Part III, C: Synergy and stand-alone cost-saving statements in capital markets transactions

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This document forms part of TECH 04/20CFF Guidance for preparers of prospective financial information.

Part III, C: Synergy and stand-alone cost-saving statements in capital markets transactions

1. INTRODUCTION

1. This application note applies when making statements of anticipated synergies published in a merger and acquisition-related UK investment circular. It also applies to stand-alone cost-saving statements published in a bid defence document under the City Code. The application note should also be used by those assisting with the preparation of such statements and the supporting unpublished information. Elements of the guidance and practical steps may also be applicable to the preparation of synergy statements in other regulatory regimes and in other circumstances.
2. There is no regulatory requirement for any such statement of anticipated synergies or stand-alone cost savings to be made. However, if the transaction is subject to UK capital markets regulation there may be specific regulatory requirements governing such statements, if they are made publicly.
3. The proposed acquisition of a UK public company is governed by the City Code. A statement of synergies or stand-alone cost savings made in relation to the proposed transaction is defined within the City Code as a Quantified Financial Benefits Statement (QFBS). As the specific City Code requirements in connection with a QFBS do not apply to a statement published by an all-cash offeror, they are not included in the term QFBS used in this application note.
4. When a Class 1 circular issued under the LR includes a statement of synergy benefits (Synergy Benefits Statement), such a statement must include certain disclosures.
5. The respective regulatory requirements that apply under the City Code and LR, including the specific disclosure requirements, are set out in Annex C.
6. It is possible that both the City Code and the LR obligations may apply to the same statement. While the disclosure requirements are broadly similar, there is more regulation in the City Code. In addition, there is a City Code requirement for a QFBS to be reported on by the financial adviser(s) and reporting accountant.
7. This application note is predominately focused on a QFBS made in the context of a transaction subject to the City Code and, unless stated to the contrary, can also be applied to a Synergy Benefits Statement made in the context of a transaction subject to the LR.
8. This application note should be used proportionately when preparing a public statement of anticipated synergies not captured by the City Code or LR. However, the level of rigour applied to the internal processes adopted in the preparation of the PFI supporting the statement of anticipated synergies would be expected to be similar.
9. This application note should be considered and read together with Parts I and II of the guidance.

1.1 PFI in relation to synergy and stand-alone cost-saving statements

10. Any Synergy Benefits Statement or QFBS (either of which is considered a Statement for the purpose of this application note) published in an investment circular is itself PFI. There will be further PFI (which is unpublished) specifically prepared to directly support the Statement which may include:
    - the underlying detailed plan developed by the company making the announcement, including the development of the synergy case, the documentation of assumptions underpinning the planned financial benefits and the high-level integration/implementation plans for realising the benefits in practice (in the context of a synergy announcement, this is often known as the Synergy Plan); and

- where the Synergy Plan does not form part of the papers presented to the board, a separate summary board document that summarises the Synergy Plan (or cost-savings plan for cost-saving statements).

2. REGULATORY REQUIREMENTS

2.1 City Code definition of QFBS

11. A QFBS is defined in the City Code as either:

- a statement by a securities exchange offeror or the offeree company quantifying any financial benefits expected to accrue to the enlarged group if the offer is successful; or
- a statement by the offeree company quantifying any financial benefits expected to accrue to the offeree company from cost-saving or other measures and/or a transaction proposed to be implemented by the offeree company if the offer is withdrawn or lapses.

2.2 Overview of City Code regulation

12. There is a general standard of care under the City Code that states each document, announcement or other information published, or statement made, during the course of an offer must be prepared with the highest standards of care and accuracy. The language used must clearly and concisely reflect the position being described and the information given must be adequately and fairly presented. These requirements apply whether the document, announcement or other information is issued by the party concerned or by an adviser on its behalf.

13. The City Code sets out specific regulatory requirements (including required disclosures) that apply to any QFBS made in connection with a proposed takeover, in any document or announcement published during an offer period (or in an announcement which commences an offer period). These are set out in detail in Annex C and the table below highlights the key areas covered by the disclosure requirements:

QFBS
• Analysis, explanation and quantification of the constituent elements of the QFBS. • Base figure where a comparison is made with the historical costs or existing cost base. • Details of any dis-benefits expected to arise. • Statement that the financial benefits are directly attributable to the offer and could not be achieved independently (applies to QFBS made by offeror only). • An indication of the timing for achievement of the financial benefit. • An indication of recurring vs non-recurring financial benefits and clear identification of those which are non-recurring. • Costs of realising financial benefits. • Bases of belief supporting the QFBS, identifying principal assumptions and sources of information.

