ICAEW

FEEDBACK STATEMENT ON EXPOSURE DRAFT

FEEDBACK STATEMENT ON GUIDANCE FOR PREPARERS OF PROSPECTIVE FINANCIAL INFORMATION: EXPOSURE DRAFT (DECEMBER 2018)

Issued June 2020

This feedback statement is a record of the comments received on Guidance for preparers of prospective financial information, an ICAEW Exposure Draft published for consultation in December 2018, and of how ICAEW responded to those comments.

This feedback statement has been prepared by the ICAEW Corporate Finance Faculty. Recognised internationally as a source of expertise on corporate finance issues and for its monthly Corporate Financier magazine, the Faculty is responsible for ICAEW policy on corporate finance issues including submissions to consultations. The Faculty's membership is drawn from professional services groups, advisory firms, companies, banks, private equity, law firms, consultants, academics and brokers.

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1. INTRODUCTION

This feedback statement is a record of the comments ICAEW received on an Exposure Draft, Guidance for preparers of prospective financial information, that it published for consultation in December 2018. The background to the consultation is summarised in section 2.

The feedback statement also explains how ICAEW's Working Group addressed those comments in developing the technical release TECH 04/20CFF Guidance for preparers of prospective financial information, published in June 2020.

ICAEW received written responses and oral feedback, including from regulators, representative bodies of advisers, business and directors, interested individuals and ICAEW member firms. Non-confidential written responses are available to view at icaew.com/pfi.

The principal changes between the guidance in the Exposure Draft and TECH 04/20CFF are:

- Clearer commentary is included on:
  - what it means to have confidence in prospective financial information (PFI)
  - sources and roles in a business to involve in the business analysis exercise
  - ensuring comparability of PFI
  - situations where there is ongoing internal monitoring of PFI
  - the development of, and quality assurance over, a financial forecast model
  - contingency in forecasts.
- The links between the PFI preparation principles and the illustrative procedures for preparing PFI have been removed.
- References have been changed to reflect regulatory developments up to 1 November 2019.
- Parts III, IV and V of the Exposure Draft are labelled in TECH 04/20CFF as Part III: A, Part III: B and Part III: C, respectively.
- Preparers will have up to three months from publication date to implement the new guidance.

ICAEW is grateful to all those who commented and provided views on the Exposure Draft, and a list of respondents is included in Appendix 2.

ICAEW also thanks the members of its Working Group - listed in Appendix 1 - for their efforts, commitment and support in developing TECH 04/20CFF.

TECH 04/20CFF is part of a suite of ICAEW market guidance for transactions that also includes the following guidance, available here:

- Guidance on financial position and prospects procedures (TECH 14/14CFF)
- Guidance for preparers of pro forma financial information (TECH 06/15CFF)

TECH 04/20CFF should be applied by 15 October 2020 when ICAEW will withdraw *Prospective financial information: Guidance for UK Directors* (2003). Early adoption is encouraged.

2. BACKGROUND TO CONSULTATION

The Exposure Draft Guidance for preparers of prospective financial information is the second consultation stage of an ICAEW project to review guidance it had issued in 2003. It includes proposed new guidance that is intended to replace the 2003 guidance.

The 2003 guidance, *Prospective Financial Information: Guidance for UK Directors* [link], was developed in the context of the UK regulatory environment, because directors who are ICAEW members have to prepare prospective financial information (PFI) and ICAEW members (ie, reporting accountants) have to report on matters relating to certain PFI that directors include in investment circulars. The 2003 guidance set out a framework of principles and application notes for preparing and publishing PFI in a capital markets transaction context. There are regulatory requirements relating to PFI in that context – for example, when raising capital on equity markets. Such PFI includes profit forecasts and warnings, working capital statements, merger benefit statements and a range of other financial projections.

When ICAEW embarked on the exercise to update the 2003 guidance, it was of the view that a new framework would have a wider role to play as an enabler for businesses to communicate PFI.

ICAEW's consultations provided support for extending the scope of the 2003 guidance to capture all PFI - that is, any financial information with a future date attached.

The first consultation stage of ICAEW's project included the publication of Consultation paper on prospective financial information in July 2017. Feedback received on the 2017 consultation was taken into account in the Exposure Draft.

A Working Group, convened by ICAEW's Corporate Finance Faculty, was involved in both consultation stages, developing draft guidance and considering market feedback thereon.

The Working Group took into account the feedback received on the Exposure Draft to prepare the final guidance. Section 3 sets out that feedback together with the Working Group's response. The page and paragraph references included in the Working Group's responses relate to the final guidance.

The final guidance was published in technical release TECH 04/20CFF Guidance for preparers of prospective financial information in June 2020.

While the new guidance does not advocate a different approach to the 2003 guidance, there are certain differences. TECH 04/20CFF:

- explicitly applies to all PFI, with proportionate application envisaged outside of a capital markets transaction context;
- introduces an additional preparation principle for preparing PFI that is relevant – the 'user needs' principle;
- includes detailed application guidance for both general situations, and for situations where there are prescribed requirements;
- reproduces very few detailed regulations.

3. FEEDBACK ON CONSULTATION QUESTIONS AND WORKING GROUP'S RESPONSE

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?

With the Exposure Draft Guidance for preparers of prospective financial information ICAEW aimed to develop a preparation framework that could be applied to all types of PFI. The modular structure of the Exposure Draft includes general guidance on core characteristics of useful PFI, and illustrative procedures and techniques for preparing useful PFI. The general guidance is set out in Parts I and II and is largely based on practice that has developed in the context of regulated capital markets transactions.

Underpinning this structure is the belief that all preparers of PFI will benefit from understanding and using the preparation guidance. The Working Group recognised that the drafting of the guidance must speak to preparers across the growth spectrum, including those seeking to extend or apply for bank loan finance, those pitching a business plan to a business angel, or those inviting crowdfunding. It asked whether Parts I and II, as drafted in the Exposure Draft, achieve this.

Use of Parts I and II by wider business audience

Respondents were supportive of applying the guidance to a wider business audience to provide best practice where possible and the principles themselves were considered intuitive and capable of being understood. There were certain qualifications to the support:

One respondent remarked 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 respondent suggested that ICAEW issue updated guidance addressing capital markets transaction requirements as a first step. This could be followed at a later stage by an update to extend the application of the guidance to a wider universe once the position and outcome of the Brydon Review[1] is clear.

Another respondent felt that guidance for meeting each preparation principle included jargon and was overly conceptual so could be challenging even for those with experience of preparing PFI.

One respondent commented that the guidance was relatively silent on the wider purpose of PFI and its use by multiple stakeholders (other than for capital markets) - this could lead to confusion around 'user needs' and who the guidance applies to. The respondent said that further clarification of the nature of PFI to which each area applies would be welcome.

For businesses using crowdfunding platforms, it was thought that the guidance would be most relevant to more mature businesses but may struggle to cater to others at earlier stages of growth. A respondent suggested finding ways to encourage businesses to demonstrate their understanding of the PFI principles – eg though disclosure. For example, explaining that a forecast has been prepared 'taking economic forecasts into account' or 'taking into account the views of those who will be delivering the plan'.

For businesses seeking bank finance, reliability of PFI was judged to be key as it can help build the bank's confidence. Those without financial training may benefit from more guidance on the purpose and benefits of applying the principles, including when running the business, for looking ahead, for taking remedial actions and for assessing future needs).

[1] An independent review commissioned by the UK government on the quality and effectiveness of audit, chaired by Sir Donald Brydon. The final report was issued in December 2019. https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review

For businesses preparing offer documents, one respondent thought that adherence to the principles would lead to improvements in information provided about the future.

Suggestions were made for promulgating the guidance via business organisations, business intermediaries such as banks and crowdfunding platforms, and including reference to the principles in bank warranties.

Other comments on Parts I and II

One respondent made the following comments:

- In the commentary on Understandability (Part I paragraph 48, page 20, first bullet point), disclosure dealing with sources of uncertainty should be concerned with material uncertainties and not, as the current drafting effectively includes, all uncertainties.
- Under Execution, in the illustrative procedures for reliability (Part II page 27, second bullet point), additional commentary could specify that the timing of mitigating actions should be reflective of the likely timings for:

    1. management becoming aware that the sensitised vulnerabilities have crystallised;
    2. management determining to implement the mitigating actions; and
    3. the impact/effect of the implemented mitigating actions on the business materialising.

- Under Execution, in the illustrative procedures for understandability (Part II, page 27, third bullet point), the procedure ‘Using the sensitivity analysis, the preparer should identify the material assumptions and disclose them clearly’ is misleading and should be reworded to reflect that business analysis should be used to identify vulnerabilities in material assumptions, and sensitivity analysis performed to test the effect of those vulnerabilities on the material assumptions under alternative scenarios.

One respondent referred to the requirement for preparers of some PFI to state that their PFI has been properly compiled. In the respondent’s experience, preparers can have a limited and inconsistent understanding, or acceptance that ‘properly compiled’ has deep and wide meanings. To this end, a directly stated link between the ‘properly compiled’ statement and the stated principles would be helpful in encouraging deeper engagement with the guidance. The respondent felt that Part I and II could usefully recognise the significance and lack of understanding of ‘properly compiled’. See also the Working Group’s response to Q4 on Part I.

Working Group’s response

The Working Group acknowledged that the 2003 guidance was open to application by preparers of PFI other than in a capital markets transaction context, but wanted the new guidance to be more explicit in encouraging universal application of the principles to all PFI. The Working Group was aware of the Brydon Review proposals however it felt that there was no reason to hold back publishing the general principles for wider application.

