

13 May 2019

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Dear Ms Joannou

Consultation paper on guidance for preparers of Prospective Financial Information

We welcome the opportunity to comment on the proposals in your consultation paper on guidance for preparers of Prospective Financial Information ("PFI").

1. Do you think that the guidance in Parts I and II of the Exposure Draft will be readily understood and capable of application by a wider business audience that is not experienced in capital markets transactions?

We agree that the guidance in Parts I and II would be readily understood. However we also believe that the current drafting is too long and in places is overly repetitive and this will hamper its engagement and application. (For example, paragraphs 8, 11 and 14 of Part I all state that the guidance applies to all PFI). In our original response to the consultation in 31 October 2017 we stated that "in our opinion, the 2003 guidance is overly long and repetitive in nature". Although we believe the Exposure Draft is successful in bringing the guidance up to date, we are not convinced it to be sufficiently concise to achieve its intended level of engagement.

Secondly, in a capital markets context there are number of instances, where preparers of PFI are required to state that their PFI has been "properly compiled" and over the years we have commonly seen preparers have limited and inconsistent understanding or accept that these words have both deep and wide meanings. Whilst the PFI guidance is very valuable in explaining the principles, we believe that a directly stated link between the "properly compiled" statement that preparers are sometimes required to publish and the stated principles would be very helpful in encouraging deeper engagement with the guidance. We acknowledge the explanation given in paragraph 24 of Section V and that also not all PFI is in respect of a capital markets transaction, however we think that this guidance could helpfully be provided in Parts I and II to recognise the significance and lack of understanding of "properly compiled".

2. Do you agree with the categories of PFI that are included in the scope of the guidance, as set out in section 3 of this consultation paper and in Part I of the Exposure Draft?

Yes.

3. Are there any impending changes, including in regulation, that should be taken into account in finalising the guidance in the Exposure Draft?

There are various impending changes including the update of the Prospectus Regulation in July 2019 and the level 3 guidance which may in due course be impacted by Brexit. Although not directly relevant to preparers of financial information it is also worth noting that the Statements of Investment Circular Reporting and the Ethical Standard are currently being reviewed by the FRC which and may indirectly impact preparers where reporting accountants are engaged.

4. Do you have any comments on the context or on the attributes and preparation principles of PFI set out in Part I of the Exposure Draft?

See response to question 1.

5. Do you have any comments on the general principles and procedures for the preparation of PFI set out in Part II of the Exposure Draft?

See response to question 1.

6. Do you have any comments on the application note for statements of sufficiency of working capital in capital markets transactions in Part III of the Exposure Draft?

- Para 8. The penultimate sentence suggests that capital markets regulation imposes requirements on the processes and procedures (as well as standards of care). This suggests that there are prescriptive rules, as opposed to just stating that the procedures should be "appropriate". This might benefit from a slight adjustment to the wording to avoid confusion.
- Para 9. The final sentence applies to all investment circulars not just those containing working capital statements (albeit only investment circulars containing a working capital statement/profit forecast need to be consistent therewith) – suggest deletion or amendment.
- Para 12 – repetition. Suggest deletion.
- Para 13 – repetition of para 5 ("as noted above"). Suggest deletion.
- Para 14 – final part of second bullet in parentheses – suggest deletion as this will probably be confusing to inexperienced users of the guidance.
- Para 15 – first and second sentences are repetition of paragraphs 4, 6 and 9 – suggest deletion. Final sentence suggest adding the words "that would affect the validity of the statement" for clarity.
- Paras 16 and 17 – not sure they add anything – consider deletion.
- Para 18 – suggest there is more discussion about what is meant by a "reasonable worst case". This is a topic often discussed between preparers and their sponsor/reporting accountant and it would be useful to include an explanation here. We appreciate the useful illustrations provided on page 42 of the guidance but think it would be helpful to users to make it clear that the "reasonable worst case" scenario is not a stress test (in the sense used by the financial services industry to establish an organisations resilience to shock events) nor is it intended to be a disaster scenario. However it should be a downside analysis of the factors (singular or multiple) which have more than a remote possibility of occurring.
- Para 25 – suggest deletion, doesn't seem to add anything.

