Standard

Financial Reporting Council

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STANDARDS FOR INVESTMENT REPORTING

6000 – Investment Reporting Standards Applicable to Public Reporting Engagements on Quantified Financial Benefits Statements

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Preface

SIR 1000 ''Investment reporting standards applicable to all engagements in connection with an investment circular'' contains basic principles and essential procedures (''Investment Reporting Standards'') that are applicable to **all** engagements involving an investment circular prepared for issue in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom.

SIR 6000 contains only specific additional Investment Reporting Standards, indicated by paragraphs in bold type, with which a reporting accountant is required to comply in the conduct of an engagement involving the examination of Quantified Financial Benefits Statements published by a securities exchange offeror or the offeree company.

SIR 6000 also includes explanatory and other material, including appendices, in the context of which the Investment Reporting Standards are to be understood and applied. It is necessary to consider the whole text of the SIR to understand and apply the basic principles and essential procedures.

The definitions in the glossary of terms set out in Appendix 3 of SIR 1000 are to be applied in the interpretation of this and all other SIRs. Terms defined in the glossary are underlined the first time that they occur in the text.

To assist readers, SIRs contain references to, and extracts from, certain legislation and provisions of the *City Code on Takeovers and Mergers* (the "*Takeover Code*"). Readers are cautioned that these references may change subsequent to publication.

Introduction

1. The purpose of this SIR is to establish specific additional Investment Reporting Standards and provide guidance on the reporting accountant's responsibilities and procedures when engaged to report publicly on the proper compilation of a Quantified Financial Benefits Statement ("QFBS") in accordance with Rule 28.1 of *The Takeover Code*. The requirements of Rule 28.1 of the *Takeover Code* apply to offeree companies and securities exchange offerors[1], but do not apply to cash offerors.

2. An engagement to report publicly on the proper compilation of a QFBS is a public reporting engagement as described in SIR 1000. The description of a public reporting engagement includes three generic terms having the following meanings in the context of an engagement to report on the proper compilation[2] of a QFBS:

   (a) the ''subject matter'' is the financial benefits and recurring and non-recurring costs of realising the expected financial benefits ("costs to achieve") expected to arise from a takeover, or the impact of measures to be taken by the offeree company in the event of the offer being withdrawn or lapsing;

   (b) ''suitable criteria'' to be used by directors in the preparation of the QFBS are that it is understandable and reliable as set out in the *Takeover Code* [and in paragraph 5 of this SIR below]. In forming its opinion as to whether the QFBS has been properly compiled the reporting accountant considers whether certain of those criteria (''reporting accountant's criteria'') have been properly applied; and

   (c) the ''outcome''[3] is the directors' published QFBS, on which the reporting accountant expresses an opinion (in the ''reporting accountant's report'') as to whether that QFBS is properly compiled on the basis stated.

3. The *Takeover Code* defines a QFBS as either:

   (a) a statement by a securities exchange offeror or the offeree company quantifying any financial benefits expected to accrue to the enlarged group if the offer is successful; or

   (b) a statement by the offeree company quantifying any financial benefits expected to accrue to the offeree company from cost saving or other measures and/or a transaction proposed to be implemented by the offeree company if the offer is withdrawn or lapses.

   Where, in competition with an offer or possible offer, an offeree company announces that it has agreed terms on which it intends to sell all or substantially all of the company's assets (excluding cash and cash equivalents) and that it intends to return to shareholders all or substantially all of the company's cash balances (including the proceeds of any asset sale), a statement by the offeree company quantifying the cash sum expected to be paid to shareholders (either as a specific amount or as a range) will be treated as a quantified financial benefits statement.

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[1] Any offeror, or potential offeror, other than a cash offeror.

[2] References to 'proper compilation' in this SIR should be read as references to the full form of the reporting accountant's opinion which is set out in an Appendix in the Illustrative Report.

[3] The ''outcome'' is sometimes described as ''subject matter information''

4. This SIR does not deal specifically with statements by offeree companies quantifying the cash sum expected to be paid to shareholders as described in the *Takeover Code*, although the principles and guidance contained within it could be applied in an engagement to report on a cash sum statement.

