



## FRC PROPOSAL TO REVISE THE STANDARDS FOR INVESTMENT REPORTING (SIRs)

Issued 19 July 2019

ICAEW welcomes the opportunity to comment on the Proposal to revise the Standards for Investment Reporting (SIRs) published by the Financial Reporting Council (FRC) on 1 May 2019, a copy of which is available from this [link](#).

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## ANSWERS TO SPECIFIC QUESTIONS

### **Q1 Overall – Do you agree with the proposed revisions to the SIRS? If not please explain why.**

1. In considering the proposed revisions to the SIRS as a whole, we have been mindful of the challenging environment, including changes affecting the range of participants in capital markets (eg, the new Prospectus Regulation) and future possible changes to the FRC's ethical and auditing standards, and the pressures arising from political uncertainty and scrutiny of the profession. With this backdrop, the FRC's review of the SIRS has provided a timely opportunity for consideration of serious issues. However, the context also supports the need for much more deliberation of the impact on market practice and coordination among capital markets participants. There needs to be more engagement between regulators themselves and with market participants (including the sponsor, legal and investor communities) before some of the proposed revisions are finalised. We strongly believe that such engagement cannot currently be given appropriate focus because of the scarcity of professional resource and the above pressures faced by all market participants. However without the additional deliberation and engagement, the efficiency of UK investment circular reporting engagements (ICREs) may be at risk and could diminish the attractiveness of the UK's capital markets.
2. We consider that at a high level the SIRS are still broadly fit for purpose. It is clear that, given the passage of time since the original SIRS were issued, there are matters of detail which have, or will in the short term, become out of date, and therefore a review is appropriate. Certain changes could take place without creating untimely disruption. We understand that SIR 1000 needs to be aligned with latest quality control standards and that references in the SIRS should be to current regulations and guidelines. We also agree that a standard is needed for public reporting engagements on the proper compilation of a Quantified Financial Benefit Statement (QFBS).
3. We also think it would be a missed opportunity not to revisit the Annexure in SIR 2000 so as to produce a much more comprehensive, and thereby useful, framework, especially for combined / carve out historical financial information. Review of the framework, which is valued by regulators and market participants, would need to draw on knowledge and experience of capital markets and ICREs. ICAEW would be willing to support such a review by the FRC.
4. However some of the proposed changes go beyond refreshing of regulatory references and, as mentioned, may have implications that cannot be fully appreciated without engagement between market participants and the regulators, to develop an understanding of changes needed to current practices to meet the needs of investors. Such changes include:
  - In SIR 1000, the changes in relation to the reporting accountant's consent and a possibly unintended increased responsibility for whether the investment circular is misleading. Such engagement requires time that will go beyond this consultation period, and will also involve consideration of the other regulations that are under review.
  - In SIR 2000, the extension of paragraph 30 and new paragraph 31, which may mean that large amounts of original audit work that would previously have been considered acceptable will need to be redone.
  - Certain drafting changes to the SIRS, the purpose of which is not always obvious. This is likely to draw comment from market participants, which demonstrate the need for further engagement to ensure that the consequences are as intended.
5. The government's responses to Sir Donald Brydon's Independent Review into the quality and effectiveness of audit, will be important for the FRC to take into consideration. The FRC's consultation also makes reference to ICAEW's consultation on guidance for preparers of prospective financial information which, while reflective of the direction of future guidance, is not final guidance and it would not be appropriate for revised SIRS to refer to it before it is finalised.

6. As already stated, the FRC's consultation has provided a valuable opportunity to reflect upon investment circular reporting engagements. We think there would be merit in prioritising the following:
  - the updating of regulatory references across the SIRs;
  - a comprehensive review of SIR 2000 Annexure; and
  - development of new SIR 6000.
7. Additionally, although not the subject of a consultation question, we also consider it would be useful to include detailed guidance for SIR 2000 engagements for situations where an accountant's report is required on historical financial information contained in an investment circular when that historical financial information reproduces historical financial information included in an earlier investment circular, and was subject to a previous accountant's report. This situation has arisen since the recent change to the IPO regime. Under that regime, a registration document is issued, which must contain historical financial information together with an accountant's report. In order to apply for listing, issuers are subsequently producing full prospectuses (normally a few weeks after the registration document) containing the same historical financial information and regulators are requiring a new accountant's report. Guidance for reporting accountants is needed to clarify the nature and scope of work required to provide the further opinion.
8. We believe that a separate timetable would be more appropriate for the other proposed revisions.
9. Our response does not address the drafting changes to the current SIRs as we are aware that our members - the users of the standards - will be submitting comments on this detail.