Notwithstanding this, the Working Group understood that, post-publication, ICAEW intends to engage with those interested in wider business application and to explore the need for further application guidance. This could include businesses seeking crowdfunding including ones at earlier stages of growth or without resources with financial training. Engagement will identify ways for promulgating the guidance. The Working Group also gave additional emphasis within the guidance to the modular format.

The guidance was thoroughly reviewed to ensure that jargon was explained and kept to a minimum. This criticism was not widespread among respondents.

In relation to the point on multiple users of PFI the Working Group had consciously not developed a comprehensive list of all PFI, so did not provide examples of the nature of PFI to which each area applies.

With the exception of the suggestion on ‘properly compiled’, the Working Group accepted and made consequential amendments in relation to the Other comments on Parts I and II. The Working Group did not agree that it was in ICAEW’s remit to define this regulatory term which, anyway, applied only to certain PFI in a capital markets transaction context.

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?

The scope of the guidance in the Exposure Draft is all prospective financial information (PFI).

While, the 2003 guidance focused primarily on published PFI (essentially, PFI communicated to the market by listed companies) that is subject to regulatory requirements, the Exposure Draft is more explicit about its application to the preparation of any PFI.

As PFI is prepared for differing purposes and it takes various forms, the guidance in the Exposure Draft also recognised PFI that is not published. Part I explains how PFI may be prepared for internal purposes or for external users. The latter includes published PFI but also PFI that is provided to a third party on a private and confidential basis. The Working Group asked for views on these categories.

Feedback on categories and scope of PFI

There were no objections to the scope of the guidance but there were related comments, for example a concern that the nomenclature of the categories (internal, external for publication and external not for publication) was cumbersome and risked both inferring and ignoring similarity between types of PFI.

The same respondent considered that, as currently drafted, an analyst's research notes could be caught by the definition of external PFI as the definition does not explicitly state that the 'organisation' making the PFI is the organisation that is the subject of the PFI. The respondent sought clarity on this matter.

Another respondent noted the broader remit of the application of the guidance and while they agreed that, in principle, there should be no objection to the application to all external PFI, they raised a concern in relation to profit warnings. The concern, suggested action and the Working Group's response are discussed under consultation question 7.

The respondent also suggested that wider application guidance should follow application in a capital markets transaction context so that it takes into account the outcomes from the Brydon review, insofar as they relate to forward looking disclosure in listed companies' reporting and potential assurance on such disclosures.

Working Group's response

The Working Group decided to keep the existing terminology ('internal/external' and 'published/unpublished') as an alternative was not put forward. No other respondent had raised the concern.

In defining PFI for the purpose of the guidance, the Working Group did not intend to be prescriptive, so has not given examples of information that would be included or excluded.

In response to a suggestion to do so, the Working Group carried out additional engagement regarding application of the guidance for profit warnings, and organisations representing companies and audit committees confirmed they were supportive.

In the Working Group's view, principles-based guidance for preparing PFI was unlikely to be superseded by any outcomes of the Brydon review regarding listed companies' reporting and potential assurance thereon. In contrast there was a need for up-to-date guidance for PFI in a transactions context and support for such guidance from regulators. Moreover the modular structure of the guidance will allow for discrete changes to be accommodated.

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

The Exposure Draft referred to laws and regulation as at November 2018 and, for the purpose of finalising the guidance, the Working Group was keen to identify changes so as to evaluate the impact on the guidance.

Respondents suggested that the Working Group should consider take into account the following:

- The new EU Prospectus Regulation, coming into force on 21 July 2019, and associated level 3 guidance.
- Proposed amendments to the Standards for Investment Reporting (SIRs) published by the Financial Reporting Council (FRC).
- ESMA Guidelines on risk factors under the Prospectus Regulation, published in March 2019 and effective two months after their publication on ESMA's website in all the official languages.

Respondents pointed out the lack of clarity of the consequences for regulation of the Brexit vote.

Respondents also referred to the need to replace

- references to 'UK Listing Authority' and 'UKLA' with 'Financial Conduct Authority' or 'FRC'; and
- references to the FCA's 'Disclosure and Transparency Rules' with 'Disclosure Guidance and Transparency Rules sourcebook'

Working Group's response

The Working Group incorporated changes in the references in the Annex and the terminology in the guidance, and the technical release reflects applicable regulations and law as at 1 November 2019.

The proposed amendments to the SIRs had not been finalised by February 2020 and, in any case, relate to reporting accountant's engagements and would not have direct implications for preparers of information to be reported on.

The Working Group did not consider the need to make changes for Brexit. Following the UK's exit from the EU (Brexit), it became clear that capital markets regulation in the UK is not expected to change before 31 December 2020, the end of the transition period. In any case, at the time of publication of the guidance the direction of, or policy need for, any future change is unknown and cannot be pre-empted.

Following the end of the consultation period on the Exposure Draft, other proposals were published:

ESMA proposed new draft Guidelines on disclosure requirements under the Prospectus Regulation. Having reviewed of the proposed guidelines the Working Group concluded that they were similar with the substance of the extant ones, albeit with some changes in terminology. The guidance sets out the essence of the proposed guidelines while retaining the extant references in the Annex which will be updated when ESMA publishes new ones.

The Brydon Review reported on the quality and effectiveness of audit, with proposals that, if adopted, could affect forward-looking disclosures by listed companies and potential assurance on such reporting. It is expected that any proposals that the UK government considers are worth adopting will be subject to consultation so, again, cannot be pre-empted.

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?

The Exposure Draft developed by the Working Group was influenced by responses to an earlier consultation on proposed changes to the 2003 guidance. In developing the Exposure Draft, the Working Group added a preparation principle for the 'relevant' attribute.

The Exposure Draft considers that PFI is useful if it is:

- relevant ie, it is based on user needs;
- reliable ie, it is based on business analysis;
- understandable ie, it contains reasonable disclosure; and
- comparable ie, it is capable of subsequent validation.

Feedback on the attributes and principles

One respondent called into question the value of having both attributes and preparation principles and considered it would be more helpful to 'collapse' the four principles and four attributes into no more than four aspects. The respondent considered that, in the context of statements about the future, 'reliability' risks creating an expectation gap. They argued that the four aspects could be:

- Relevance (as this is not a topic that needs to be over analysed for PFI and, even when including the [new] term 'user needs', is covered largely by 'reasonable disclosure' and 'comparability').
- Business analysis and compilation (as 'business analysis' overlooks the compilation element of the forecasting process).
- Reasonable disclosure.
- Comparability (as the notion of 'subsequent validation' is practically and conceptually difficult such that regulators have avoided employing this term).

Some commentators with a financial reporting background wondered whether the 'relevant' attribute could encourage over-disclosure.

The same commentators were not clear on the meaning of 'capable of subsequent validation'.

A respondent argued that the discussion around material/immaterial information in paragraph 27 was more relevant to the understandability attribute.

One respondent thought that 'useful' PFI (paragraph 36) was more to do with relevance, not reliability.

Working Group's response

The Working Group decided to retain the attributes and principles set out in the Exposure Draft as the majority of respondents did not suggest condensing or renaming these.

The Working Group did not consider that application of the 'relevant' attribute was likely to result in over-disclosure, as the preparer will take into account the materiality of information and the needs of the users of PFI.

The concept of PFI being capable of subsequent validation has been further explained in paragraph 63 of Part I.

The discussion around material/immaterial information was retained in the commentary on relevance, consistent with its treatment in the 2003 guidance. The Working Group took the same approach to the discussion of useful PFI in the context of reliability. In both cases, the point had been raised by just one respondent.

Feedback on the commentary in Part I

One respondent referred to their answer to question 1, in which they expressed the concern that the guidance was not sufficiently concise and was repetitive, and where they suggested it would be desirable for Parts I and II to include a clearly stated link between a preparer's 'properly compiled' statement (where this is required) and the principles.

One respondent queried the suggestion that 'estimate' is used to describe aspirational PFI (paragraph 3).

Two respondents challenged the notion that application the guidance would itself justify a high level of confidence in PFI on grounds including inherent uncertainty. It was suggested that the guidance should be clearer about what is meant by having high confidence in the context of PF (paragraph 6). At the same time another respondent suggested greater prominence be given to forward-looking analysis in achieving a user's high level of confidence in PFI (paragraph 7).

A respondent disagreed with the description of pro forma financial information as forward looking (paragraph 15) because such information consists of restated historical financial information.

Another respondent requested additional guidance for the situations referred to in paragraph 18, where PFI includes an element of historical financial information, because only part of the period under review is in the future; specifically, how the principles outlined in Part I link into the need for PFI to be reliable as considered in Part II, to ensure information is meaningful and allow users to draw the appropriate conclusions.

The same respondent drew attention to the obligation on the professional accountant to 'prepare information fairly, honestly and in accordance with relevant professional standards' (paragraph 23 (ii)). The respondent identified the risk that 'fairly' could be misconstrued. They cited the example of information that forms the basis of negotiation between a buyer and seller - an accountant preparing the information will do so in a manner that is consistent with their client's negotiation strategy while complying with their own professional standards.

There was a suggestion regarding the commentary on reliability and the business analysis principle (section beginning with paragraph 35). The respondent thought the commentary should also capture the overall structure and regulatory framework that an entity sits within so that the underlying assumptions and outputs of the information prepared are in keeping with the entity. This would involve considering whether the entity is a corporate body, a public body or agency relating to a public body, a charity and/or not for profit, or a form of partnership.