14. The Panel will not normally permit an offeree company to publish a statement quantifying the financial benefits expected to accrue from an offer by a particular offeror unless that statement is published with the consent of the offeror.

15. When a QFBS is first published, the City Code requires a reporting accountant and financial adviser(s) to each issue public reports containing the relevant opinion (see Annex C for form of opinion required).

16. Any further documents or announcements published in connection with the offer must, unless superseded by information included in the new document or announcement, include a statement by:

    - the directors confirming that the QFBS remains valid; and
    - the directors confirming that the reporting accountant and financial adviser(s) have confirmed that their reports continue to apply.

2.3 LR definition of Synergy Benefit

17. The LR define a Synergy Benefit as when a premium segment listed company includes details of estimated synergies or other quantified estimated financial benefits expected to arise from a transaction in a Class 1 circular.

2.4 Overview of LR regulation

18. A Synergy Benefits Statement made in a Class 1 circular must comply with the requirements under the LR. These are broadly consistent (though not identical) with those in the City Code and are set out in detail in Annex C. The table below highlights the key areas covered by the bases of belief and disclosure requirements:

SYNERGY BENEFITS STATEMENT

- Analysis and explanation of the constituent elements of synergies or other quantified estimated financial benefits (including costs), including timing for achievement, and whether they are recurring.
- Base figure for any comparison drawn.
- Synergies or other quantified estimated financial benefits are required to be contingent on the Class 1 transaction (that is, they could not be achieved independently).
- Synergies or other quantified estimated financial benefits are required to reflect both the beneficial elements and relevant costs.
- Bases of belief that the synergies or other quantified estimated financial benefits will arise.

19. While the LR do not specify the other requirements covered by the City Code in relation to a QFBS (as set out in Annex C), the directors should undertake similar procedures to those for a QFBS when preparing a Synergy Benefits Statement under the LR.

2.5 Directors' accountability, including satisfying regulatory obligations

20. The directors are responsible for the Statement and, accordingly, should be fully engaged in the preparation process, including approving the Statement. Publication of a Statement in an investment circular sets a strong expectation that the Statement will be met.

21. Prior to deciding to make such Statements, the directors should consider the risks associated with making such a public statement and the fact that the directors are responsible for the Statement and associated disclosure requirements.

22. While the obligations under the City Code and LR are articulated differently, the spirit of the obligations and standards of care are broadly aligned and require that the process adopted by the directors is sufficiently robust. The directors should, therefore, undertake appropriate procedures to ensure a Statement has been properly compiled on the basis stated and prepared with due care and consideration.

23. In order for the directors to satisfy themselves that the Statement made under the City Code or LR has been properly compiled on the basis stated and prepared with due care and consideration, they should ensure the Statement meets the relevant regulatory disclosure requirements and be able to demonstrate that they have applied the general attributes and principles set out, or cross referred to, in this application guidance.

24. The guidance does not address legal obligations and directors should obtain legal and professional advice as appropriate.

3. APPLYING ATTRIBUTES AND PRINCIPLES TO SYNERGY AND STAND-ALONE COST-SAVING STATEMENTS

25. The attributes and, where relevant, the way in which the associated principles apply to a Statement are set out below. Where application is specific to either a QFBS (under the City Code) or a Synergy Benefit Statement (under the LR) this is highlighted, though in most instances they are equally applicable to both.

3.1 'Relevant' attribute and 'user needs' principle

26. For a Statement to be relevant and capable of influencing users' economic decisions, it would usually be made at the commencement of, or during, an offer period, or before shareholder approval in the case of a transaction subject to the LR (and in this latter case usually within the Class 1 circular).

3.2 'Reliable' attribute and 'business analysis' principle

27. The City Code specifically requires that a QFBS:

    'must be supported by a thorough analysis of the offeree company's and/or the offeror's business and must represent factual and not hypothetical strategies, plans and risk analysis.'