***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?***

#### **General comments**

10. We agree, in principle, with extending reporting for the reporting accountant's 'true and fair' opinion on historical financial information. We do not agree with extending reporting in 'properly compiled' opinions, although we would be open to expanding the basis of opinion section of the report.
11. As an overall test, any changes to the reporting accountant's reporting responsibilities should be additive to the quality of reporting and its role in the transparent and efficient operation of the UK's capital markets. The reporting accountant's report must meet users' expectations, including the relevant regulator, and be appropriately transparent and informative about the opinion being given. It should not overly focus on limitations or disclaimers, nor should it be cluttered in terms of description and disclosure.
12. The research and consultation period required to develop an appropriate framework for extended reporting for each of the SIRs would be significant. Prior to undertaking such a task we would recommend specific consultation with investors and market participants to see whether it would be valued. We set out considerations for each type of report in paragraphs 13 to 18 of this response.

#### **‘True and fair’ opinion**

13. In a SIR 2000 engagement, the reporting accountant gives a 'true and fair' opinion on historical financial information that is included in an investment circular. Including in this opinion matters such as materiality, scope of work and key matters/risks identified would more closely align the reporting accountant's opinion with an audit report prepared in accordance with ISA (UK) 701. There are good grounds for doing this given the similar objectives of an audit report and a reporting accountant's SIR 2000 report.

14. There needs to be engagement between the FRC, the FCA and market participants to ensure that users' needs will be met. Engagement with reporting accountants will, in particular, need to address the implications of risk disclosure and materiality. For example:
- An accountant's report often forms part of a prospectus which will include extensive disclosure of risk issues. Investors are used to seeing risk factors summarised in one part of the prospectus so to introduce another separate summary of risk may lead to confusion.
  - Because in a SIR 2000 engagement the reporting accountant is typically reporting on a three-year trend, the application of materiality can be more complex than in the case of an audit of financial statements. This may be difficult to describe clearly in numerical terms.
  - The approach that a reporting accountant takes may vary significantly depending on whether reliance is placed on the audit work of another firm. Does reliance on another firm of auditors represent a risk?

#### **'Properly compiled' opinion**

15. There are more challenges with adopting the same approach for the reporting accountant's 'properly compiled' opinions in each of SIR 3000, SIR 4000 and SIR 5000 engagements or the new SIR 6000 engagement. A 'properly compiled' opinion relates to process rather than to an outcome - consideration would need to be given to how extended reporting could be adapted so that it remains clear to users what the 'properly compiled' opinion is about. It may be preferable to include the additional matters in the 'basis of opinion' section of 'properly compiled' opinions, rather than in the opinion itself.
16. The engagements above have similarities with ISAE 3000 (Revised) engagements and we examine how the minimum content of an assurance report under that standard relates to the proposed matters for inclusion in the reporting accountant's opinion. ISAE 3000 (Revised) does not require any disclosure regarding 'materiality'. In the relevant SIR engagements, the reporting accountant's **materiality** considerations are likely to be focused on qualitative issues. It would be difficult, possibly misleading, to articulate materiality at a quantitative level in a report on forward-looking information such as a profit forecast or a QFBS, as this could be taken to mean that the profit estimate or QFBS was accurate to +/- the quantitative level.
17. ISAE 3000 (Revised) requires 'an informative summary of the work performed as the basis for the practitioner's conclusion' – the proposed inclusion of **scope of work** could contribute to this. However, given the nature of such assignments, this is likely to result in fairly standardised wording that either cross refers to or quotes from the relevant SIR.
18. Finally, ISAE 3000 (Revised) does not require any disclosure regarding '**key matters/risks identified**'. In the relevant SIR engagements, the reporting accountant reports on a compilation process. The principal risks relate to a failure in that process and listing them would most likely lead to boilerplate wording of questionable value.

