

STAFF GUIDANCE NOTE 01/2017

Services Linked to Financing, Capital Structure and Allocation and Investment Strategy of the Audited Entity

This Guidance Note seeks to place on record the FRC's views on examples of non-audit services that would be prohibited by paragraph 5.157R (i): Services Linked to the Financing, Capital Structure and Allocation and Investment Strategy of the Audited Entity. Consistent with the approach taken already regarding prohibited tax services, we have considered whether further guidance can be provided using a consistent approach which provides practitioners with a fuller description of services which should be considered to be prohibited. We will not provide detailed guidance on permitted services, which would in effect involve taking a whitelist approach to implementing the requirements of the Regulation. Such an approach was strongly rejected by stakeholders responding to our consultations on the implementation of the Audit Regulation and Directive.

The prohibition covers those services related to the financing, capital structure and allocation, and investment strategy of the audited entity which includes Corporate Finance services and advisory services **except where these relate to assurance services in relation to the financial statements of an entity, such as the issuing of comfort letters in connection with prospectuses.**

The FRC considers the following to be examples of **prohibited services** – noting that this list is not an exhaustive one. **Practitioners should also note that the services listed below may also be subject to further prohibitions in the Ethical Standard:**

- **Corporate Finance-type services** – examples of this prohibition include an auditor playing a lead advisory role in respect of an audited entity's corporate transaction. This is because it is linked to capital allocation even after an audited entity has made the decision to acquire a particular entity, as the service could impact the price of the acquisition and therefore could impact the capital allocation;
- **Debt Advisory and Restructuring Services (where the entity is the debtor)** – are subject to the prohibition as they are likely to have many of the same elements as corporate finance work and in most cases are directly related to the entity's equity and debt finance.
- **Strategy Consulting Services** – providing strategy consulting advice to an audited entity with respect to a decision as to whether or not to enter a new market or whether to have operations in a different territory would be prohibited as being linked to an audited entity's "investment strategy".
- **Transfer pricing** – these services are prohibited where they are "linked to" capital structure and allocation, for example where the work involves providing advice on the client's capital structure or would have an impact on regulatory capital requirements.

- **Assisting or advising an audited entity in developing corporate strategies** related to financing, capital structure and allocation and investment strategy.
- **Financial/investment strategy related services** – which can include assisting the company with re-evaluating their capital allocation and deployment, transaction strategy, and/or market strategy.
- **Business/financial modelling** – where it could be used to support a company with defining or reorganising its corporate/capital structure, capital allocation or financing/investment strategy.
- **Identifying possible targets** for the audited entity to acquire.
- **M&A lead advisory acquisition (or similar) services** which can include research to identify potential targets, assistance with negotiations as well as execution.
- **Assisting or advising on disposal transactions** - M&A lead advisory disposal (or similar) services which can include sell-side assistance which involves assisting the client to “package” a part of their business for sale as well as helping to identify potential buyers.
- **Assisting or advising on finance raising transactions** - capital and debt advisory services relating to financing, capital structure and allocation or re-allocation of assets of the audited entity.
- **Providing structuring advice, transaction structuring**, including financial modelling services, legal entity reorganisation and other restructuring services which are linked to potential changes to the audited entity’s equity or debt financing structure.
- **Regulated investment activity** such as investment advisory services (e.g. providing investment business financial advice).