3.2.1 Business analysis

28. Specific post-transaction integration/implementation plans (or, for bid defence scenarios, stand-alone implementation plans) should be developed to help enable benefits to be quantified and delivered. This application guidance promotes the preparation of a Statement based on an analysis of the strategic purpose of a transaction, specific post-transaction integration plans and

an understanding of the risks involved in implementing those plans. Such plans are likely to be developed, initially, at a relatively high level due to limitations on access and information, and may be further developed post deal.

29. There may be significant challenges around the supporting business analysis for a Statement when the directors:
    - are keeping different strategic options open;
    - have limited information about one or other party (for example, if no access to the target is available, or their own access is limited due to wishing to preserve confidentiality and involving only a small group of people) or the financial consequences of alternative plans (for example, cost-savings plans being planned or implemented by the offeree); or
    - have limited opportunity to validate its plans by reference to external evidence and opinion.
30. Where access and information are limited, benefits may only be able to be quantified under an 'outside-in' approach ie, where information is limited to publicly available sources. As there will be inherent uncertainties in the source information under such an approach, the process adopted should build in sufficient allowances (eg, risk-weighted adjustments and contingencies) when estimating the relevant cost saving. For example, a potential acquirer might have an adequate basis for stating that it plans to eliminate certain duplicate costs that are disclosed in sufficient detail in the financial statements or other publicly available information, but will require a higher contingency to be able to quantify and publish other cost savings (such as procurement) where there is no access to detailed information or commercially sensitive information. In situations where the level of uncertainty is so great that the cost saving cannot be enumerated, a qualitative disclosure may be appropriate.
31. When considering the attribute of reliability, the directors should consider in relation to the constituent parts:
    - how straightforward the calculation of the benefit is (for example, duplicated board costs and central overheads);
    - the degree of access and information available to support the benefit; and
    - whether they will have control over the achievement.

3.2.2 Other aspects of reliability

32. The concept of neutrality is reflected by the requirement to disclose dis-benefits expected to arise in addition to the recurring and non-recurring costs of implementing post-acquisition plans. For example, where there are synergy savings in salary costs from planned redundancies then the associated redundancy costs should be included within the announced quantum of non-recurring costs.

3.3 'Understandable' attribute and 'reasonable disclosure' principle

33. The attribute of understandability and the principle of reasonable disclosure are reflected in the City Code, which requires that the QFBS:

    'must not be so complex or include such extensive disclosures that it cannot be readily understood'.

3.3.1 Form of the Statement

34. The regulatory disclosure requirements set out in Annex C promote presentation of a clear and understandable Statement and include the requirement to include an analysis, explanation and quantification of the constituent elements sufficient to enable the context and relative importance of those elements to be understood.

35. A Statement may take a variety of forms that could include, for example, cost synergies, revenue synergies or stand-alone cost savings anticipated in a bid defence scenario. It is therefore important that the Statement is clear as to the form of the synergies arising. For example, when disclosing cost synergies it may be appropriate to be clear in the Statement whether they relate to trading costs, capital costs or working capital requirements.

36. It is appropriate for the Statement to not only distinguish between cost synergies and revenue synergies (if any), but to also set out the main constituent elements of the respective cost or revenue synergies.

37. A further aspect of understandability is the disclosure relating to the degree of uncertainty inherent in the information. If a significant degree of uncertainty in relation to the quantified financial benefits exists, doubt is cast over the appropriateness and reliability of a Statement. The directors' analysis of contingencies in relation to the Statement may assist in identifying the need for disclosures of uncertainties relating to material bases of belief or other aspects of the Statement.

38. There is a strong expectation that the Statement will be met and there should therefore be very little risk that the quantum of synergies announced is not achieved. Consequently, the directors may adopt a prudent approach in making a Statement and, in doing so, may opt to disclose the quantum as the minimum level they expect to achieve.

39. A Statement normally will disclose the overall synergies as either a run-rate figure or an 'in year' figure that is to be achieved by a certain year. While either approach is acceptable, the Statement needs to be clear as to the approach adopted.

40. Where the bases of belief are included as part of the Statement they should set out the principal assumptions and sources of information in connection with the Statement and in a manner that is also readily understandable, specific and precise.