***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?***

19. We agree that the proposal is not a substantive change, however inclusion of the words 'in all material respects' in the illustrative reports for SIRs 3000 to 6000 would bring them out of line with what regulation requires in each case. The wording of each of the above reporting accountant opinions currently tracks the language prescribed by the relevant regulator, so any changes will need to be acceptable to those regulators (the FCA for SIR 4000 and SIR 5000 reports and the Takeover Panel on SIR 3000 and SIR 6000 reports).

20. Our comments in paragraph 16 of this response regarding quantification of materiality are also relevant.

***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?***

21. SIR 1000 establishes basic principles and essential procedures for the work of the reporting accountants that are common to all reporting engagements (public and private) relating to investment circulars. An engagement quality control review (EQCR) is an appropriate quality control for certain reporting engagements, whereas for others it is for the reporting accountant [firm] to decide whether it is needed. This is recognised in the definition of an EQCR in ISA (UK) 220 (revised) which states that the process is only for audits of financial statements of listed entities and those other audit engagements, if any, for which the reporting accountant [firm] has determined that an EQCR is required.
22. SIR 1000 already has a requirement for an EQCR for a public reporting engagement under SIR 2000 (paragraph 24 in existing SIR 1000 and paragraph 25 in SIR 1000 Exposure Draft). What is the most appropriate quality control review for other public reporting engagements will need to be tailored for the individual engagement, as illustrated below.
23. Unlike an audit engagement, ICREs may comprise several specialist workstreams with deliverables that are the responsibility of separate teams and of partners other than the lead engagement partner. It is often the case that the lead engagement partner has a review role on workstreams that they are not personally delivering. Application of the ISA (UK) 200 meaning of ‘engagement team’ to SIRs engagements would prevent that person acting as EQCR even though they may be best-placed to do so. An EQCR would thus need to be bespoke for each work stream of the engagement (an EQCR-equivalent) and, potentially, with particular skills required of each reviewer.
24. An EQCR is likely also to be too rigid for private reporting engagements. For example, in the case on a long form report, the focus of review will not be on a single opinion as would be the case in an audit, and it would not be expected that the second partner would have reason to review, per ISA (UK) 220, “selected [audit] documentation”. An appropriate review will need to be defined.

***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?***

25. We believe that the assertion in Q5 that the reporting accountant assesses whether the investment circular is misleading is incorrect. The requirement to consider the contents of the investment circular derives from the requirement to give consent to the inclusion of a public report in the investment circular. The procedures that the reporting accountant performs before giving consent involve considering its public report in the form and context in which it appears, or is referred to, in the investment circular as a whole by reading the investment circular and considering whether information being reported on is inconsistent with the rest of the investment circular<sup>1</sup>. In doing so the reporting accountant considers, inter alia, whether it has any cause to believe that any information in the investment circular is misleading. The references to “cause to believe” and “context” are important because the consideration is based on the existing knowledge of the staff employed on the engagement and the role of the reporting accountant might be quite limited, for example just reporting on pro forma

<sup>1</sup> We note that in the revised Prospectus rules as derived from the Delegated Regulation due to be enacted on 21 July 2019 the consent paragraph no longer has reference to form and context.

financial information, which may significantly limit their involvement with other information in the investment circular, much of which may in any case be beyond the expertise of the reporting accountant. An example is a competent person's report.

26. Furthermore, the company will typically be advised in the preparation of the investment circular by lawyers and sponsors who will have a broader view of the transaction and the investment circular than the reporting accountant.
27. In response to Q5 we think that inclusion of the 'fair, balanced and understandable' principles from the UK Corporate Governance Code (CGC) risks creating confusion concerning the nature of the reporting accountant's engagements under the SIRS and also of their responsibilities in connection with an investment circular.

### Reporting engagements under the SIRS

28. The extant SIRS include suitable principles for performing reporting accountant engagements together with guidance for applying those principles. There is no equivalent guidance for applying the 'fair, balanced and understandable' principles.
29. The SIRS apply to reporting accountants when carrying out engagements involving investment circulars intended to be issued in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom. The CGC applies to companies with a Premium Listing (although it may be voluntarily applied by other entities), which is a smaller population than the population of issuers of UK investment circulars. The proposed inclusion ignores the fact that some issuers are not bound by the CGC but would mean either:
  - the reporting accountant applying a different standard for such issuers compared to companies covered by the CGC; or
  - imposing a standard on the reporting accountant that does not apply to the preparer.