Another respondent disagreed that PFI is reliable if it is prudent (paragraph 37, 5th bullet point). They felt that prudence might be better addressed under reliability, ie if a forecast is excessively prudent it is not reliable. [also in paragraph 51]

Two respondents considered that PFI that is not materially comparable could still be reliable. One also asked for the phrase 'free from material error' to be clarified to avoid confusion with 'right' (paragraph 37 and elsewhere in the guidance). They suggested using 'free from material error in its compilation' instead.

A different respondent suggested that additional commentary could be included in paragraph 40 on avoiding excessive caution when applying a discount.

Another respondent thought that the commentary in paragraph 41 about applying prudence from a vantage point in the future should focus on dealing with uncertainty through assumptions/ sensitivity/disclosure.

A further suggestion related to the commentary on understandability and the reasonable disclosure principle for users (paragraphs 43-45). A respondent pointed out that in large transactions there may be numerous stakeholders and hence a significant number of parties inputting to the underlying assumptions, and resultant outputs. The complexity of this may make it difficult to prepare information that can be understood by all relevant users. The respondent felt that the limitations surrounding the differing needs of users ought to be highlighted.

Another respondent disagreed with the statement that financial information is comparable if it can be compared with similar information for ‘other entities’ (paragraph 55, 1st bullet point). They also observed that accounting policies (paragraph 55, 3rd bullet point) are not always relevant and, moreover, can change (paragraph 56), so it is most important that PFI can be compared with actual results.

In relation to the commentary on comparability (paragraph 60), a respondent observed that assumptions do change over time and risk crystallise and that the design of the forecast model ought to facilitate possible future comparisons when assumptions change. For example, a model ought to be able to switch on and off material unforeseen changes to allow for sensible comparability. The respondent suggested that this could be referred to in Part II, in the Planning section, under the Subsequent validation principle.

Working Group’s response

The Working Group accepted that there was substantial duplication in the Exposure Draft and broadly removed the repetition highlighted by respondents. It also performed its own review for duplicated material, mindful however of the modular structure of the guidance and the need to keep an appropriate level of contextual material in each Part.

The Working Group did not think it appropriate to explain ‘properly compiled’ - a regulatory term in the context of profit forecasts - in Parts I or II which are for general use. However some commentary is included in paragraphs 17 and 18 in Part III, B on profit forecasts about directors’ confirmations that are required by regulation and application of the PFI principles.

The Working Group amended footnote 1 to address the point about ‘estimate’. It also removed the description of pro forma financial information as forward looking.

Procedures that may be appropriate when historical information is included in the PFI has been included in the Execution procedures in Part III, B on profit forecasts

In relation to the obligation on the professional accountant to prepare information fairly and the risk of that being misconstrued as described in the example cited, the Working Group did not consider it to be in the remit of the guidance to suggest situations where the obligation could be relaxed.

On the comments regarding confidence in PFI, the Working Group accepted the need to amplify and be precise about what is meant by high confidence in PFI. In doing so, it also drew attention to the inherent uncertainties in any PFI as well as to the nature of forward-looking analysis that underpins PFI (paragraph 6).

The Working Group agreed that consideration of the form of business should be part of the consideration of the relevant regulatory framework for the purpose of business analysis. This was incorporated in paragraph 16.

The Working Group accepted the suggestions regarding the meaning of 'free from material error' in the context of reliability, and amended this to 'free from material error in its preparation'.

The concept of prudence has been kept in the commentary on reliability, consistent with the 2003 guidance. The Working Group also noted that prudence is in the IASB's Conceptual Framework for Financial Reporting. Commentary guarding against excessive prudence is included in paragraphs 43 and 44.

The Working Group made some small adjustments to the commentary on multiple relevant users (paragraphs 47 and 55).

The Working Group also made amendments to address the points on what influences comparability (paragraph 58).

The response below were addressed in Part II:

The impact on comparability of changes in accounting policies was incorporated within the illustrative procedures in Part II (Planning, l and m and Execution, g).

The Working Group also agreed with the need for a forecast model to be capable of accommodating changes in assumptions and accommodated this in the illustrative procedures in Part II (Execution, h).

Drafting suggestions

A respondent pointed out that the Takeover Code should be included in footnote 1.

A different respondent pointed out that profit forecasts are not subject to the regulatory requirement for a working capital statement that there should be 'very little risk' that the basis of such a statement is subsequently called into question.

They also observed that the Market Abuse Regulation (MAR) ought to be included among the general obligations of disclosure listed in paragraph 19.

Another respondent suggested that the usefulness of PFI is influenced rather than driven by the regulation covering its presentation.

Working Group's response

The Working Group agreed with, and incorporated, the three drafting suggestions.

It also accepted the comment about profit forecasts not being bound by the same regulatory requirement as working capital statements, and replaced the specific example of 'very little risk' with a reference to the 'required level of confidence (paragraph 5).

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?

While Part I explains the PFI preparation framework of principles and attributes that underpins the Exposure Draft, Part II is instrumental to enabling universal and proportionate application of the framework by preparers of any PFI. Part II describes core preparation procedures and considerations that are applicable to all types of PFI.

Under the modular structure of the Exposure Draft it is intended that Part II (and Part I) will apply to all PFI, on a proportional basis, taking into account any regulatory requirements or custom and practice regarding its preparation.

The procedures and considerations described in Part II are illustrative and not intended to be exhaustive or prescriptive. They have been grouped under the typical stage of PFI preparation (planning, execution or documentation) and also linked to a preparation principle (and attribute). This was done so in response to feedback from the first consultation and some commentators considered it would be helpful for preparers to be able to demonstrate how they have met the principles.

Feedback on the structure of guidance and the Introduction

One respondent was not convinced that it was helpful to link the illustrative procedures and considerations to the PFI principles and attributes both in Part II and in the equivalent sections of Parts III, IV and V. Apart from adding to the length of the guidance, the respondent observed that the principles/attributes do not drive the sequence of the procedures and considerations. They felt that it was difficult to follow the basis of the split between principle/attribute, for example when there is overlap between attributes. The respondent proposed that the guidance should describe the steps in a compilation process from a practical perspective rather than explicitly reference the principles and attributes.

There were certain instances where respondents did not agree with the principle/attribute that a procedure had been linked to.

One respondent suggested referencing ICAEW's publications 'Financial Modelling Code' and 'Twenty principles for good spreadsheet practice'[2] to further promote the role that robust financial models play in the preparation of PFI.

Working Group's response

The Working Group reconsidered the format adopted to link procedures to a preparation principle in Part II and, for consistency, in Parts III to V. This had been developed because feedback to the first consultation suggested that it would be helpful for preparers to be able demonstrate how they have met the preparation principles. However, as raised in comments on the Exposure Draft, this approach resulted in overlap, an unnatural order of some procedures and some forced split of procedures between the principles. This was considered unhelpful and the Working Group decided to remove the linkage, in Parts II to V - this fits well with the streamlining of the illustrative procedures tables in those Parts, as explained in the response to Q[xx].

As suggested by certain respondents, references have been incorporated in Part II to various ICAEW material about spreadsheets and modelling.

[2] Available at https://www.icaew.com/-/media/corporate/files/technical/information-technology/excel-community/financial-modelling-code.ashx?la=en and https://www.icaew.com/-/media/corporate/files/technical/information-technology/excel-community/20-principles-of-good-spreadsheet-practice-2018.ashx

Feedback on the procedures and considerations at the Planning stage

A respondent challenged the usefulness of the considerations under 'User needs principle (Relevant)' because they could imply that

- there are preparers of PFI who are doing so without knowing why and need to be reminded to find out why they are doing so; and/or
- there are forms of PFI that do not have the ability to influence economic decisions and/or that there is only one form and only one length of period that does. The respondent was of the view that whether users are influenced by PFI is a disclosure matter rather than a preparation matter so, if there is a planning issue to be considered, it is that preparers should determine the nature of the underlying PFI that they need to prepare given the PFI that they are proposing to disclose.

Another respondent thought that the views and input of stakeholders within the business should also be captured in the business analysis and development or update of the strategic plan on which PFI will be based (page 24, first two bullet points under 'Business analysis principle (Reliable)').

The same respondent suggested referencing the ICAEW Spreadsheet Competency Framework[3] as a means of assessing the skills of the person or party developing the financial forecast model, where such a model exists or is required to be developed (page 24, sixth bullet point under 'Business analysis principle (Reliable)'.

That respondent also made recommendations for clarifying and strengthening the guidance on the use and testing of a financial forecast model:

- The PFI preparer will establish whether or not the business already has a suitable model. The guidance should make it clear that a model is required as the drafting could give rise to a misinterpretation that one may not be required developed (page 24, sixth bullet point under 'Business analysis principle (Reliable)'). In the same bullet point, reference to potential independent testing of the model should be amended to state that the preparer should determine what quality assurance procedures should be applied to the model – which may (but do not have to) include independent testing procedures (often referred to as a "model audit").
- There should be recognition of the need for confidentiality and that involving subsidiary/divisional/business management and even all senior managers might not be practical in a confidential transaction scenario (page 24, seventh and eighth bullet points under 'Business analysis principle (Reliable)').
- The guidance should provide that for forecasting long-term projects, there are circumstances where an annual model may also be appropriate developed (page 25, second bullet point under 'Reasonable disclosure principle (Understandable)').

Another respondent suggested that a change in accounting policies should be included in factors that might cause subsequent validation issues (page 25, Subsequent validation principle (Comparable), 4th bullet point).

Feedback on the procedures and considerations at the Execution stage

One respondent was of the view that a non-integrated model should not be acceptable even 'exceptionally', due to wide availability of tools and external consultations to support the development of an integrated model. They proposed amending the guidance on page 25, first sub point of fifth bullet point under 'Business analysis principle (Reliable)'.