3.3.2 Alignment with disclosures elsewhere in the investment circular

41. Within an investment circular (or during an offer period) there may be other disclosures or statements relating to the transaction such as post-offer intention statements, post-offer undertakings, quantification of the potential impact on employees (ie, redundancies) or risk factors. When making a Statement it is important that the Statement is aligned with any other disclosures or statements that would influence the Statement and that these are taken into consideration when developing the Statement. Where such disclosures or statements directly influence the Statement, then the directors should also make the necessary disclosures within the bases of belief supporting the Statement.

3.4 'Comparable' attribute and 'subsequent validation' principle

42. The supporting Synergy Plan for a Statement should be in a format that facilitates the ongoing monitoring of synergies achieved so that the company maintains the ability to update the market in respect of overall delivery of the synergies or cost savings. To assist ongoing monitoring, the synergy case may be revised post deal to reflect the passage of time and increased access to management and information.

4. PREPARING PFI IN CONNECTION WITH SYNERGY AND STAND-ALONE COST-SAVING STATEMENTS (AND THE SUPPORTING UNPUBLISHED PFI)

43. Part II identifies core procedures for the preparation of all PFI, in the form of illustrative practical considerations and techniques. Some form of underlying PFI (including, for example, a Synergy Plan) will be required to support a Statement, but the form of Statement may not necessitate the preparation of full financial projections. Accordingly, the guidance in Part II should be applied on a proportionate basis where relevant to the Statement being made and the supporting unpublished PFI. This application note identifies a number of additional specific matters requiring consideration in connection with making a Statement and preparing supporting unpublished PFI.

4.1 Illustrative practical considerations and techniques specifically applicable to the Statement

44. The practical considerations and techniques below are not exhaustive or prescriptive: other considerations and techniques may be applicable. In the Execution section, bullets in italics relate to specific City Code requirements and are largely consistent with the LR requirement as set out in Annex C.

45. Where supporting business analysis is derived from PFI contained in the company's financial projections, the applicable practical procedures and considerations set out in Part II should be undertaken on such PFI. The detailed procedures, considerations and techniques set out below are specific to the preparation of a Statement (including bases of belief) and the supporting Synergy Plan.

PLANNING

a. Obtain and review the relevant market rules and regulation (taking into account the circumstances).

Appointment of advisers

b. The directors should ensure that the Statement, Synergy Plan and other supporting unpublished PFI, which forms a basis for the Statement, are prepared in accordance with the relevant regulatory requirements and guidance (as set out in Annex C) and having regard to this application guidance.

c. Where public opinions/reports are required from financial advisers and reporting accountants in connection with a QFBS under the City Code, the directors should appoint them early on in the process.

d. Consider whether any third party professional adviser should be commissioned to advise and assist in the development of the Synergy Plan.

Board input and involvement

e. The directors are responsible for the Statement and should be involved and provide oversight throughout the preparation process, including approving the form and content of the published Statement and supporting disclosures of bases of belief (as well as the supporting unpublished PFI).

Subject matter expertise and experience required to prepare and evaluate the Statement and Synergy Plan (to the extent permitted by time, confidentiality and access constraints)

f. The directors are likely to benefit from ensuring the appropriate involvement of senior operational and financial management in the development of the detailed Synergy Plan and its underlying assumptions.

Level of or access to management and information (target and acquirer) in contemplation of a Statement

g. A key factor determining the likely nature and quantum of a Statement will be the level of access to the acquirer and target underlying information and the timing of the Statement.

h. In a price sensitive scenario where the number of insiders is understandably restricted, it may be difficult to obtain the information to support appropriate business analysis on both the acquirer and the target. This will have implications for the Statement that can be made.

Key messages in the context of the rationale for the acquisition/takeover or stand-alone cost savings and any intention statements or post-offer undertakings

i. Intention statements and post-offer undertakings have specific meanings if the transaction is subject to the City Code (as set out in the City Code).

j. The directors should familiarise themselves with those rules to ensure the Statement complies with the requirements.

Monitoring the Statement

k. Consider how and when the Statement can be monitored or reported against in the future if required by stakeholders including shareholders, employee groups and regulators.

