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Dear Ms Joannou

Consultation paper on prospective financial information – July 2017

We welcome the opportunity to comment on the consultation paper.

Our responses to the questions raised are set out in the Appendix to this letter.

Yours faithfully

KPMG LLP

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?

Although undoubtedly much has happened in the period since the publication of the 2003 guidance, we do not believe that underlying challenges of prospective financial information have changed in any fundamental way. Ultimately the future remains inherently unknowable, and any form of forecasting depends on the identification and selection of assumptions, some of which may prove reasonably successfully chosen, other of which may not. This is not an area which many standard setters have ventured into over the years and it is to the Institute's credit that it undertook the PFI project in 2003. The conceptual framework for preparers proposed at the time remains something of a one-off.

Apart from the capital markets area where changes to regulation and legislation have raised new challenges for preparers at a detailed level, and create a genuine need for updated guidance, we do not consider that the other developments identified by the ICAEW fundamentally impact the applicability or relevance (or otherwise) of the 2003 guidance to those areas.

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?

We have no comments on the feedback.

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?

We agree with the proposal to retain the existing structure.

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?

The suggestion that new attributes may be needed may also be an indication that the existing attributes or their application could be clarified. In our view, the additional attributes are unnecessary. For example, PFI based on the 'reliability' attribute is already required under the analysis contained in 2.35 of the 2003 guidance to be "consistent with planned courses of action published elsewhere by the entity". On this basis 'alignment' is already a subset of 'reliability'. Similarly, it is hard to see that information prepared in accordance with the existing principles, which require such things as 'neutrality' 'freedom from material error' and 'reasonable disclosure' could be 'misleading'. We would note that there has never been a suggestion that the absence of a 'not misleading' attribute from the framework for useful historical financial information is a defect in that framework. We would contrast the position of prospective financial information with that of pro forma financial information, which is perhaps lying behind the proposal. The very significant limitations and constraints governing the basis of preparation of pro forma financial information mean that disclosure may not also be an adequate safeguard, and hence the overriding concept of it being 'not misleading' may be required. However, it would seem an unnecessary addition in the context of prospective financial information.

It is worth noting that the four existing attributes in the 2003 guidance are themselves in some cases expressed in terms that raise questions about their boundaries. 'Understandability' is coupled with 'reasonable disclosure'. 'Reliability' is coupled with 'business analysis'. 'Comparability' has 'subsequent validation'. It may be worth considering whether this doubling up aids clarity. It is not entirely clear for instance whether the terms are equivalent, whether one is a subset of the other, or whether they are separate and additional. Separately, we take the view that the principle of 'subsequent validation' is conceptually flawed. Whilst a preparer can reasonably ensure that prospective financial information is consistent with historical financial information, it is not possible for a preparer to be satisfied that the prospective financial information is consistent with financial information that does not yet exist, and will be prepared and published in the future. What seems to be happening is that a principle that actually applies to the preparer of the future information, when it is being prepared (that is should be comparable with prospective financial information that has previously been published), is being inappropriately projected back onto the preparer of the prospective financial information. The opportunity should be taken to rectify this.

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?

We are supportive of the concept of the ICAEW providing guidance on the preparation of PFI in the context of private finance raising situations, but we suspect that a more practical and less theoretical form of guidance may be needed. The framework is really a starting point that has to be turned into specific guidance by selection and interpretation. It will not on its own lead to common standards of preparation.

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?

We agree that the focus should be on topics rather than on the specific requirements of each market, especially where the regulatory requirements are expressed in identical or very similar terms. There may still be a need to quote from the current rules in order to clarify context, or where a specific market has its own requirements. We have some reservations about the retention of material relating to 'changes in expectations of performance', which in the 2003 guidance was largely derived from the UKLA's guidance on price sensitive information, and relates more to the identification of such information and to the form of announcement than to the preparation of prospective financial information. If there is a gap in relation to up to date guidance on the requirements governing notifications of changes (which it has to be assumed is not the case), it would seem more appropriate for the relevant regulators to be picking this up, rather than the ICAEW.

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?

Please see our comment on question 5. We have no additional comments.

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?



We would not underestimate the difficulties involved in trying to develop principles that usefully be applied outside the context of capital markets regulation. As noted above, the principles need to be quite broad to encompass the range of forward-looking information and the contexts in which it is prepared and used, but at the same time very narrow and specific if they are going to help deliver concrete and usable guidance.

