

May 2019

Proposal to revise the Standards for Investment Reporting (SIRs) Consultation and Impact Assessment

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Objective

The Financial Reporting Council (FRC) proposes, subject to consultation, to issue revised Standards for Investment Reporting 1000-5000, and issue a new SIR 6000 in respect of Quantified Financial Benefits Statements (QFBS).

The SIRs set the requirements and provide guidance for reporting accountants for all engagements in connection with an investment circular prepared in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom.

The majority of the SIRs have not been updated since 2006-08, when the last major revision of the rules relating to prospectuses took place. They therefore need to reflect changes in legislation and regulation (both retrospective and prospective); and the establishment of the Financial Conduct Authority (FCA) in place of the Financial Services Authority (FSA).

The FRC has completed an impact assessment for the proposed revised SIRs and has not identified any additional costs or separately identifiable quantifiable benefits resulting from the revised guidance included in the exposure draft.

Invitation to comment

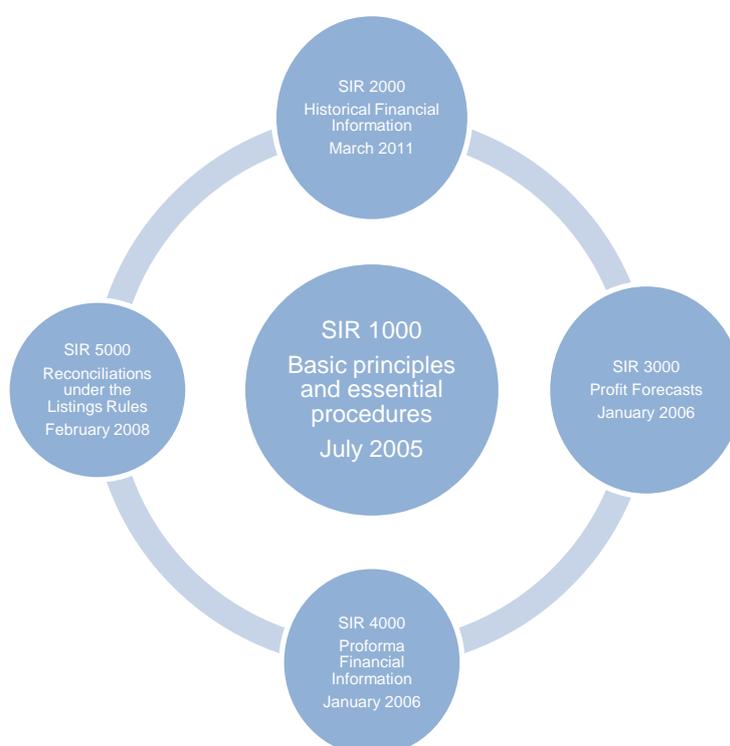
The FRC is requesting comments on this Consultation Paper by **5pm on Friday 26 July 2019**. Comments are invited in writing on all aspects of the Consultation Paper. In particular, comments are sought in relation to questions 1-7 as discussed below.

Comment on the Consultation Paper should be sent to:

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Introduction

1. The FRC is committed to acting as a proportionate and principles-based regulator and balances the need to minimise the impact of regulatory requirements on business, while working to support the delivery of high-quality audit and assurance work, to maintain investor and wider stakeholder confidence in that work.
2. In 2017 we initiated a project to review and update the Standards for Investment Reporting (SIRs), which set requirements and provide guidance for all engagements in connection with an investment circular prepared in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom.
3. There are currently 5 SIRs, which set requirements and guidance for all reporting accountant engagements relating to investment circulars, and specific additional requirements for certain public reporting engagements.



4. The key drivers for this review were:

- The most recent update to any of the SIRs was in 2011, but the majority have not been refreshed since 2006-08. Significant changes to the UK regulatory landscape; accounting, auditing and assurance standards; and changes to EU prospectus rules mean that these standards need to be revisited.
- Changes in market practice and rules, including the new Quantified Financial Benefits Statement (QFBS) regime under the *City Code for Takeovers and Mergers (City Code)* meant that consideration was needed about the need for a new SIR to deal with relevant public reporting engagements.

How we revised the material

5. We conducted initial scoping with relevant and interested stakeholders, including investors, other regulators, professional bodies and practitioners. This established that the fundamental structure of the SIRs continued to be fit for purpose, but that significant changes were required to bring them up to date. In addition, we established that work done by reporting accountants to report on a QFBS under the *City Code* was sufficiently different in character to require a new SIR (6000) to set appropriate requirements and provide relevant guidance.
6. The guiding principles followed in reviewing and updating the guidance included:
 - updating the guidance to address the drivers for revision identified above; and
 - reducing repetition and duplication of material, including cross-references between the SIRs.

Main areas of change

7. The main areas of change we are proposing to the SIRs are:

- **Legislative and Regulatory Framework: updated.**

Updates reflecting changes to the legislative and regulatory framework, including changes to the *Listing Rules* and *City Code for Takeovers and Mergers*.

At the time of writing, there are new EU Regulations, including binding technical standards, relating to the EU prospectus regime that will not come fully into force until July 2019. The FCA has consulted on changes to the Prospectus Rules Sourcebook which are intended to ensure that it is consistent with the new Prospectus Regulation. Consistent with the approach adopted by the FCA we have, in the majority of cases, left placeholders for specific references to the prospectus rules and technical standards. These will be updated when there is greater certainty about the implementation of the new regime in the UK. In respect of SIR 3000 which deals with Profit Forecasts we have assumed that current proposals removing the requirement for a report on a forecast or estimate from an accountant will be implemented. If they are not the SIR will be revised accordingly.

- **Inclusion of references to the Fair, Balanced and Understandable requirements of the UK Corporate Governance Code.**

Reporting accountants are required to give their consent to the inclusion of their report, or references to their name in an investment circular. This includes an assessment by the reporting accountant of the overall impression given by the circular, having regard to the purposes for which it has been prepared (and where relevant, including whether there are 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. We have included references to the 'fair, balanced and understandable' principles as criteria reporting accountants may consider when carrying out this assessment where the entity which is the subject of the report is required to or voluntarily complies with the UK Corporate Governance Code.

- **The Development of a new SIR 6000 in respect of QFBS engagements.**

The FRC believes the work carried out by reporting accountings to give an opinion on the proper compilation of a QFBS is sufficiently distinct to introduce a new dedicated SIR 6000.

Impact Assessment

8. The work carried out by reporting accountants is required by rules set by the FCA, the Takeover Panel and EU Prospectus Rules. The SIRs set requirements and provide guidance for the conduct of that work, in order that reporting accountants comply with those rules. The FRC has not identified any additional costs arising from the changes proposed to existing SIRs by the FRC, or the development of the new SIR dealing with QFBS. Any costs arising from the requirements on reporting accountants form fall within the respective impact assessments of the policy making regulator.

Consultation Questions

9. The FRC welcomes comments on all aspects of the revision of the SIRs. However, we would specifically encourage views on the following questions:

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

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

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

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

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

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

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

**Financial Reporting Council
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