[3] Available at https://www.icaew.com/-/media/corporate/files/technical/information-technology/tech-faculty/spreadsheet-competency-framework.ashx

In connection with the sixth bullet point under ‘Business analysis principle (Reliable)’ on page 26, that respondent observed that the current guidance included a mix of standard validation checks (that should be quick to undertake and code) and checks requiring judgement or additional information. The respondent noted that checks that a model does not contain arithmetic errors may require significant work if the spreadsheet contains a large number of formulae. They observed that the extent and form of independent testing to be undertaken should be considered in the context of the complexity of the model and the ultimate purpose of the PFI - it could range from limited internal testing to a formal, external model audit.

The respondent suggested expanding the guidance for quality assurance over development of a model to highlight that it is likely to include different forms, for example:

- Including appropriate integrity and validation checks within the model - for example to confirm that the project income statement, cash flow and balance sheets reconcile with each other.
- Undertaking test procedures on the calculations within the model, which may include testing the logical integrity and arithmetic accuracy of calculations.
- Analytical review and testing of model outputs, tracing back through to inputs.
- Benchmarking and testing of input assumptions.

Another respondent thought it odd not to discuss choosing whether to use a range or a floor etc under Reasonable disclosure principle (Understandable).

Feedback on the procedures and considerations at the Evidence and Documentation stage

A respondent suggested that the support for key assumptions should also refer to the business’s current run rate base (page 27, third bullet point, first sub point, under ‘Business analysis principle (Reliable)’.

Drafting

Some suggestions were also made for changing the order in which procedures were listed

Working Group’s response

The Working Group accepted the suggested clarifications and matters to draw out regarding the business analysis exercise. The input of stakeholders within the business to the business analysis and the strategic plan was incorporated - under Planning procedures - together with considerations of the need for confidentiality. More emphasis has been included under Execution procedures for ensuring that the PFI is supported by sources of reliable information, and appropriate business analysis that is grounded in reality, known facts and circumstances.

The Working Group also incorporated the recommendations for strengthening the guidance on the use and testing of a financial forecast model, including considerations of the complexity of the model and the purpose of the PFI. The forms of possible quality assurance over the development of a model were also included.

The Working Group accepted the observation that depending on the circumstances, there are various interval periods for which forecasts may need to be prepared, and adjusted the illustrative procedures to reflect this.

The Working Group agreed that it is considered best practice for a model to be fully integrated. However as it is intended that that application of the guidance should be proportional and appropriate for the business preparing PFI, provision should be kept for diversion from best practice on an exceptional basis.

Regarding the development of the forecast model, the Working Group included a change in accounting policies as relevant to a subsequent validation exercise. The Working Group also included current run rate information among the examples given of information supporting the key assumptions upon which a model is built.

The Working Group also included a point about the possible range of values for each key assumption.

The comments on the order in which procedures were listed were considered individual and, in some cases, accepted and applied.

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?

Part III of the Exposure Draft contains application guidance for the preparation of working capital statements included in an investment circular and the supporting underlying PFI which forms the basis for the statement.

Under the modular structure of the Exposure Draft, preparers of working capital statements should also consider Parts I and II.

The procedures and considerations described in Part III are illustrative and not intended to be exhaustive or prescriptive. They have been grouped under the typical stage of PFI preparation (planning, execution or documentation) and also linked to a preparation principle (and attribute).

A high level summary of the preparer's illustrative procedures was included for the purpose of informing directors/boards what they should consider and be aware of when making a decision to publish PFI (table 4.1).

In TECH 04/20CFF, the application note for statements of sufficiency of working capital is Part III: A.

Feedback on the structure of guidance

One respondent was not convinced that it was helpful to link the illustrative procedures and considerations to the PFI principles and attributes in Parts II to V. The respondent identified paragraph 14 as an illustration of how attempting to hook guidance to the PFI principles could make useful observations on what is required by certain regulators into something difficult to follow.

Several respondents felt that it was unnecessary to include a summary of illustrative procedures and considerations in section 4.1 in addition to the detail in section 4.2. Having both 4.1 and 4.2 created duplication, could cause confusion between roles and responsibilities and resulted in guidance that was not concise. This applies equally to Parts IV and V.

One respondent also referred to the modular structure of the guidance in Part III (and IV and V). They felt that section 4.2 contains much that repeats or should be in Part II, eg timeliness, board engagement, prepared on a consolidated basis, sensitivity analysis. They also though that there was too much detail in section 4.2 on questions of levels or detail, frequency of balance sheets, and periods to be covered.

In Part III, they felt there was repetition of information set out in the first 36 paragraphs. The respondent felt that Part III should be on matters that are specific and genuinely additional, and might include issues surrounding acquisitions/disposals (although this could be covered in Part II); borrowing facilities and borrowing limits and covenants. Commentary on incremental topics should be covered once in Part III and it should not be split between preparation stages and PFI principles.

Working Group's response

The Working Group's response to the concern regarding the linking of illustrative procedures to the PFI principles is described under consultation question 5.

The Working Group accepted that having a high level summary of illustrative procedures in the guidance resulted in duplication. It also took into account the concern that two sets of procedures could create confusion between roles and responsibilities. On those grounds it decided not to include a high level summary for any of working capital, profit forecasts and quantified financial benefit statements (Parts III: A, B and C).

As described in the Working Group's response to consultation question 4, the final guidance omits much of the material that was identified as repetitive and where the Working Group felt that its deletion would not affect the modular approach to application.

Feedback on the regulatory requirements

A respondent pointed out that paragraph 1 refers to 'directors and preparers', whereas in Part II (paragraph 3), 'preparer' is defined to include parties ultimately responsible for PFI. They suggested clarifying the use of the term 'preparer' in Part III.

Another respondent recommended that the last sentence in paragraph 2 should be amended to 'The form/content of a qualified ~~the~~ working capital statement is typically set by regulation.'

A respondent suggested changing the generalisation made in paragraph 2 that 'Most regulators permit only two forms of working capital statement…' to a statement that if other jurisdictions have similar requirements, the guidance could be useful. The same respondent asked for clarification of who 'generally considered' that present requirements are a minimum of twelve months from the date of the investment circular.

The same respondent considered that the final sentence of paragraph 4 was incomplete as the minimum period of twelve months is from the date of Admission in the case of a working capital statement prepared pursuant to the AIM Rules for Companies, rather than from the date of the investment circular (or AIM Admission Document).

Another respondent suggested adjusting paragraph 8 to clarify that capital markets regulatory requirements are that processes and procedures should be 'appropriate' but that the regulation is not prescriptive. They also proposes an amendment to paragraph 9, so that the final sentence stated that it applies to all investment circulars and not just those containing working capital statements (or to delete the sentence).

Some respondents asked why the term 'clean' instead of 'unqualified' was used in relation to a working capital statement in paragraph 9. In the same paragraph, a respondent thought it was incorrect to suggest that it was a requirement that directors make due and careful enquiry to assess the robustness of supporting working capital projections.

Another respondent was of the view that the final sentence in paragraph 9 was a somewhat garbled version of the responsibility statement requirements for EU prospectuses which are not directly applicable to circulars. They suggested that, if the purpose of the wording was to state that the information relating to the issuer's financial position presented in the investment circular as a whole should be consistent across the working capital, risk factors and business strategy sections (as per FCA Technical Note TN 321.1), the sentence should be redrafted to make this clearer.

Working Group's response

The Working Group addressed the proposed clarifications and amendments relating to definitions or regulatory requirements.

The term 'clean' working capital statement was retained as it is used by ESMA.

Amendments were also made to correct the drafting of what directors are typically required to do to meet their regulatory obligations and standards of care, and regarding consistency of information included in an investment circular (paragraph 9).

Feedback on the application guidance

Two respondents pointed out that paragraph 15 should be clearer that, in relation to working capital statements, from a regulatory perspective there should not be any significant uncertainties. Another suggested adding ‘that would affect the validity of the statement’ to the final sentence.

A respondent proposed included more discussion in paragraphs 18 and 19 on what is meant by ‘reasonable worst case’, as it is a topic that is debated between preparers and their sponsors and/or reporting accountants. Notwithstanding the examples for ‘Reasonable worst case scenario’ on page 42, the respondent felt it would be helpful to users to make it clear that the ‘reasonable worst case’ scenario is a downside analysis of the factors (singular or multiple) which have more than a remote possibility of occurring. The ‘reasonable worst case’ scenario is not a stress test (in the sense used in the financial services industry to establish an organisation’s resilience) nor is it intended to be a disaster scenario. Another respondent made a similar comment, although they acknowledged that it could have been deliberate not to clarify terms or the requirements of regulators. A further respondent wondered if definition or framework should be included in the guidance. They also queried why there was reference in this paragraph on sensitivity analysis to disclosures elsewhere in the circular.

Another respondent recommended that reference be made to covenants in paragraphs 19 and 21 and to testing them under base case and sensitised scenarios.

A reviewer suggested where difficulties are foreseen in the period subsequent to the present requirement period (paragraph 20), the directors should consider the need for supplementary disclosures in other parts of the investment circular to describe the difficulties foreseen in the period subsequent to the present requirement period.

One respondent suggested that neutrality was an aspect of understandability and not, as described on paragraph 20, of reliability. The same respondent asked how to interpret ‘committed facilities’ (paragraph 21) in the context of a placing or a MAC [material adverse change] clause in a loan agreement.