EXECUTION

A Statement should be prepared in compliance with relevant market rules and regulation and, where required, public opinions/reports commissioned from financial advisers and reporting accountants in respect of a QFBS

Board memorandum

a. Preparation of the board memorandum (to be approved prior to making the Statement) may include, for example, a summary of the relevant regulation, any directors' confirmations, and an outline of the relevance of the Statement to the transaction, its context and its audience.

b. The purpose of the board memorandum is to formally record the directors' bases for the Statement and their responsibilities in relation to it. The directors should prepare and adopt a formal record of the evidence that has been compiled to support the information to be published (eg, in the board memorandum or Synergy Plan) and formally adopt the synergy case to be publicly announced.

c. The directors need to consider whether all factors that could have a material bearing on the Statement have been addressed.

Directly attributable

d. Some synergies, for example the elimination of duplicate head office costs, clearly fall into the category of directly attributable to the transaction. However, other benefits such as operational efficiencies may be less clear-cut. To be directly attributable it will need to be demonstrated that the acquisition will allow one of the parties access to methodologies, technologies or similar, which would not otherwise be available to it.

Preparation of detailed Synergy Plan

e. The Statement should be supported by, and consistent with, the preparation of an underlying Synergy Plan and individual synergy initiatives and analysis that support the Synergy Plan, which may form part of the board memorandum or be prepared separately.

f. When developing the Synergy Plan, the directors or senior operational and financial management may consider:
   - the rationale for the acquisition;
   - plans for the merged business and integration strategy;
   - principal assumptions;
   - macro-level benchmarking (eg, comparison of targeted benefit with synergies achieved in prior acquisitions);
   - potential areas for upside, including quantified and non-quantified aspects where appropriate;
   - what level of contingency will be factored into the Synergy Plan;
   - associated costs and timing of implementation;
   - analysis supporting and explaining any dis-benefits expected to arise; and
   - underlying data together with operational, legal and regulatory constraints.

Existing cost bases of each business

g. In identifying and analysing the base lines upon which individual synergies/cost savings are derived, the directors or senior operational and financial management may consider the following.
   - Cost base detail, at the greatest level of detail readily available, which may include:
     - overall profit and loss schedule; and
     - detailed analysis by business unit/function/location, as applicable, including a split of personnel versus non-personnel costs.
   - Headcount detail, at the greatest level of detail readily available, which may include:
     - headcount and full-time employee by function by business unit/location (ideally this should take the form of anonymised payroll data);
     - determining the assumptions that need to be used – eg, target based on public information, disaggregated into greater granularity using acquirer cost-base ratios and other known factors; and
     - considering differences in financial periods and age/basis of data – eg, average for the year or headcount as at a specific date.

- Principal operating KPIs – eg, those used in monthly management reporting.
- Recent and projected capital expenditure, analysed into maintenance and expansionary expenditure.
- Information technology spend (including operational expenditure, capital expenditure and people costs).
- Material cost-saving programmes planned, in progress or recently completed, including benefits targeted, current status, and implementation costs.

Identification and specification of cost saving and other financial benefits (and associated costs) within the combined business

h. The directors or senior operational and financial management may consider the following against each synergy:
   - cost and headcount baseline (linked to the overall cost and headcount baseline as above);
   - description of and rationale for the saving;
   - quantum of saving, phased (eg, over a three-year period, including end run-rate or in-year rate);
   - for headcount savings, number of full-time employees impacted;
   - split of headcount and non-personnel savings, where relevant;
   - key assumptions made;
   - one-off costs, including phasing (eg, redundancy costs);
   - recurring costs of implementation (where relevant);
   - comparison to benchmarks, where available (whether internal or external); and
   - key implementation considerations and potential execution risks.

Targeted benefits and contingencies

i. The directors should consider whether a contingency should be built into the Synergy Plan and Statement. The level of any contingency provision will depend on a range of factors, which may include the profile of the businesses, the nature of the quantified financial benefits identified, the plan to achieve them and the quality of the information/evidence available.

j. The directors should assess the level of access in respect of their own and the target's information which will help inform the level of contingency to be applied to the Statement.

k. The contingency should take into consideration operational management's previous experience of achieving relevant cost savings/synergy initiatives.

l. Each element contributing to the total quantified financial benefit should be considered separately in determining the level of the contingency required.

m. In the circumstances of a hostile offer (and sometimes in the case of a recommended offer), where access to information relating to the target is limited to that which is publicly available, it is likely that the Statement will necessarily be more limited than if greater access had been available. The directors should establish that the published information is sufficiently detailed and specific to enable them to justify their quantification of financial benefits. Since significant assumptions may have to be made in such situations, the degree of confidence in the level of synergies which may be achieved may be reduced.