### Responsibilities concerning an investment circular

30. The inclusion of an accountant's report within an investment circular is not closely analogous to the inclusion of an audit report within an annual report, and so it would be inappropriate to impute an auditor's responsibilities for an annual report as a reporting accountant's responsibility for an investment circular. Key matters which distinguish the two situations include:
  - the form and content of an investment circular is prescribed by regulators other than the FRC;
  - the content of an investment circular is typically much wider and more extensive than for an annual report, and will typically include areas which fall outside of the reporting accountant's professional competence and experience;
  - the issuer will specifically appoint legal and other advisers to advise it in relation to the required form and content of an investment circular;
  - for certain types of investment circular an adviser other than the reporting accountant will have a regulatory responsibility relating to the investment, eg, a Sponsor in relation to a Prospectus for a Premium Listing issuer or a Class 1 Circular; a Nominated Adviser in relation to an AIM admission document;
  - a regulator – specifically the Financial Conduct Authority - reviews and approves a Prospectus and a Class 1 Circular before it is published;
  - relevant regulation makes clear that a reporting accountant is only responsible for its public reports included within an investment circular as part of the investment circular (eg, [Prospectus Rule 5.5.3R(2)(f)], [Prospectus Rule 5.5.4R(2)(f)], [Paragraph a of Schedule Two of the AIM Rules for Companies]) [+ new Prospectus Regulation equivalents].

**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.**

## **SIR 1000**

### **Deletion of part of the last sentence of paragraph 70 SIR 1000/ paragraph 75 SIR 1000 Exposure Draft**

31. The deletions described here contribute to the issue in paragraph 25 of our response. Before a reporting accountant consents to the inclusion of its public report in an investment circular, SIR 1000 requires the reporting accountant to consider its public report(s) (including references thereto) and the investment circular as a whole. Paragraph 71 of SIR 1000 (Exposure Draft) (which is unchanged from paragraph 66 of the current SIR 1000) states that “When the reporting accountant believes information in the investment circular is either inconsistent with its public report, together with the information being reported on, or misleading, the reporting accountant shall withhold its consent until the reporting accountant is satisfied that its concerns are unwarranted or until the investment circular has been appropriately amended.”
32. To date reporting accountants’ considerations about whether the investment circular is ‘misleading’ have been restricted to whether the wider investment circular is ‘misleading’ in relation to the reporting accountant’s public report – in accordance with paragraph 70 of the current SIR 1000:

“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”. [underlining for identification].

The underlined have been omitted in the equivalent paragraph of the Exposure Draft (being Paragraph 75 of SIR 1000 Exposure Draft). The reason for this deletion has not been given and so it is unclear whether the FRC’s intent is to change the current practice outlined above.

## **SIR 2000**

### **Paragraphs 30 and 31**

33. We are concerned that the deletion of wording in paragraph 29 and the addition of paragraphs 30 and 31 removes the judgement that is currently permitted regarding the independence of the original auditors. The result suggests a shifting of the goalpost in that audit work, which in the opinion of the reporting accountant was adequate, will under the new rules need to be re-done. Each reporting accountant will need to consider the competence and independence of component reporting accountants, but in relation to utilising the work of the original statutory audits, the process of completely reviewing and taking responsibility for all of their work (ie, not just accepting a clearance for their work) should supersede the need for their independence and competence to be assessed to the standard required by the FRC’s Ethical Standard in the same way as a component reporting accountant would be.

### **Deletion of paragraph 39**

34. All of the extant paragraph 39 has been deleted from the SIR 2000 Exposure Draft. It currently states:

“The reporting accountant should perform procedures to obtain sufficient appropriate evidence as to whether the work of an auditor, which the reporting accountant plans to use, is adequate for the reporting accountant’s purposes. Where the reporting accountant,

concludes that the auditor's work is not adequate, does not have access to the auditor's audit documentation, or an audit has not previously been performed, the reporting accountant should perform procedures that compensate for this. The procedures of the auditor and the reporting accountant, taken together, should comply with the requirements of ISAs (UK and Ireland) unless:

- a) An entire ISA (UK and Ireland) is not relevant to the reporting accountant's engagement; or
- b) A particular requirement is:
  - i) Conditional and the condition does not exist; or
  - ii) Less relevant than an equivalent requirement of a SIR; or
  - iii) Predicated on the concept of a recurring engagement or an ongoing relationship with a client which is usually not relevant to engagements to report on an investment circular; or
- c) It is not practicable for the reporting accountant to undertake such procedures. If the reporting accountant decides not to comply with a requirement of ISAs (UK and Ireland) because it is not practicable for it to undertake such procedures, it should document the reason for not complying with the requirement and why its omission does not have an impact on its opinion. [underlining for emphasis]

We consider paragraph 39 to have been of significant importance to the conduct of an engagement to provide an accountant's report on historical financial information. For example:

- ISA (UK) 700 'Forming an Opinion and Reporting on Financial Statements', inter alia, prescribes the form and content of an auditor's report on financial statements; whereas the form and content of an accountant's report under the SIRs is set by the SIRs.
- In situations where the accountant's report on HFI covers periods for which there are financial statements that have been audited, the auditor will already have reported to those charged with governance under ISA (UK) 265 'Communicating Deficiencies in Internal Controls to Those Charged With Governance'. There would be no benefit to those charged with governance in SIR 2000 requiring the reporting accountant to report to them deficiencies in internal controls that the reporting accountant had identified from its review of pre-existing audit files.

35. While paragraph 13 of the SIR 2000 Exposure Draft (which replicates paragraph 13 of the extant version) does refer to certain requirements of ISAs (UK) not being relevant to a reporting accountant's exercise, this is less useful than the deleted paragraph 39 which
  - explicitly states that a reporting accountant does not have to follow the ISAs (UK) in certain limited circumstances;
  - gives more information on circumstances where an ISA (UK) may be inapplicable; and
  - is in bold type in order to signify its importance and the hierarchy of interpretation with potentially conflicting paragraphs of SIR 2000; eg, paragraph 40 of the SIR 2000 Exposure Draft / paragraph 41 of the extant SIR 2000 which appears to limit permissible departures from the ISAs (UK) to 'exceptional circumstances' where necessary to 'achieve the aim' of the ISA (UK).

**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?**

36. We agree with the development of a new SIR as there is a significant difference between the nature of QFBSs and other financial information so as to necessitate a standard for reporting accountant reports.
37. Paragraphs 19 and 42 of SIR 6000 (and paragraphs 21 and 57 of SIR 3000 Exposure Draft) are written from a premise that does not accurately reflect the respective roles of, and relationships between, a reporting accountant and a financial adviser in relation to a QFBS (or profit forecast) under Rule 28.1(a):

- it is long established market practice that a reporting accountant engaged to prepare a report on a QFBS (or profit forecast) required under Rule 28.1(a)(i) will engage with, and address its report to, the financial adviser as well as the offeror or offeree making the QFBS;
  - the financial adviser is a party from whom the reporting accountant takes instruction, and the financial adviser relies on the reporting accountant's report on the QFBS (or profit forecast) as a part of the financial adviser's own investigation/due diligence into whether the QFBS (or profit forecast) has been prepared with due care and consideration; and
  - accordingly, there is no established practice of a financial adviser providing their reporting accountant with the financial adviser's own investigations/due diligence into the QFBS (or profit forecast).
38. Unless required to by the SIR a reporting accountant could not compel a financial adviser - being a party from whom it takes instruction but not the party responsible for the 'outcome' on which the reporting accountant is reporting - to give the reporting accountant access to the financial adviser's work.
39. Specific comments are listed in the table below.

## SIR 6000

Preface	See the preface to SIR 1000 - it is incorrect to say that SIR 1000 is: “...applicable to all engagements involving an investment circular, including for example those which relate to Ethics and Quality Control.”
Para 2	This is not consistent with SIR 3000. The Glossary should cross refer to where the reporting accountant's criteria are set out. The SIR mentions the reporting accountant's criteria in paragraphs 5 and 18.
Para 2b	Can it please be confirmed that the suitable criteria that are being referred to are "understandable" and "reliable" and, if not, what they are?
Para 4	It is not particularly helpful to carve out certain QFBS statements from the SIR and, while such cash sum statements are very rare, it would be helpful to expand the guidance in the SIR to address an engagement to report on a cash sum statement.
Paras 7-8	The section headed “the nature of Quantified Financial Benefit Statements” is inconsistent with the equivalent section in SIR 3000 for no apparent reason. For example, while SIR 3000 focuses on the nature of profit forecasts, SIR 6000 focuses more on the nature of assumptions underlying a QFBS. Both points should be addressed in both SIRs. Paragraphs 7 and 8 deal with the same point of uncertainty but in slightly different terms.
Para 9	The Code has specific requirements regarding disclosure under Rule 28.6 – for example; “an analysis, explanation and quantification of the constituent elements sufficient to enable the context and relative importance of those elements to be understood”; and “the recurring and non-recurring costs of realizing the expected financial benefits”.