A respondent was of the view that paragraph 23 should be rewritten to focus on the issues of disclosure. They focused on the sentence ‘The directors should make their statement with a high degree of confidence and, hence, the working capital statement must be brief’. The respondent pointed out that while the directors may have the confidence that the basis for the statement can be defended, it would be better to avoid the misunderstandings that they make the statement with a high degree of confidence. Moreover, while regulation envisages a brief statement, it is not as a result of anyone’s confidence when making it.

A respondent thought that the guidance should give more consideration to the term ‘properly compiled’ in the context of a working capital statement. They observed that while the term is a requirement in certain areas of capital markets, such as profit forecasts and estimates, it is frequently imputed into preparation of working capital statements by sponsors or nominated advisers and their legal advisers. The respondent felt that the term in the context of a working capital statement is not universally understood and is subject to different interpretations with the result of inconsistent market application. They considered that the guidance, even though aimed at preparers of PFI rather than those who give comfort on it, could be incomplete if it does not consider the term in this context.

Another respondent referred to risk factor guidance[4] published after the issue of the consultation paper that could affect the drafting in paragraphs 24. The same respondent commented that plans to address a working capital shortfall may not be 'progressed' as stated in paragraph 27, as a company may not be in a position to do so.

It was suggested that the aspect of reliability should be mentioned in the description, in paragraph 29, of the overlap between the working capital statement and business analysis, reason for offer and use of proceeds, and risk factor sections of an investment circular.

Working Group's response

The Working Group addressed the proposed amendments relating to definitions or regulatory requirements.

It also accepted the need for commentary on specific issues to do with a reasonable worst-case scenario and updated this as well as the illustrative procedures (paragraph 14 and Execution, z). It also agreed to remove the reference to disclosures elsewhere in the circular. Commentary was included on testing covenants under base case and sensitised scenarios (paragraphs 15 and 17).

The commentary on neutrality was retained under the discussion of understandability as that was how it was treated in the 2003 guidance while only one respondent thought it should be moved.

Additional commentary was not included on how to interpret 'committed facilities' in various contexts as, in the Working Group's view, it was not in its remit to provide guidance on these situations.

The Working Group accepted the need to alter the focus of commentary regarding the form of the working capital statement to issues of disclosure (paragraph 19).

The Working Group as previously mentioned did not consider it appropriate to include an explanation of 'properly compiled'.

The Working Group reviewed the new ESMA guidelines on risk factors to identify implications for the commentary on risk factors and proceeded with some drafting changes (paragraph 20).

It also accepted the observation regarding a working capital shortfall and amended the commentary (paragraph 22) and agreed to incorporate the aspect of reliability in the discussion of alignment of the working capital statement with disclosures elsewhere in the investment circular (paragraph 23).

Feedback on the procedures and considerations in 4.1

One respondent asked what 'proper board engagement' meant, and if it was a legal term.

The following suggestions were made relating to the Planning stage

- First bullet point (page 35): to insert 'as the board will need to accept responsibility they will need to supervise and provide input to the whole process including planning'.
- Second bullet point (page 35): to expand to explain that detailed planning should be done at the outset to ensure sufficient time and resources will be built into the project plan.
- Third bullet point (page 35): to include starting with a review of applicable regulation and guidance.

[4] ESMA Guidelines on risk factors under the Prospected Regulation, March 2019 https://www.esma.europa.eu/sites/default/files/library/esma31-62-1217_final_report_on_guidelines_on_risk_factors.pdf

The following suggestions were made relating to the Execution stage

- First bullet point (page 36): to explain what prepared on 'a consistent basis' means (ie that the outputs are in the same form/presentation or that they follow the same accounting policies?).
- Sixth bullet point (page 36): to clarify what this refers to.
- Seventh bullet point (page 36): to include the availability of committed facilities in case the commentary in paragraph 21 is overlooked, eg by an inexperienced user of the guidance.
- Thirteenth bullet point (page 36): to explicitly reference consistency with the dividend policy disclosures within the investment circular.

There was one suggestion relating to the Evidence and Documentation stage

- Third bullet point: to make clear that the directors' memorandum is expected to summarise the key assumptions, concerns attaching thereto and conclusions reached by the directors before the directors approve the statement and underlying PFI.

Feedback on the procedures and considerations in 4.2

The following suggestions were made in relation to the Execution stage

- In 'Working capital projections should be prepared on the basis that the transaction has occurred' under 'Business analysis principle (Reliable)': to refer to the requirement for consistency of accounting policies in the case of an Enlarged Group.
- Fifth bullet point in 'Borrowing facilities' under 'Business analysis principle (Reliable)': to also refer to covenants.

The following suggestions were made in relation to the Evidence and Documentation stage

- Clarify 'underwritten' and 'committed' facilities and that evidence of these should be documented.
- Include typical documentary evidence of the board's approval of the PFI.

Feedback on Annex 1

A respondent recommended that the FCA's procedural note PN 904.3 be included in the references (table on page 78) as it is pertinent to committed facilities.

Working Group's response

As the Working Group decided not to include a separate high level summary of procedures in the guidance, the comments on the summary were addressed together with those about the detailed table for preparers, and incorporated in Part III: A, table 4.1 as follows:

Planning procedures

The Working Group intended that 'board engagement' should include involvement and oversight throughout the PFI preparation process and made this explicit in the procedures. The same amendment was made in the equivalent tables in Parts III: B and C.

Evidence and Documentation procedures

The Working Group agreed with and incorporated the suggestion regarding the order of the directors' approval of the statement and underlying PFI (ie on the basis of and after they have reached their conclusions).

Planning, Execution, Evidence and Documentation procedures

The Working Group accepted and made the drafting suggestions and additions as well as the clarifications requested with one exception under Execution. That involved a suggestion to refer to the requirement for consistency of accounting policies in the case of an enlarged group, and the Working Group felt this level of detail was not consistent with the rest of the guidance.

The FCA's procedural note was included in the Annex A on working capital statements.

Other drafting suggestions

A respondent suggested that in paragraph 10 the wording 'be of the opinion that they are confident that…' should be amended to read 'be of the opinion that…'

A respondent suggested that 'should be' was more appropriate than 'needs to be' in paragraph 28.

Another respondent referred to paragraph 26 suggested replacing 'provide the additional working capital required' with 'obtain the additional working capital required'.

Respondents suggested deletion of the following material on the grounds that it was repetitive, did not add anything, or could be confusing:

- Paragraphs 12 and 13 – repetition
- Paragraph 14, text '(provided, in the cases of an equity fundraising, that the proceeds are fully underwritten)' – confusing for inexperienced users of the guidance
- Paragraph 15, first and second sentences – repetition
- Paragraphs 16, 17, 25 and 28 – not additive
- Paragraph 29, reference to alignment with disclosures elsewhere in the investment circular (but keep the examples) – repetition
- Paragraph 32 – not additive and laboured
- Paragraphs 34 and 36

Working Group's response

As mentioned above much of the material that respondents identified as repetitive was omitted from the new guidance where the Working Group concluded that omission would not affect the modular approach to application.

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?

Part IV of the Exposure Draft contains application guidance for the preparation of

- profit forecasts included in an investment circular and the supporting unpublished PFI;
- notifications to the market about, or of changes in, a company's expectations in relation to its future performance; and
- profit guidance or forecasts or projections for users other than public investors, on a proportionate basis.

Under the modular structure of the Exposure Draft, preparers of profit forecasts and other profits guidance should also consider Parts I and II.

The procedures and considerations described in Part IV are illustrative and not intended to be exhaustive or prescriptive. They have been grouped under the typical stage of PFI preparation (planning, execution or documentation) and also linked to a preparation principle (and attribute).

In TECH 4/20CFF, the application note on profit forecasts and other profit guidance is in Part III: B.

Feedback on the structure of guidance

One respondent was not convinced that it was helpful to link the illustrative procedures and considerations to the PFI principles and attributes in Parts II to V.

Several respondents felt that it was unnecessary to include a summary of illustrative procedures and considerations in section 4.1 in addition to the detail in section 4.2. Having both 4.1 and 4.2 created duplication and resulted in guidance that was not concise. This also applies to Parts II and V.

Working Group's response

Please refer to the Working Group's responses under consultation questions 5 and 6.

Feedback on regulatory requirements

A lack of clarity was pointed out in the drafting in paragraph 5 about regulation that was 'likely to apply' to a profit forecast other than one included in an investment circular.

One respondent suggested that a consultation[5] published after the Exposure Draft was issued could result in changes to the commentary on ESMA guidance in section 2.4 and in certain parts of section 3.

Two respondents focused on the expectation in section 2.5 of the 'confidence' that forecasters are envisaged to have that their forecasts will be 'achieved'. They argued that while having a sound preparation process might mean there is a greater likelihood of a business meeting its forecast, even when the guidance is followed there could be significant uncertainties. One of the respondents proposed removing references to preparers' confidence and user expectations about achievement of forecasts, and giving more emphasis to the fact that all statements relating to the

[5] ESMA, Consultation paper on guidelines on prospectus disclosure, July 2019 https://www.esma.europa.eu/press-news/esma-news/esma-consults-disclosure-guidelines-under-prospectus-regulation

future involve predictions and are based on numerous assumptions about the future which may or may not turn out as anticipated, and the differences between actual results and those forecast may be material.

Working Group's response

Drafting was tightened to remove the ambiguity highlighted about regulation for a profit forecast (paragraph 5).

The Working Group's approach regarding the ESMA consultation is described in its response to consultation question 3.

