report or accountant's report as applicable	Auditor's report or accountant's report as applicable	Auditor's report or accountant's report as applicable	Auditor's report or accountant's report as applicable	Auditor's report or accountant's report as applicable

1 In this table the expression IFRS is intended to refer to "those IFRSs as adopted for use in the European Union".

	Shares	Debt, units < €50k	Debt, units => €50k	Derivatives, units < €50k	Derivatives, units => €50k	Asset backed securities, units < €50k	Asset backed securities, units => €50k	Depository receipts, units < €50k	Depository receipts, units => €50k	Banks issuing anything other than equity securities
<b>Age of latest financial information</b>	I, 20.5	IV, 13.4	IX, 11.4	IV, 13.4	IX, 11.4	-	-	X, 20.4	X, 20.4	XI, 11.4
Age of audited information	No more than 15 months if unaudited interims or 18 months if audited interims	No more than 18 months	No more than 18 months	No more than 18 months	No more than 18 months	No requirements	No requirements	No more than 15 months if unaudited interims or 18 months if audited interims	No more than 15 months if unaudited interims or 18 months if audited interims	No more than 18 months
<b>Pro forma financial information</b>	I, 20.2 & II	-	-	-	-	-	-	-	-	-
Information	Required to show effect of significant gross changes	No requirements	No requirements	No requirements	No requirements	No requirements	No requirements	No requirements	No requirements	No requirements
Report on proper compliance	Required, where pro forma included	No requirements	No requirements	No requirements	No requirements	No requirements	No requirements	No requirements	No requirements	No requirements

	Shares	Debt, units < €50k	Debt, units =/> €50k	Derivatives, units < €50k	Derivatives, units =/> €50k	Asset backed securities, units < €50k	Asset backed securities, units =/> €50k	Depository receipts, units < €50k	Depository receipts, units =/> €50k	Banks issuing anything other than equity securities
<b>Profit forecasts and estimates</b>	I, 13	IV, 9	IX, 8	IV, 9	IX, 8	-	-	X, 13	X, 13	XI, 8
Disclosure of assumptions	Required	Required	Required	Required	Required	No requirements	No requirements	Required	Required	Required
Report on proper compilation	Required	Required	No requirements	Required	No requirements	No requirements	No requirements	Required	Required	Required
Outstanding forecasts	Update statement required	No requirements	No requirements	No requirements	No requirements	No requirements	No requirements	Update statement required	Update statement required	No requirements

## 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 **FSA Handbook**

- 1 In July 2005 the then existing listing rules were modified to take account of the implementation of the Prospectus Directive in the United Kingdom. At the same time the opportunity was taken to revise the rules applying to the continuing obligations of listed companies.
- 2 The FSA Handbook now includes three parts relevant to securities and their issuers, namely: the “Prospectus Rules”, the “Listing Rules” and the “Disclosure Rules”.
- 3 The Prospectus Rules effect the practical implementation of the Prospectus Directive. 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 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.
- 4 The Prospectus Rules also make it clear that the FSA expect “CESR’s recommendations for the consistent implementation of the European Commission’s Regulation on Prospectuses no. 809/2004”<sup>1</sup> to be followed by issuers when preparing a prospectus.
- 5 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.
- 6 The Disclosure Rules contain rules and guidance in relation to the publication and control of “inside information” and the disclosure of transactions by persons discharging managerial responsibilities and their connected persons.

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1 “CESR” is the Committee of European Securities Regulators. Its recommendations were issued in February 2005 and are sometimes referred to as the “Level 3 Guidance of the Lamfalussy Process”. This guidance can be accessed on the CESR website [www.cesr-eu.org](http://www.cesr-eu.org).

- 7 The annexes to 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.
- 8 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.
- 9 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 13.1 of Annex I to the 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.

- 10 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.

- 11 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), Annex I item 20.2 and Annex II of the 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.
- 12 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 66 to 74 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.
- 13 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.
- 14 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**

- 15 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 UK Listing Authority (UKLA), a division of the Financial Services Authority, 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**

- 16 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).
- 17 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 to

elect not to include certain financial information where no prospectus is required, notably profit forecasts and pro forma financial information. However, if such information is included the Prospectus Rules requirements must be followed.

### **The Professional Securities Market**

- 18 From 1 July 2005, issuers listing debt, convertibles or depository receipts in London will have a choice of being admitted to a regulated market or the Professional Securities Market, which is a market operated and regulated by the London Stock Exchange. Issuers listing on the Professional Securities Market will not be required to report historical financial information under IFRSs or an EU approved equivalent standard either in listing documents or as a continuing obligation requirement.

### **The City Code**

- 19 Where a document sent to shareholders in connection with an offer falling within the scope of the City Code contains a profit forecast or estimate, with certain exceptions, Rule 28.3 of the City Code requires that forecast or estimate to be reported on by reporting accountants and by the financial advisers. The City Code's requirements for such reports are similar to those under the Prospectus Rules. In certain circumstances, the City Code also provides for a reporting accountant to report on merger benefit statements (Rule 19.1) and interim financial information (Rule 28.6 (c)).

### **Companies legislation**

- 20 In the United Kingdom, financial information presented in an investment circular may constitute "non statutory accounts" within the meaning of section 240 of the Companies Act 1985. The document in which the financial information is presented will usually, therefore, contain a statement complying with section 240(3) of the Companies Act 1985. 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 in an acquisition circular, 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**

- 21 Upon implementation of the Prospectus Directive into UK law with effect from 1 July 2005, the existing regime regarding the issue of prospectuses in the UK whether in connection with an official listing of securities or a public offer was repealed.
- 22 Under Part VI, the FSA'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.

23 Prospectus Rule 5.5 (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).

24 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.

25 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.

26 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.

## **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 ] dated [ ] [[and] the references to our name<sup>2</sup>] 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]<sup>3</sup>

Yours faithfully

Reporting accountant

- 
- 2 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.
- 3 This paragraph is not required in respect of a Class 1 Circular.

## 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 [engagements]** - An engagement where the reporting accountant is engaged to carry out procedures of an audit or assurance nature, that the reporting accountant, the entity and any appropriate third parties have agreed, and to report on factual findings. The recipients of the report must form their own conclusions from the report by the 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. The market is for smaller growing companies. Securities admitted to AIM are unlisted.

**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** - The Rules of the Alternative Investment Market.

**CESR** - The Committee of European Securities Regulators.

**Circular** - A circular 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 or AIM admission document.

**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 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 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.

**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 balance sheet, profit and loss account (or other form of income statement), statement of cash flow, and statement of total recognised gains and losses (or statement of changes in equity), notes and other statements and explanatory material. 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.

**FSA** - Financial Services Authority.

**FSMA** - Financial Services and Markets Act 2000.

**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** - A generic term describing 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, circular to shareholders or similar document.

**ISAs (UK and Ireland)** - International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

**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 FSA’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 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.

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

**Official List** - The Official List maintained by the FSA.

**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 Securities Market** - A market for debt, convertibles and depository receipts, which is operated and regulated by the London Stock Exchange. This is not a regulated market as defined by the Prospectus and Transparency Directives.

**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 PD Regulation 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 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** - See "Profit forecast".

**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 FSA's Handbook part "Prospectus Rules" which together with the PD Regulation and the changes to FSMA Part VI made by the Prospectus Regulations, implement

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 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”.

**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. 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.

**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 FSA as a sponsor. The FSA’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. 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". 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.

**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.

## **NOTICE TO READERS**

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