This should be explained here as it is fundamental to the understandability of a QFBS.

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Para 12 In the second sentence replace “This requires” with “Reliable information requires”.

The third sentence is probably unnecessary.

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Para 16 The second bullet refers to the basis of belief underpinning the analysis of the information. This appears to be the wrong way around as the analysis of information would allow the directors to form their basis of belief.

The fourth bullet – reference to “the report” should be to “the QFBS”.

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Para 17 This says:

“The reporting accountant considers whether sufficient time has been built into the compilation process to ensure that the reporting accountant, financial advisers and key individuals from the business can properly engage with the process.”

In practice the compilation, other than possibly the finalisation of the disclosure, will already have taken place. The reporting accountant would not be concerned if the financial adviser manages their time appropriately – although the financial adviser is likely to be concerned about the timing of the reporting accountant’s work.

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Para 18 This is redundant as engagement acceptance and continuance are dealt with in SIR 1000.

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Para 19 This suggests that the reporting accountant may want access to the financial adviser’s work but does not explain why that might be the case, nor what happens when they do not get access, which is likely to be the case.

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Para 19 While the execution and reporting phases of the reporting accountant’s work often involve the financial adviser in discussions and their views may be sought, there is no professional standard by which a financial adviser carries out its work or by which the reporting accountant might get access to such work. The financial adviser is party to the reporting accountant's engagement and it is common practice for the financial adviser to rely substantially (though not exclusively) on the work of the reporting accountant in making its report under the Takeover Code. The financial adviser may therefore have concerns about potential circularity of responsibility for the part of the reporting accountant's work that considers the governance aspects of the company's process in making its statement.

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Para 22 This says that as part of planning the engagement the reporting accountant shall determine

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

This would have to be done prior to the planning stage as it would form part of the engagement acceptance in order to comply with the FRC’s Ethical Standard.

- Para 23(a) Delete “or whether the QFBS is being prepared in the context of a hostile takeover bid”.  
Just because the companies are not working together it doesn’t mean that the bid is hostile – it might simply be that there are competing bids.
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- Para 24 This suggests that the reporting accountant may need an understanding of the offeror’s and/or the offeree’s financial systems and processes but does not explain why. As the reporting accountant may not have access to the offeree it is not clear how the reporting accountant should address this issue. Presumably there is a presumption that where an offeree has published information then, in the absence of evidence to the contrary, the offeree will have complied with its regulatory obligations and therefore that information can be relied upon as being accurate and complete? It would be helpful if this point was clearly addressed.
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- Para 26 Second sentence - unlike profit forecasts, the Code is quite prescriptive on the contents of a QFBS (see Rule 28.6), but there is still judgement involved in determining the level of disclosure, for example which cost categories to disclose.
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- Para 29 In points (b) and (c) delete “to”.  
A significant error that is not included here would be an offeror including synergies which are not dependent on the transaction (see Rule 28.6(e)).
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- Para 30 We draw attention to inclusion of ‘and accounting’ below:  
30 a. “have a reasonable knowledge of business and economic activities and accounting and a willingness to study the QFBS with reasonable diligence;...”  
While this is consistent with paragraph 35a in SIR 3000 Exposure Draft, a QFBS is unlikely to draw information from the accounting records in the same way as a profit forecast. Some data from the financial records may be used but how it is accounted for is less relevant. It might be more useful to state that users of the information are able to understand the difference between QFBS and other types of financial information which draw more heavily from the accounting records of the company or companies being reported on.
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- Para 32 Point (b) – the equivalent wording in SIR 3000 also refers to “and set out in this SIR” and should refer to the reporting accountant’s criteria, not the “criteria derived from the Code”.  
If the reporting accountant has obtained sufficient appropriate evidence regarding (b) why is there a need for (a), (c) and (d)? They are all part of obtaining evidence relating to the reporting accountant’s criteria and therefore should be guidance.
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- Para 35 While the points listed are relevant the introductory sentence is not correct as the list goes beyond the business analysis. The paragraph would work better if “of the business analysis” was deleted and the paragraph was moved to before paragraph 34.  
Point (l) has some redundant words which appear to change the emphasis of the point being made about the credibility of an offeree statement: “can be achieved by the offeree company on a standalone basis” should be deleted because the statement is prepared as if the offer does not proceed. An additional and analogous point to make in relation to offeror statements would be whether savings predicted by an offeror are dependent upon the offer proceeding.