Amendments made under Part I in relation to having confidence in PFI (Part I, paragraph 6) resulted in consequential amendments to the guidance on profit forecasts being reflected and, in addition, clearer commentary was included on how directors ensure they are highly confident in a forecast (paragraphs 18 and 21).

Feedback on the application guidance

A question was posed as to whether advisers would need to have regard to the guidance if market expectations change.

There was a question as to whether the guidance would actually be used when preparing forecasts or projections for users other than public investors, such as banks or private investors, when very specific reasons are behind the forecasts (paragraph 3).

Another respondent referred to section 2.2 Definition of a profit forecast and asked if it was 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 used for historical financial statements. They also observed that the guidance does not deal directly with long range forecasts and how they are treated by regulators (what is an acceptable period looking into the future) and whether they meet the attribute of reliability, although there is some coverage under section 4.2.

One respondent commented on the proposed application 'to external PFI that is unpublished or published other than in a capital markets transaction context'. They considered this could have implications for the way issuers make public external PFI such as profit warning statements. The respondent noted that the majority of profit warning statements would not meet the reasonable disclosure principle in the guidance. They felt that application of the guidance to such statements increased the tension between an issuer meeting its timely disclosure obligation under the Market Abuse Regulation and the due process performed in reaching the decision to make a profit warning statement, and then publishing the statement. The respondent questioned whether the wider financial community was aware of the proposals and their consequences and encouraged the Working Group to test the proposal to extend the scope of application of the guidance with CFOs, audit committee chairs, regulators and investors before issuing the final guidance. They also mentioned the ongoing Brydon review – the guidance will be relevant in relation to any more forward-looking disclosures listed companies might make and auditors' assurance thereon.

There was a suggestion to link the directors' obligation to state that the PFI has been 'properly compiled' to the guidance in paragraph 17.

Some reviewers felt that the concept of confidence in a forecast required more context, including reference to the inherent uncertainties in all PFI, and that having confidence in a forecast does not mean the future outcome set out in PFI will be achieved.

Another reviewer thought it important to reflect that directors should consider carefully the form of a profit forecast statement to limit the risk that the forecast is subsequently called into question.

One respondent pointed out why they felt that the ‘criteria’ for a forecast’s predictive value, as set out in paragraph 22, were problematic, including the proposal for dealing with a ‘suboptimal’ basis of preparation of a forecast.

Three respondents pointed out that the Listing Rules requirement about a 10% difference between forecast and actual outcome was erroneously discussed as a general principle in paragraph 23 as it applied in specific circumstances. There are also other reasons requiring the need to explain a difference, such as MAR. Another respondent believed it should be possible for the factors that could result in a forecast not being achieved to be disclosed, and that the changes in relevant assumptions should be disclosed when profit warnings are repeated.

A respondent questioned the focus in paragraph 27 on an assumption that is highly uncertain but has negligible impact. They also pointed out the use of ‘reliable’ in paragraph 29 was incorrect. The respondent further thought that selection of the most appropriate profit measure was to do with relevance rather than reliability (paragraph 30).

Two respondents were uncertain as to the link to the reliability of a forecast made in paragraph 32.

One respondent considered that the commentary in paragraph 35 related more to reliability than understandability. They questioned why an exact figure would imply a range, as stated in paragraph 36, and how directors were supposed to determine the range. The respondent also challenged the statement in paragraph 41 that assumptions that are under the directors’ influence are more likely to be borne out in practice. They cited an example of an assumption not under directors’ control that has a high degree of certainty.

Two respondents drew attention to the commentary on risk factors in paragraph 44 and highlighted the need to align this with recent ESMA rules on disclosure of risk factors, and to link risk factors with assumptions and disclosure.

Various respondents identified certain misleading references to, or application of, regulation, including in section 2.4 and paragraphs 23, 45 and 46.

Working Group’s response

When market expectations change materially from directors’ forecasts, the directors have an obligation to report this fact to the market by way of a trading update and, in the Working Group’s view, the guidance therefore applies and no change was considered necessary.

The Working Group believed that proportional application of the guidance (including reasonable disclosure) will apply in situations where there are very specific reasons behind the forecasts – no change was considered necessary.

Forecasts in the form of a narrative statement are covered in the discussion of the definition of a profit forecast (paragraph 8) and it was not considered necessary to mention practice in the UK and European markets.

The Working Group considered the reservations regarding the proposed application of the guidance to external PFI other than in a capital markets transaction context – eg to profit warning statements – and the additional tension this could create for companies in meeting timely disclosure obligations. The Working Group believes that PFI preparation procedures are part of listed companies' financial position and prospects procedures. It made specific enquiries of industry groups representing finance directors and chairs of audit committees to ascertain if they were aware of the proposed application of the PFI guidance and any concerns about it being used. The industry groups were supportive of the proposed application of the guidance. No concerns were raised in that respect by the listing authority either. On these grounds the Working Group made no change to the scope of the guidance set out in paragraphs 1 and 2.

The Working Group acknowledged that guidance on profit warnings may change in the future, including as a result of the Brydon review, but considered that the modular structure of the PFI guidance will enable changes to be made, or new guidance to be developed.

The Working Group agreed with the objections to what had been described as criteria for a forecast predictive value and removed this description and refined the commentary (paragraph 20). It also made a consequential reference in the commentary on appropriate profit measures.

The Working Group also accepted the disagreement with the discussion of a material difference between forecast and actual outcome, and that there were also other regulatory drivers of a need to explain what has gone wrong, and made a correction (paragraph 21).

Regarding the comments on sensitivity analysis, a reference was included about disclosure of assumptions that could result in a forecast not being achieved (paragraph 32). The statement about an assumption that is highly uncertain but has negligible impact was accepted as wrong in focus and removed.

On the comment about other aspects of reliability and selection of the most appropriate profit measure, the Working Group maintained that neutrality is part of reliability and retained the commentary (paragraphs 24-25). However it agreed that the discussion of ranges and uncertainty should be improved.

While the Working Group believed that the discussion on the interpretation of forecasts was related to understandability and left the commentary unchanged (paragraph 28), it agreed that it would also impact reliability.

It amended the discussion on determining an appropriate range around an exact profit forecast figure as it was not helpful (paragraph 36) and removed the statement that assumptions that are under directors' influence are more likely to be borne out in practice.

The commentary around the risk factors disclosed elsewhere in an investment circular was amended to align with latest ESMA rules, and to link risk factors with assumptions and disclosure (paragraph 37).

The Working Group corrected all misleading references to, or interpretation/application of, regulation.

Feedback on the procedures and considerations in 4.1

Drafting and clarification suggestions were made regarding the procedures in 4.1. These are referred to below to the extent they involve consequential changes to the material in 4.2.

Feedback on the procedures and considerations in 4.2

Respondents made a number of drafting suggestions and pointed out unclear procedures or considerations relating to the Planning stage.

It was considered that more emphasis was needed for preparers to apply equal rigour to income statement forecasting as well as balance sheet forecasting. Reasons provided were that this would ensure that all material income and expenditure recognitions reflect proper consideration of timing differences inherent in accounting for the normal trading cycle of the business. In addition to being best practice, the profit forecast can be more robustly assessed if there is a contemporaneous view on balance sheet ratios and metrics in order to guard against incorrect recognitions.

Another commentator pointed out that the guidance should not imply that if a business is subject to uncertainty then a profit forecast for future periods should always be prepared; this should only be in exceptional circumstances since the remit is clearly on the period covered by the forecast.

Respondents made a number of drafting suggestions relating to the Execution stage, misleading (or omitted) references to regulation/regulatory requirements (such as the new Prospectus Regulation which came into effect in July 2019), and also pointed out unclear procedures or considerations. Substantial suggestions are set out below:

'Business analysis principle (Reliable)'

- 'Adjusted profit measures': Two respondents sought clarification of the suggested procedure when a forecast is of a measure other than profit before tax. [Same point applies in 'Reasonable disclosure principle (Understandable)')
- 'Management actions': Several respondents pointed out that what the procedures ought to describe and be transparent about should be mitigating actions (discretionary management actions would create doubts in the robustness of the forecast).
- 'Contingency': A number of respondents questioned the emphasis on maintaining a contingency between the supporting and published PFI and the impact of a large contingency on the reliability of a forecast.
- 'Overall consideration of whether a high degree of confidence has been achieved': There was disagreement with the contrast made between respective indicators of confidence in working capital statements and forecasts.
- 'Sensitivity analysis': There was disagreement that the size of the business is a determining factor of how much sensitivity analysis is performed.

'Business analysis principle (Understandable)'

- 'Form of the profit forecast statement': Clarification missing of which accounting policies were relevant to the basis of preparation. There was also a missing reference to a Prospectus Regulation requirement.
- 'Disclosure of principal assumptions': Two respondents questioned the examples included, suggesting that they were unhelpful as they were prone to boilerplate disclosure.

'Subsequent validation principle (Comparable)'

- 'Basis of preparation': It was pointed out that there was no guidance on dealing with the impact on profit forecasts of future changes in accounting standards. Clarification missing of which accounting policies were relevant to the basis of preparation.

Feedback on Annex 2

Respondents highlighted that updates were needed to the references to ESMA Guidance, following publication of ESMA's draft new guidance, and to the references about prospectus regulation and the confirmation it requires directors to make in a prospectus.

One respondent said that the definition of ‘investment circulars’ should be amended to include ‘offer/bid documents’ (Annex 2, 2.1).

Working Group’s response

The Working Group accepted the point and set out an expectation that a forecast balance sheet and/or cash flow statement should form part of supporting unpublished PFI, and adjusted the relevant Planning procedure j.

