



**Private and confidential**

Katerina Joannou  
ICAEW Corporate Finance Faculty  
Chartered Accountants' Hall  
Moorgate Place  
London EC2R 6EA  
United Kingdom

12 July 2019

Dear Katerina,

**Consultation on guidance for preparers of prospective financial information**

We welcome the publication of this consultation paper. Updating the guidance reflects the evolution in the regulatory regime over the period since it was published in 2003. Notably, as illustrated by the extension of the circumstances when a quantified financial benefits statement is required to be properly disclosed and/or reported on by financial advisers and reporting accountants and, most recently, the abolition of the requirement for accountants to report publicly on profit forecasts in prospectuses.

The original guidance concentrated on the use of prospective financial information in the context of capital markets transactions and has been a valuable tool in supporting issuers, and their directors, in preparing information that properly supports the respective disclosures. Furthermore, it has provided suitable criteria against which reporting accountants have been able to report whether publicly, when required, or privately to those charged with governance and other parties involved in the transaction such as in their capacity as sponsors and nominated advisers. It was also used by CESR (now ESMA) as the framework for the material in its recommendations for preparers of PFI in prospectuses.

We support the revisions to the guidance in so far as they concern prospective financial information prepared in connection with capital markets transactions.

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*PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH  
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 4652, [www.pwc.co.uk](http://www.pwc.co.uk)*



We recall that the original guidance suggested that preparers of other prospective financial information, whether internal or external, might wish to take its principles into account but that it stopped short of any form of active encouragement to that effect.

The major change that the updated guidance introduces is to significantly broaden the remit of the application of the guidance. Specifically in paragraph 14 it states that “it is envisaged that Parts I and II of the guidance can also be applied to external PFI that is unpublished or is published other than in a capital markets transaction context. ICAEW strongly encourages its application on a proportionate basis”.

We believe that this could have implications for the way that issuers make public external PFI such as profits warning statements. When making such statements there is a tension between an issuer meeting its Market Abuse timely disclosure obligation and the due process performed in reaching the decision to make a profit warning statement, and then in the making of the statement itself.

We would note that the vast majority of profit warning statements issued by listed companies are simple statements with little or no supporting disclosure of bases and assumptions. As a consequence, they would not meet the reasonable disclosure principles outlined in paragraph 43 of the consultation draft.

Whilst the guidance seeks to temper its application by reference to it being applied to non-capital markets transaction cases on a “proportionate basis”, we believe that the strengthening of the application of the guidance to address such situations increases the risk that important disclosure is delayed whilst due process is applied not only to the statement but also the accompanying disclosure of bases and assumptions. In our view this risk is heightened as issuers may well be advised that stakeholders, should such statements be subsequently called into question, may take a different view as to what is proportionate and will judge such profit warning statements against the absolute standard set by the guidance introducing greater caution into their actions.

We agree that, in principle, there should be no objection to the application of the principles set out in the guidance to all external published PFI. However, we do question whether or not the wider financial community and, particularly, CFOs and audit committee chairs, are aware of these proposals or their consequences.

Before issuing the guidance in final form, we would encourage you to ensure that you have tested the proposal to extend the scope of the application of the guidance with CFOs, audit committee chairs, regulators and investors.

We would also encourage you to engage with the Brydon Review team which is exploring whether listed companies should be encouraged to make more fulsome forward looking disclosure in their regular reporting and whether, and if so how, auditors may provide



assurance in respect of any disclosure. Clearly, the guidance should have a role to play in this and should be considered in that light.

Accordingly, we would suggest that you consider issuing updated guidance addressing capital markets transaction requirements as a first step. This would be followed at a later stage by an update to extend the application of the guidance to a wider universe once the position being taken by the Brydon Review, and the financial community's reaction to it, is clear.

Should you wish to discuss this response do please contact me.

Yours sincerely,

Kevin Desmond  
kevin.desmond@pwc.com  
T: +44 (0) 7802 494879