- Para 29 – alignment with disclosures elsewhere in the investment circular has already been mentioned although examples are good here. Consider removal of repetition.
- Para’s 34 and 36 – suggest deletion.
- 4.1 and 4.2 – we are not sure why separate guidance is needed for directors and preparers?. Please consider amalgamation as we are not convinced that 4.1 works as a stand-alone section (see below).
- 4.1 planning guidance. The first 3 bullets are true statements but provide little guidance for inexperienced preparers. Perhaps expanding the initial comments to be along the lines of:
 - as the board will need to accept responsibility they will need to supervise and provide input to the whole process including planning;
 - detailed planning should be done at the outset to ensure sufficient time and resources will be built into the project plan;
 - review of applicable regulation and guidance is the recommended place to start;
- 4.1 execution.
 - Sixth bullet – please clarify what this is referring to.
 - Seventh bullet – we note that an explanation is given in para 21 on page 32 that directors should consider only the availability of legally committed facilities in making the WCS, we consider that unless this is spelled out (eg by mentioning committed facilities within this bullet), that could be easily overlooked by an inexperienced user of the guidance.
 - Also 12th bullet, (and linked to the discussion above) please give more guidance about how directors should determine a reasonable worst case and sensitivity analysis more generally.
- 4.2 – having been through 4.2 a lot of it is a duplication of 4.1 or section 3. There is some excellent detail in 4.2 but it could be combined with 4.1 to achieve a better balance of concise versus stand alone.

7. Do you have any comments on the application note for profit forecasts in capital markets transactions in Part IV of the Exposure Draft, including the application of relevant aspects of the guidance in other circumstances such as where a listed company gives profit guidance to public investors in a less prescribed form (including guidance known as ‘profit warnings’), and where profit guidance or forecasts are prepared for users other than public investors?

- Para 2.2 is it worth stating that in the UK and most European markets, profit forecasts often consist of a short narrative statement and not a profit and loss account in the format use for historical financial statements?
- Also in para 2.2 there is no discussion about long range profit forecasts – in terms of how they are treated by regulators (eg what is deemed to be an acceptable period looking into the future) and whether they meet the test of reliability. We are not sure whether this point is covered other than indirectly under section 4.2 under the headings “Period covered by the supporting

unpublished PFI" and "Level of detail required in supporting unpublished PFI" but the point about published profit forecasts generally only being short term is not explicitly mentioned.

- Para 17 would be a good place to link the obligation of the directors to state that the PFI has been "properly compiled" with the guidance. We think it would help preparers to focus on the reason to engage with the guidance fully.
- Para 18 – final sentence is repetition.
- Para 21 – repetition as is most of para 22.
- Page 58 third bullet. Following the introduction of the new prospectus regulation in July 2019, this confirmation will also be required in profit forecasts covered by that regulation.
- Our comments in relation to the repetition in sections 4.1 and 4.2 of the working capital application guidance also apply to the profit forecast section. We believe it would be better to consolidate these into one section.

8. Do you have any comments on the application note for synergy and stand-alone cost saving statements in capital markets transactions in Part V of the Exposure Draft?

- Paras 22, 26 and 27 – same repetition as sections above. These statements are once in Part I /II and are only included in each section as a signpost of the sub-sections to come. We do not think there is any value in their repetition.
- Again we would suggest that sections 4.1 and 4.2 are combined as there is a lot of overlap and section 4.1 is not completely stand alone as for the working capital section.

9. What, if any, transition arrangements are needed for applying the principles when the final guidance is published?

- Although the core principles of the 2003 guidance and the latest guidance are broadly similar, preparers may be concerned about being judged against the latest guidance if their PFI is subsequently called into question.
- We would therefore suggest a three month lead in period once the guidance is published with early adoption to be encouraged.

10. Are there any other matters that should be taken into account when finalising the guidance in the Exposure Draft?

We do not have any further comments on this matter.

Yours sincerely

Deloitte LLP