It also agreed that the procedure about uncertainty and the need for forecasts for future periods required subtle rewording (procedure f).

In the Execution procedures, the suggestions made regarding management actions/mitigating actions were accepted and adopted (procedures n - q).

Clarification was also made regarding contingency in a forecast.

The Working Group agreed that the contrast between indicators of confidence in working capital statements and forecasts should be removed. It also accepted that the size of a business is not a determining factor of how much sensitivity analysis is performed and, accordingly, adjusted the commentary.

The Working Group also clarified the procedure around relevant accounting policies to the basis of preparation (procedure aa) and on dealing with the impact on profit forecasts of future changes in accounting standards (procedure z). The former point was also addressed in new wording in the application guidance to align with ESMA guidance (paragraph 12). The Working group also deleted the examples of principal assumptions for disclosure as it accepted they were prone to boilerplate disclosure.

The Working Group’s approach regarding the ESMA consultation is described in its response to consultation question 3.

The Working Group agreed to amend the definition of ‘investment circulars’ (Annex B).

Other drafting suggestions

Respondents suggested deletion of material on the grounds that it was repetitive, did not add anything, or could be confusing, including in paragraphs 18 and 21.

Working Group’s response

As mentioned, much of the material that respondents identified as repetitive and that the Working Group considered would not impair the modular approach to application, was omitted from the new guidance.

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?

Part V of the Exposure Draft contains application guidance for the preparation of

- synergy statements published in a M&A-related investment circular;
- stand-alone cost saving statements published in a bid defence document under the City Code; and
- supporting unpublished information.

Under the modular structure of the Exposure Draft, preparers should also consider Parts I and II.

The procedures and considerations described in Part V are illustrative and not intended to be exhaustive or prescriptive. They have been grouped under the typical stage of PFI preparation (planning, execution or documentation) and also linked to a preparation principle (and attribute).

In TECH 04/20CFF, the application note on synergy and stand-alone cost saving statements is in Part III: C.

Feedback on the structure of guidance and the introduction

One respondent was not convinced that it was helpful to link the illustrative procedures and considerations to the PFI principles and attributes in Parts II to V.

Several respondents felt that it was unnecessary to include a summary of illustrative procedures and considerations in section 4.1 in addition to the detail in section 4.2. Having both 4.1 and 4.2 created duplication and resulted in guidance that was not concise. This applies equally to Parts II and IV.

One respondent referred to the ‘Synergy Plan’ and ‘summary board document’ in paragraph 9. They felt it was not clear why the Synergy Plan should not also be a board document, why the separate document is required, or what in more detail the Synergy Plan might comprise. The suggested drawing out the development of the synergy case (ie the identification of ‘in principle’ synergy benefits arising from the transaction) and the plans for realising the benefits in practice.

Working Group’s response

The Working Group’s responses to consultation questions 5 and 6 apply.

The Working group accepted the point and addressed the situation where a Synergy Plan does not form part of the Board documents (paragraph 10).

Feedback on regulatory requirements

Various respondents identified potentially misleading (or omitted) references to, or application of, regulatory requirements, including in sections 1 and 2 and paragraph 49.

A respondent commented on the table of QFBS disclosure requirements (page 61), with the observation that non-recurring financial benefits tend to receive a lesser focus, with the emphasis in the QFBS being on the level of recurring financial benefits.

Another respondent commented that, in paragraph 19, the statement ‘Publication of a Statement in an investment circular sets a strong expectation that the Statement will be met’ was too simplistic and that it should be possible to use disclosure to explain the uncertainty around the Statement being met.

One respondent asked for clarification of the source of the requirement that the directors' process for a Statement be sufficiently 'robust' (paragraph 21). The respondent made a similar point in relation to Part III.

Clarification was sought on some of the commentary on how directors can meet their obligations and one respondent pointed out that certain prospectus regulation requirements had been wrongly treated as general requirements.

Working Group's response

The potentially misleading (or omitted) references to, or application of, regulatory requirements were amended.

The Working Group considered that the strong expectation that the Statement will be met was valid – paragraph 38 set out the context and commentary on the approach to making a Statement.

The Working Group considered appropriate to keep the requirement for the directors' process for a Statement to be robust.

The commentary was amended to be clearer where guidance regarding directors' obligations is not a specific regulatory requirement.

Feedback on the application guidance

One respondent considered that the commentary in paragraph 22 on the issue of alignment with other disclosures was incorrect, and that that in paragraph 48 was more appropriate.

The same respondent suggested that paragraph 31 should be moved to section 2 on regulatory requirements.

A respondent questioned the 'challenge' that could arise around the supporting business analysis for a Statement if there were restrictions on the company's ability to provide detailed support on its own information due to the status of the offer and its ability to share commercially sensitive data (paragraph 35).

There was a suggestion that paragraph 36 should give more emphasis to situations where the level of uncertainty is so great that the benefit should not be enumerated. It was also pointed out that, in paragraph 37, directors' 'control' is over the 'achievement' and not the 'implementation' of synergies.

Two respondents thought that paragraph 38 was about understandability, rather than reliability. Another pointed out that the existence of uncertainty does not mean that a Statement is not a faithful representation of plans and strategies.

One respondent thought that, in the context of neutrality (paragraph 39), dis-synergies were more important than costs. Another suggested that current Code requirements needed to be reflected – disclosure is required of 'disbenefits expected to arise' as well as the 'recurring and non-recurring costs of realising the expected benefits'. They suggested replacing 'one-off' with 'non-recurring'.

Regarding paragraph 42, a respondent asked whether 'overall earnings enhancement' was different to 'synergies'. Another respondent commented that revenue synergies are rarely the focus with a QFBS due to the disproportionate effort required to prepare such information to the standard required because of the high risks associated with realising revenue synergies. A further respondent thought that the preparation procedures in section 4.2 Execution, 'Preparation of detailed Synergy Plan' did not focus enough on revenue synergies. Another reviewer observed that very little guidance was given around revenue synergies and their reliability and that consideration should be given to the extent that there is control over such revenue benefits and to any external factors that could affect them.

One respondent pointed out that 'should' statements in paragraphs 42 and 43 were more prescriptive than the Code was, as was the final sentence in paragraph 44.

A reviewer suggested that implementation plans are likely to be developed at a high level due to limitations on access and information, and the plans further developed post deal. Another thought it necessary to mention that a synergy case that is monitored may be revised post deal to reflect the passage of time and increased access to information.

One respondent queried the origin of the drafting that 'There is a strong expectation that the Statement will be met' (paragraph 44) and commented that given the 'strong expectation' it was questionable whether directors could disclose anything other than the minimal level they hope to achieve.

Another respondent identified that reference to 'post-merger undertakings' should be replaced with 'post-offer undertakings (paragraph 48).

One respondent challenged the impression in paragraph 49 that, unless a synergy can subsequently be accurately measured, it should not form part of the Statement. They also suggested that the guidance did not deal with how synergies should be measured paragraphs or on dis-synergies and cost saving which may have a longer timer impact on the business – cutting R&D or advertising spend could have a longer term adverse effect on the business. Another respondent felt that the discussion of comparability in paragraph 49 did not take into account practice or regulation as it has emerged [since publication of the 2003 guidance which contained such commentary]. The respondent suggested that some of the guidance in paragraph 49 could be retained in relation to internal monitoring of progress under the Synergy Plan and when the synergy case can be revised post deal to reflect the passage of time and increased access to information.

Working Group's response

The ambiguous commentary on alignment of the Statement with other disclosures was removed.

The Working Group agreed with the suggestion to move certain commentary on Code requirements to the main section dealing with regulatory requirements (paragraph 14). It also agreed that the 'challenge' cited in the commentary to developing the supporting business analysis for a Statement was not appropriate and removed the drafting.

The Working Group accepted the observation that in some situations of great uncertainty benefits should not be enumerated and amended the commentary (paragraph 30).

It also agreed that, when considering reliability, directors should have regard to their ability to control the achievement of a benefit (paragraph 31).

It accepted that disclosure relating to the degree of uncertainty inherent in the information was a point of understandability and accordingly moved the commentary (paragraph 37).

The Working Group agreed with the suggested re-focusing of the commentary on neutrality to dis-synergies and included a Code requirement that was omitted from the Exposure Draft (paragraph 32).

In light of comments to include more and less guidance on revenue synergies, the Working Group reconsidered its commentary but did not make changes as it felt there was sufficient balance in the guidance.

Suggestions for the guidance on the form of a Statement were all adopted.

As mentioned earlier, the Working Group considered that the strong expectation that the Statement will be met was valid and consistent with the PFI preparation framework.

The references to 'post-merger undertakings' was corrected to post-offer undertakings'.

The Working Group decided to remove some of the commentary on measuring synergies as it accepted that practice has evolved and refocused the guidance towards ongoing internal monitoring when post-deal the synergy case may be revised to reflect the passage of time and increased access to information (paragraphs 28 and 42).

Feedback on the procedures and considerations at the Planning stage in 4.2

Under 'Reasonable disclosure principle (Understandable)' one respondent identified that reference to 'post-merger' should be replaced with 'post-offer.

Feedback on the procedures and considerations at the Execution stage in 4.2

A respondent referred to their comments on paragraph 9, for situations where a Synergy Plan is not part of the Board's papers, in relation to 'User needs principle (Relevant)'.

One commentator thought it was worth pointing out that it can be less clear cut to establish whether operational efficiencies are directly attributable to a deal.