Compilation process

n. The Statement and the Synergy Plan should be subject to checks by the preparer to ensure that:

- there are no mathematical or clerical errors in the compilation;
- the Statement has been accurately computed based on the disclosed bases of belief;
- the bases of belief (or principal assumptions) are consistent with the directors' analysis of the business; and
- assumptions have not been misapplied.

Compilation process in development of Synergy Plan

o. The directors should ensure that detailed and specific plans have been developed to support and deliver the benefits.

p. The directors should be able to demonstrate that the business analysis carried out has been used by them in compiling the Statement and supporting unpublished PFI. The extent and nature of the analysis that is required to support the Statement will be dependent upon the specific circumstances in which the Statement is being prepared.

q. If required, the supporting detailed Synergy Plan and underlying assumptions should be based on:

- supportable assumptions based on rigorous business analysis;
- consideration of the integration strategy and plans of the business and related implementation risks; and
- assessment of the neutrality of the Statement and, in particular, whether all costs of realising the expected benefits have been identified.

r. The directors should prepare their supporting unpublished Synergy Plan and individual synergy initiatives to cover the period for the synergies in the Statement to be realised.

s. The directors should be able to demonstrate:

- appropriate levels of review and challenge within the organisation and involvement of senior operational and financial management; and
- the agreement of senior operational and financial management to the assumptions on which the quantified financial benefits/synergies are based.

Compliance of Statement with bases of belief

t. The bases of belief are the principal assumptions upon which the Statement is based and should be supported by robust analysis and, where applicable, demonstrate consistency with management's past experience.

u. The bases of belief should demonstrate a credible strategy for preparing the Statement. This strategy should be supported by the appropriate operational people within the acquirer and/or target as appropriate and be fully costed.

v. In relation to the bases of belief (principal assumptions):

- *the bases of belief must support the QFBS.*

- *the bases of belief should provide useful information as to the reasonableness and reliability of the QFBS.*
- *The bases of belief should:*
  - *be readily understandable;*
  - *be specific and precise; and*
  - *not relate to the general accuracy of estimates underlying the QFBS.*

w. *There must be a clear distinction between bases of belief about factors which the directors (or other members of the company's management) can influence and those which they cannot influence.*

x. Specific costs that will be impacted should be identified and evaluated.

y. The bases of belief should set out whether the synergy assumptions have had a contingency applied.

z. The benefits identified relating to cost savings are more likely to be readily supportable and within the control of management to deliver, than revenue enhancements.

aa. The approach adopted by the directors to compiling a Statement relating to a group will need to include measures to ensure that (particularly with regard to an assessment of dis-benefits) all subsidiaries and, where relevant, all material associated undertakings are considered.

Compliance with applicable disclosure requirements

bb. Where applicable, an indication should be provided of constituent elements, potential benefits should be balanced with dis-benefits and costs to achieve, timing clarified, and recurring vs non-recurring specified.

Constituent elements

cc. *The analysis, explanation and quantification of the constituent elements of the Statement should be sufficient to enable the context and relative importance of these elements to be understood.*

dd. The cost savings should be presented net of ongoing costs required to deliver them.

Base figure

ee. *A base figure is required where any comparison is made with historical financial performance or with existing cost bases and structures.*

ff. A base figure should also be provided where comparison is made with future anticipated cost bases and structures.

gg. Compelling evidence is required where the base figure is predicated on a future anticipated cost structure.

hh. Base figures provide context for interpreting the Statement. They should be readily understandable, and calculated and presented on a consistent basis.

ii. Unless clearly disclosed and explained base figures should not include any one-time or exceptional items (including those arising from a change in accounting policy).

jj. In the calculation of a financial benefit, the treatment adopted should be consistent with the entity's accounting policies.

