

CONSULTATION PAPER ON PROSPECTIVE FINANCIAL INFORMATION – JULY 2017

RESPONSE FROM GRANT THORNTON UK LLP – 20 NOVEMBER 2017

Q1: ICAEW has identified many developments in recent years which affect businesses' preparation of PFI, for example in relation to:

- Capital markets regulation
- Business fundraising markets
- Business reporting
- Information availability
- Accountability and governance

In your view what are the most important recent and prospective developments that ICAEW will need to take into account when updating the 2003 guidance?

Response: We agree with the summary of key developments set out in paragraphs 31 to 42 of the Consultation Paper.

Q2: ICAEW has received feedback from preparers, regulators, advisers and users of PFI on the application of the 2003 guidance. Do you have any comments on the feedback summarised in this section and any additional observations?

Response: The formal guidance is rarely referenced in practice but the attributes and principles can often found to be part of the underlying preparation of PFI due to the prevalence for PFI to be subject to external 'due diligence' review. As such, the attributes and principles are already largely, though not always, part of market practice for both the private and non-private arenas.

We note that none of the existing various forms of statement to the capital markets (working capital, profit forecast/estimate, QFBS) requires a positive affirmation of the attributes and principles within the published guidance on PFI as part of the preparation of the underlying PFI that forms the basis of the directors' statement. In the UK capital markets arena, adoption of the PFI principles and attributes set out in the ICAEW guidance could be further increased were the relevant regulators (eg the UKLA, the London Stock Exchange's AIM Regulation team, NEX Exchange's Growth Market team, the Takeover Panel) minded to mandate and/or explicitly regard as 'best practice' the application of the principles and attributes set out in the ICAEW's PFI guidance in the preparation of PFI published in by entities on their respective capital markets. We note that the Takeover Panel and the UKLA were pre-consulted by the ICAEW and hope that this early engagement is an indicator that they will, in due course, fully 'buy-in' to the updated guidance.

Q3: The proposed new framework for PFI will comprise:

- general principles for the preparation of PFI; and
- guidance notes on applying the principles and application notes covering specific types of PFI, in certain circumstances.

Do you have any comments on whether this is an appropriate structure?

Response: This is appropriate. In our experience, each business has its own individual features and a well prepared set of PFI must allow for these features. Consequently,

minimum rules of any detail are impractical as a 'one size' will most definitely not 'fit all', but a structure of principles and guidelines should allow appropriate flexibility within general standards. We agree with your point in the last sentence of para 74 in this regard.

Q4: ICAEW intends to keep the four attributes of useful PFI and the three principles for preparing PFI that are set out in the 2003 guidance, while adding two new attributes. Do you believe that the existing attributes and principles continue to be appropriate and necessary? Do you have any comments on the proposed additional attributes of useful PFI that it should be aligned and 'not misleading'? Do you believe that new preparation principles are needed for the additional attributes?

Response: The existing attributes and principles are appropriate and should be retained. The intention of the proposed attributes is contributory but:

- "aligned" will require improved labelling and articulation as para 79 is brief to the point of not emphasising sufficiently that, rather than the PFI being peripheral and having to be aligned, it should be a pivotal distillation of all the different evaluations by the directors of the business; and
- "not misleading" is an over-riding safeguard, and in that sense essential in the capital markets transactions, so it should be made clearer that failure to respect this attribute is effectively practising a degree of misrepresentation which is completely unacceptable.

Q5: ICAEW proposes extending the scope of the framework to PFI that is prepared for private finance-raising situations. Do you have any comments on applying the principles and attributes of useful PFI to private finance-raising and the forms of PFI and private finance raising involved?

Response: We consider it appropriate for the framework for PFI to provide general principles and to provide best practice for private finance-raising situations on a voluntary basis. However care must be taken not to provide onerous requirements which could interfere with long established working practices in relation to PFI. Market practice has developed such that prospective lenders/investors have to varying degrees developed their own in-house criteria for PFI to be provided by prospective borrowers/investees/vendors and their own in-house capabilities for assessing such PFI against those criteria. Furthermore, for finance-raising situations which are considered 'significant' by the prospective lender/investor, the prospective lender/investor will often retain third party due diligence accountants to utilise their accounting expertise to interrogate and report on the PFI prepared by prospective borrowers/investees/. We see no reason for the propose framework to disrupt this long accepted custom and practice.

We agree with para 55 as to the lack of overt or conscious use of the 2003 guidance. ICAEW's guidance, whilst originally orientated to capital markets transactions, nevertheless remains available to the private finance-raising arena on a voluntary basis should participants in the private finance-raising require a benchmark.

Q6: ICAEW proposes developing new application notes for preparing PFI in the context of regulated, capital markets transactions. Such notes will address topics (eg, profit forecasts and estimates, changes in expectations of performance, working capital statements, and synergy benefits and quantified financial benefits statements) but will not reproduce specific detailed regulations. Do you have any comments in relation to the topics identified and the nature of the application guidance?

Response: We consider that it would be helpful to have some guidance prepared building on what is in the proposed framework. This should not be too prescriptive given the already established custom and practice referred to above. In the arena of capital markets transactions, there appears to be plenty of practical experience amongst firms gained from past delivery which means the topics listed in Q6 have already been addressed in the capital markets arena and those firms participating in it can, when required, advise corporates on how to proceed with their preparation of PFI. General application principles would be appropriate to support best practice.

Q7: ICAEW proposes to develop an application note for private finance-raising situations where proportionate application of the PFI framework is appropriate. What other form of application support might be useful for preparing PFI for private finance-raising? Do you have any comments as to how this might be developed in conjunction with specialist groups, and whether additional application notes should be developed for specific types of private finance-raising?

Response: We see no requirement for this due to the private finance-raising arena having already established working methodologies that suffice and yet do not overtly rely on existing guidance published in relation to PFI (per para 55).

Q8: ICAEW plans to explore whether the new framework could be extended to a wider range of PFI, such as PFI that underpins financial reporting and broader corporate reporting requirements and PFI prepared for purposes other than finance-raising. Do you have any comments on whether such extended application would be beneficial and what sorts of PFI might be covered?

Response: The availability of a benchmark from a principles based system can be assistive to those entities less familiar with preparation of PFI. However, our experience suggests that there is already a significant level of practical execution in these areas. This may render the extension ineffective and unnecessary.