Under 'Business analysis principle (Reliable)':

- A respondent commented that certain 'should' statements should be indicative, rather than required.
- 'Risk adjusting the targeted benefits based on the level of or access to detailed information and information sources': It was suggested that the feedback on consideration of contingencies in paragraph 38 was applicable here too, also that risk adjustment was only one approach when considering the level of contingencies. Another respondent questioned the appropriateness of making 'a more prudent public statement of the expected quantified financial benefits'.
- 'Compilation process': It was not clear how checks can ensure that 'historical financial information which forms part of the analysis does not contain misstatements which have not been corrected'.
- 'Compilation process in development of Synergy Plan': This needed to better reflect constraints such as limited public sources, heightened levels of confidentiality and restricted access. Another respondent thought that the final bullet point on what directors should be able to demonstrate was aspirational and ought to be changed to reflect practice.
- 'Consider compliance of Statement with bases of belief disclosure requirements': It is not a requirement that the bases of belief should set out whether the synergy assumptions have been risk adjusted. Another respondent pointed out, re 3rd and 4th bullet points, that the bases of belief are the principal assumptions.
- 'Base figure': Comments in relation to paragraph 49 are relevant here.

Under ‘Reasonable disclosure principle (Understandable)’:

- ‘Timing for achievement of Statement’: A respondent challenged the assertion that ‘a lengthy timeframe or excessively short timeframe for delivery of expected benefits may raise concern over inclusion of these benefits’ as the timings may in fact be legitimate.
- ‘Consider consistency of Statement with other disclosures in the investment circular’: replace ‘post-merger’ with ‘post-offer’.

Under ‘Subsequent validation principle (Comparable)’:

- Comments in relation to paragraph 49 are relevant to avoid the impression that a Statement is set in stone.

Working Group’s response

The Working Group amended, where appropriate, any prescriptive drafting to indicative.

Procedures regarding risk adjustment on consideration of contingencies were amended and the ambiguous procedure under compilation process was removed.

The Working Group also revised paragraph 28 to better reflect constraints when developing a Synergy Plan.

The Working Group agreed that the bases of belief include the principal assumptions, but felt that it was correct to retain the drafting regarding disclosure of whether synergy assumptions have been risk adjusted.

The Working Group ensured that amendments made in the application guidance, on comparability, monitoring and the base case were reflected in the procedures.

Other drafting suggestions

Respondents suggested deletion of material on the grounds that it was repetitive, did not add anything, or could be confusing, including in paragraphs 23, 30, 32, 47.

One respondent said that the definition of ‘investment circulars’ should be amended to include ‘offer/bid documents’ (Annex, 3.1, Other regulatory obligations including standards of care required). Also, in the table in 3.1, in Rule 28.1(a), both bullet points should refer to ‘QFBS’ rather than ‘statement.

Working Group’s response

As mentioned, much of the material that respondents identified as repetitive and would not affect the modular approach to application, was omitted from the new guidance.

The Working Group accepted the specific matters for correction above and made the amendments.

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

The new aspects in the Exposure Draft guidance were the extension of the scope of the PFI preparation framework – to include all PFI – and the addition of a preparation principle for the 'relevant' attribute. Strongly underpinning the guidance is the theme of accountability of preparers of PFI to the users of that PFI.

The Working Group wanted to understand if transitional arrangements were likely to be needed for the guidance to replace the 2003 guidance.

Feedback

One respondent said that although the core principles of the 2003 guidance and that in the Exposure Draft are broadly similar, preparers may be concerned about being judged against the latest guidance if their PFI is subsequently called into question. For this reason, they proposed a three month lead-in period, with early adoption encouraged.

Another respondent remarked that for preparers and advisers in a UK capital markets environment very few transitional arrangements would be necessary to apply the new guidance. However they thought that sufficient time should be provided for promotion and education of ICAEW members and others, in particular, for advisers outside of the UK capital market.

Working Group's response

Based on feedback and on ICAEW's prior experience of introducing new guidance, just over four months of transition, ending 15 October 2020, was considered desirable to allow for promotion and awareness of the new guidance by ICAEW, including to regulators and other market participants. This will also prevent disruption to preparation exercises that are underway at the date of issue that have been planned with reference to the 2003 guidance, and to processes for scoping, board approval and documentation.

The Working Group considered that early adoption of the guidance was to be encouraged and that the 2003 guidance would be withdrawn on 15 October 2020.

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

The Exposure Draft referred to regulatory and legal requirements and to market practice regarding preparation of PFI in November 2018, as well as to changes that were proposed, though not formally adopted, as at that date.

The Working Group wanted to understand the extent and nature of developments and changes coming into effect, or proposed, by a date as close as possible to that of issuing the guidance.

Feedback on regulatory and other changes not reflected in the Exposure Draft

Respondents identified changes that have come (or are due to come) into effect and that would have implications for individual Parts of the Exposure Draft and the Annex.

The principal changes relate to the new Prospectus Regulation, effective from July 2019.

The FCA announced that the listing authority would no longer be known as 'the UKLA' and would instead be referred to as 'the FCA'.

Respondents also referred to changes in ESMA's consultation in July 2019 on Draft Guidelines on the disclosure requirements under the Prospectus Regulation, and that these were expected to impact on the Exposure Draft guidance in Parts III and IV.

There was also reference to the outcome of an independent review commissioned by the UK government of the quality and effectiveness of audit (the Brydon Review). Some of the recommendations would, if adopted, potentially increase listed companies' forward-looking disclosures in their regular reporting and the need for assurance in respect of such disclosures. One respondent suggested that, in those circumstances, the guidance should have a role to play in helping companies to meet those requirements.

Changes were also proposed by the FRC to its standards for investment reporting (SIRs) that apply to reporting accountants who are engaged to publicly report on certain information included in an investment circular. Such information includes PFI published in the context of a capital markets transaction and prepared according to the guidance. ICAEW's guidance for preparers needs to be aligned to relevant engagement standards for any public reporting on PFI

Feedback regarding the form in which the guidance should be published

Some respondents said that the guidance should ideally be made available in print form and to download from ICAEW's website.

A respondent remarked that the tables of procedures in Parts III, IV and V could be adopted as checklists by some preparers and their advisers, and suggested that they should be made available to [ICAEW] members as downloadable modules.

Working Group's response

The Working Group updated the commentary about, and references In the Annex to, the new Prospectus Regulation.

The Working Group considered the changes proposed by ESMA and concluded that while some drafting (and references) in the Draft Guidelines were different, their substance was similar to ESMA's extant guidance. Due to uncertainty of when ESMA would issue the final form of guidelines, the Working Group decided to include the essence of the Draft Guidelines in the application notes for working capital statements (Part III: A) and profit forecasts (Part III: B), and to update the references in the Annexes when they come into force.

The Working Group acknowledged that there may be a need to edit the guidance to support the preparation of information relevant to future disclosure requirements (Brydon Review) and reporting requirements (SIRs) and is confident that this will be possible under the modular format of the guidance.

With the exception of ESMA's Draft Guidelines on the disclosure requirements under the Prospectus Regulation, which have been incorporated as described above, the guidance reflects laws and regulation as at 1 November 2019.

The Working Group decided to make the guidance available to download, including as individual Parts. Print copies would also be made to members available on demand.

GLOSSARY

City Code	The City Code on Takeovers and Mergers, published by the Panel on Takeovers and Mergers (as applicable to the companies, transactions and persons as detailed under pages A3-A7 of the City Code)
Class 1 transaction	A transaction classified as such under the LR
ESMA	European Securities and Markets Authority
ESMA Guidance	ESMA Update of the CESR Recommendations on the Consistent Implementation of Commission Regulation (EC) No. 809/2004 Implementing the Prospectus Directive (CESR Recommendations) In July 2019 ESMA published Draft Guidelines on disclosure requirements under the Prospectus Regulation which, when finalised, will replace the CESR Recommendations. The Draft Guidelines include changes in terminology but are similar with the substance of the CESR Recommendations. Accordingly, this guidance includes the essence of the Draft Guidelines but the references in the Annex will be updated when they come into force.
EU	European Union
Exposure Draft	Consultation on guidance for preparers of prospective financial information, published by ICAEW in December 2018
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
IASB	International Accounting Standards Board
LR	Listing Rules, published by the FCA
MAR	Market Abuse Regulation (EU) No 596/2014
Prospectus Regulation	Regulation (EU) 2017/1129
PFI	Prospective Financial Information
QFBS	Quantified Financial Benefits Statement, a statement of synergies or stand-alone cost savings made in relation to a proposed transaction governed by the City Code
TECH 04/20CFF	Technical release, Guidance for preparers of prospective financial information, published by ICAEW in May 2020
Statement	A statement of synergy benefits in a Class 1 circular issued under the LR, or a QFBS
2003 guidance	Prospective financial information, Guidance for directors, published by ICAEW in 2003

APPENDIX 1 ICAEW PROSPECTIVE FINANCIAL INFORMATION WORKING GROUP

The members of the Working Group are:

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APPENDIX 2 RESPONDENTS TO THE CONSULTATION AND SUBSEQUENT FEEDBACK

We are grateful to the following organisations and individuals that submitted responses or otherwise provided feedback:

BDO
Deloitte
EY
Grant Thornton
KPMG
PwC
RSM

Association for Financial Markets in Europe, ECM Committee
Audit Committee Chairs Independent Forum
City of London Law Society Company Law Committee
European Securities and Markets Authority
Financial Conduct Authority
Financial Reporting Council
UK Finance

Chris Hunt, Group Head of M&A, Rentokil Initial plc
William Underhill, retired partner, Slaughter and May

All feedback, written and oral, is reflected in section 3.

Non-confidential written responses may be viewed at icaew.com/pfi