Dis-benefits

kk. Details of any dis-benefits expected to arise must be disclosed in the QFBS.

ll. Dis-benefits should be calculated and disclosed – these may include any likely inefficiencies or consequences of increased scale within the entity's markets.

Directly attributable to the transaction

mm. In respect of a statement by the offeror, the City Code requires that the financial benefits of synergies must accrue as a 'direct result' of the success of the offer and could not be achieved independently of the offer.

Timing for achievement of Statement

nn. The QFBS must set out the preparers' expectation of when the financial benefits are expected to arise.

oo. A Statement may specify the timing of benefits as either in-year benefits or exit run-rate benefits. It is important that the Statement makes clear the basis of the phasing statement.

Recurring vs non-recurring financial benefits

pp. The QFBS must include an indication as to whether the expected financial benefits will be recurring, clearly identifying any non-recurring benefit(s).

qq. The directors should prepare analysis to support the relevant categorisation of the expected financial benefits between recurring and non-recurring.

Costs of realising expected financial benefits

rr. The recurring and non-recurring costs of realising the expected financial benefits.

ss. Analysis to support the recurring and non-recurring anticipated costs of realising the expected financial benefits.

Wording should be transparent and concise and be consistent with and based on the detailed Synergy Plan

Consistency of Statement with other disclosures in the investment circular

tt. Post-offer intention statements, post-offer undertakings or risk factors disclosed in the investment circular that impact the Statement should be taken into consideration when developing the Statement (and where they directly influence the Statement then disclosure should also be made in the bases of belief supporting the Statement).

Monitoring of synergies

uu. Consider how the synergies will be monitored post transaction and how the market will be updated on this, such as in trading updates, interim financial information and the annual report

vv. The business analysis that supports a Statement may be prepared in a format that facilitates the ongoing monitoring of synergies achieved (or is capable of being developed into such a format).

ww. The company should maintain the ability to update the market in respect of overall delivery of the synergies.

EVIDENCE AND DOCUMENTATION

a. Key elements of the process should be evidenced through contemporaneous documentation.

b. Board review and approval are required of the board memorandum, Statement and Synergy Plan.

c. Detailed analysis of the benefits, dis-benefits and costs to achieve

- There should be documentary support for the plans, strategies and risk analysis, consistent with the analysis of the business. Support should also include information generated from within the organisation and from external sources, such as detailed and specialist benchmarking information.
- The bases of belief (assumptions) should be documented.
- The wording of the Statement should be compiled by the company's management team from financial and operational records with input from the board and having regard to advice from any external advisers that have been appointed.
- The directors should confirm in the documentation that the minimum disclosures required by the relevant regulation, as set out in Annex C, have been made (for example, for a QFBS the amount of the quantified financial benefits and the assumptions relating to them).
- The Statement, Synergy Plan and business analysis should be in a format that facilitates the ongoing monitoring of synergies achieved.

Annex C: Synergy and stand-alone cost-saving statements in capital markets transactions

1. UK

1.1 Summary of UK regulation relevant to Statements

UK regulations do not require synergy and cost-saving statements (Statements) to be made. They may, however, be made voluntarily by companies during the course of a transaction.

If a company chooses to make a Statement, the relevant applicable UK regulation is set out below.

City Code Requirements		LR Requirements	
Rule 28.3(a)	Any QFBS must be properly compiled and must be prepared with due care and consideration. The QFBS, and the assumptions on which it is based, are the responsibility of the relevant party to the offer and its directors.		
Rule 28.3(b)	A QFBS and the details included in accordance with Rule 28.6 (the additional disclosure requirements) must be: • understandable (it must not be so complex or include such extensive disclosure that it cannot be readily understood); and • reliable (it must be supported by a thorough analysis of the offeree company's and/or the offeror's business and must represent factual and not hypothetical strategies, plans and risk analysis).		
Rule 28.6	When a QFBS is included in any document or announcement published during an offer period (or in an announcement which commences an offer period), the document or announcement must include:	LR13.5.9A	Where a listed company includes details of estimated synergies or other quantified estimated financial benefits expected to arise from a transaction in a Class 1 circular, it must also include in the Class 1 circular:
Rule 28.6(a)	the bases of belief supporting the statement (identifying the principal assumptions and sources of information);	LR13.5.9A(1)	the basis for the belief that those synergies or financial benefits will arise;