Para 35	The SIR does not really provide any meaningful guidance on reporting on cost savings statements by offerees – particularly where the actions have already taken place ie, some of the cost savings might be actual (but not yet reported).
Para 35(d)	This should say “Whether the directors have assessed the operational feasibility of the plans, including timings and operational changes”
Para 35 (n)	The reporting accountant would want to understand the basis for all the synergies that the directors intend to disclose, although it is difficult to see how financial synergies could be ascribed to cultural fit. If the point being made is that the lack of cultural fit might cause dis-synergies or frustrate the ability to realise synergies, in which case this should be stated.
Para 39	While this is what the Code says it is difficult to see how it is relevant to a QFBS.
Para 40	This should be included in paragraph 37 as it is one of several matters that would be considered. Specific reference should be made to any disclosure under Rule 2.7(c)(iv) by an offeror.
Para 41	This is impractical as the financial adviser’s report is dependent on the reporting accountant’s report.
Para 41	As previously stated, while there is some interaction between the financial advisor and the reporting accountant and the financial adviser’s views or experience may be taken into account, the financial adviser will not be able to issue an opinion unless it concludes positively. Maybe this should be amended to state that if a financial adviser is unable to issue its opinion the reporting accountant should consider the impact of that on its ability to issue its own opinion?
Para 42	See comment on paragraph 17.
Para 43	Point (b) should refer to basis of belief rather than assumptions. However, this paragraph is unnecessary as this point is already required by paragraph 57(e) of SIR 1000.
Para 47	In the first line change “where” to “because” as a QFBS must always relate to the future.
Para 54	Change “opinions” to “opinion”.
Para 62	<p>This paragraph assumes that a discussion has taken place, but for that to happen the reporting accountant first needs to become aware of an issue. It would be more appropriate to place this paragraph after paragraph 63.</p> <p>There is scope for harmonisation of SIRs 3000-6000 on this point. The original SIRs 3000-5000 cross referred to the standard in SIR 1000 (SIR 1000.23), then reproduced the two paragraphs of guidance. In the Exposure Draft the SIRs reproduce two paragraphs of guidance but without the standard or a cross reference to it, so lack the context in which they are supposed to be read. It seems that either there should be full reliance on SIR 1000 only, and therefore no guidance paragraphs either, or if it is thought useful to have the point in each SIR, the standard or a cross reference to it should be preserved alongside the guidance paragraphs.</p>
Para 63	This is different to paragraph 76 of SIR 3000 and should be conformed.

Report            The current standard wording in the opinion which has been developed by market practice is subtly different to the wording suggested in the Exposure Draft in relation to the ability to qualify "It is our responsibility to form our opinion, as required by Rule 28.1(a) of the Takeover Code, as to whether the Statement has been properly compiled on the basis stated and to report that opinion to you." The rules require that we either report a "clean" opinion or we do not report at all. The movement in the position of "as to whether" in the following implies that we can give an adverse opinion "It is our responsibility to form an/our opinion, as required by Rule [28.1(a)(i)] of the City Code, as to the proper compilation of the Statement and to report that opinion to you as to whether the Statement has been properly compiled on the basis stated".

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Appendix 1      The QFBS that the reporting accountant is reporting on would include all of the disclosures and this illustrative report appears to suggest that the QFBS is reproduced as part of the report which would not be appropriate. Paragraph 57 of SIR 1000 and paragraph 46 of SIR 6000 require that the report identifies the matters that it relates to so this should be achieved by a cross-reference.

As mentioned in our response to Q3, the Takeover Panel should be consulted on the acceptability of an opinion that refers to "in all material respects".

The second paragraph in the "Opinion" section is confusing because (a) the QFBS includes the disclosures and (b) it not clear why this paragraph is included in this particular section as it does not relate to the opinion.

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