City Code Requirements		LR Requirements	
Rule 28.6(b)	an analysis, explanation and quantification of the constituent elements sufficient to enable the context and relative importance of those elements to be understood;	LR13.5.9A(2)	an analysis and explanation of the constituent elements of the synergies or other quantified estimated financial benefits (including any costs) sufficient to enable the relative importance of those elements to be understood, including an indication of when they will be realised and whether they are expected to be recurring;
Rule 28.6(c)	a base figure where any comparison is made with historical financial performance or with historical cost bases and structures;	LR13.5.9A(3)	a base figure for any comparison drawn;
Rule 28.6(d)	details of any dis-benefits expected to arise;		
Rule 28.6(e)	in the case of a statement falling under paragraph (a) of the definition of a 'quantified financial benefits statement', a statement that the expected financial benefits will accrue as a direct result of the success of the offer and could not be achieved independently of the offer;	LR13.5.9A(4)	a statement that the synergies or other quantified estimated benefits are contingent on the Class 1 transaction and could not be achieved independently; and
Rule 28.6(f)	an indication of when the financial benefits are expected to be realised;		
Rule 28.6(g)	an indication of whether the expected financial benefits will be recurring, clearly identifying any non-recurring benefit(s); and		
Rule 28.6(h)	the recurring and non-recurring costs of realising the expected financial benefits.	LR13.5.9A(5)	a statement that the estimated synergies or other quantified estimated financial benefits reflect both the beneficial elements and relevant costs.

City Code Requirements		LR Requirements	
Rule 28.4(b)	The bases of belief included for a QFBS should provide useful information as to its reasonableness and reliability. They must: • be readily understandable; • be specific and precise; and • not relate to the general accuracy of the estimates underlying the QFBS.		
Rule 28.4(c)	There must be a clear distinction between bases of belief about factors which the directors (or the members of the company's management) can influence and those which they cannot influence.		
Rule 28.1(a)	The document in which the QFBS is first published must include: • a report from its reporting accountants stating that, in their opinion, the QFBS has been properly compiled on the basis stated; and • a report from its financial adviser(s) stating that in its (or their) opinion, the QFBS has been prepared with due care and consideration.		

1.2 Summary of other relevant regulatory guidance applicable to others but also of note to directors

Reporting accountants	Standard for Investment Reporting 1000 – Investment reporting standards applicable to all engagements in connection with an investment circular (SIR 1000) Standard for Investment Reporting 6000 - Investment reporting standards applicable to public reporting engagements on quantified financial benefits statements (SIR 6000)
FCA Technical Notes FCA / TN / 315.1	Quantified Financial Benefits Statements – Reports on Quantified Financial Benefits Statements and Confirmatory Statements included in prospectuses

1.3 Other regulatory obligations including standards of care required

Capital markets regulation in the UK imposes standards on the content of information (including Statements) included in investment circulars (including offer and bid documents as appropriate), and on the processes and procedures adopted by the directors in preparing such information including the following.

- Except with the consent of the Panel, Rule 28.1 of the City Code requires that in relation to a QFBS contained in a document subject to the City Code, if the offeree company or a securities exchange offeror publishes a QFBS, the document or announcement in which the statement is first published must include a report from its reporting accountant and its financial adviser(s).
- Rule 19.1 of the City Code requires that each document, announcement or other information published, or statement made, during the course of an offer must be prepared with the highest standards of care and accuracy. The language used must clearly and concisely reflect the position being described and the information given must be adequately and fairly presented. These requirements apply whether the document, announcement or other information is published, or the statement is made, by the party concerned or by an adviser on its behalf.
- The LR require that an issuer must take reasonable care to ensure that any information it notifies to a Regulatory Information Services (RIS) or makes available through the FCA is not misleading, false or deceptive and does not omit anything likely to impact the import of the information (LR1.3.3).
- In addition, the LR and PRR require that the declaration to be given by the directors in relation to all information contained in an investment circular states that, to the best of their knowledge, the information (including the Statement) is in accordance with the facts, and the investment circular contains no omission likely to affect its import.