5. In order to provide an opinion on the proper compilation of a QFBS the reporting accountant carries out the procedures required by this SIR and SIR 1000, and any others it considers necessary, to satisfy itself that the QFBS is, as required by the *Takeover Code*[4]:

   (a) understandable: it must not be so complex or include such extensive disclosure that it cannot be readily understood; and

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

6. The role of the reporting accountant is to report on whether a QFBS, that an offeree company or securities exchange offeror has published during an offer period (or in an announcement which commences an offer period)[5], has been properly compiled. The role of the reporting accountant does not include questioning the decision to publish a QFBS.

The nature of Quantified Financial Benefit Statements

7. A QFBS is inherently uncertain and the probability that a QFBS will correctly predict the actual financial benefits, including cost savings, is dependent upon the many factors which determine that uncertainty. Events and circumstances may not occur as expected or may not be predicted at all, or the directors may take actions different to those previously intended. A QFBS describes the expected outcome of future events and possible actions by the entity. The *Takeover Code* Rule 28.4.b states that the bases for belief included for a QFBS should provide useful information as to its reasonableness and reliability which must:

   (i) be readily understandable;

   (ii) be specific and precise; and

   (iii) not relate to the general accuracy of the estimates underlying the QFBS.

8. The extent to which a QFBS estimate of financial benefits and costs to achieve will differ materially from the actual out-turn will depend on particular circumstances, and the nature of the financial benefits and costs to achieve identified. The length of the period into the future to which the QFBS relates is only one, and not necessarily the most significant, factor. The quantification of financial benefits may, for example, be certain in respect of the elimination of duplicate costs (two boards), as opposed to the estimated benefits arising from the integration of complex processes or systems. It is a generally accepted market approach to apply a discount or contingency for prudence to mitigate against this

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[4] *The City Code on Takeovers and Mergers*, Rules 28.3 (b) (i) & (ii).

[5] *The City Code on Takeovers and Mergers* Rule 28.1 (a) (i).

uncertainty in quantifying future financial benefits and costs and to increase the level of confidence in a QFBS. The QFBS may also be more reliable when the management of both the offeror and offeree have worked together to identify those potential future benefits.

Understandability

9. Understandable information will enable the intended users to identify readily the main points being made and to infer appropriately how significant they are to decision-making. This is likely to be assisted by a clear layout and presentation of the information in a way that effectively summarizes and draws attention to these points. In order to be understandable, the QFBS should be coherent, easy to follow, clear and logical, and at a level of aggregation that results in sufficiently relevant but concise subject matter information. Paragraph 28.6 of the Takeover Code sets out specific disclosure requirements for QFBSs.

10. To be understandable a QFBS must contain the information necessary for intended users to appreciate the degree of uncertainty attaching to the information and how that uncertainty might impact it. This requires the disclosure of assumptions and other matters relevant to the basis of preparation of the QFBS which are of importance in assisting the intended users' understanding.

11. What constitutes reasonable disclosure will depend upon the particular circumstances of each QFBS but will need to take into consideration:

    (a) sources of uncertainty and the related assumptions made relating to uncertainties;

    (b) the factors that will affect whether assumptions will be borne out in practice; and

    (c) Information about the process undertaken by management and the access to data and information sources.

    The omission of important information may prevent a QFBS from being understandable and equally, if the disclosure is too complex or too extensive the understandability of the QFBS may be also impaired.

Reliability

12. Reliable information in the context of a QFBS requires the QFBS to be supported by a thorough analysis of the offeree company's and/or the offeror's business and must represent factual and not hypothetical strategies, plans and risk analysis.

13. Reliable information represents what it purports to represent (sometimes referred to as 'faithful representation'); and:

    - is materially complete;
    - accurately represents factually based strategies, plans and risk analyses. (free from material error); and
    - is without bias (neutral).

    This requires the underlying data and source information to also be created, collected and processed in a manner that maintains its integrity. Unsubstantiated claims are unlikely to meet this requirement.

14. Estimates of synergy benefits and quantified financial benefits (including costs to achieve) are, by definition, forward looking ("prospective financial information") and therefore uncertain. The degree of uncertainty may be significantly increased in the context of a hostile takeover where the offeror may have prepared these estimates without the cooperation of the offeree company and will therefore have limited access to relevant and granular information about the business and its operations. Nevertheless, the *Takeover Code* requires that a QFBS must be reliable.

15. Prospective financial information, including QFBS, is reliable when it is prepared on the principle that it is supportable or based on sound business analysis. [6] Prospective financial information will be a faithful representation where it reflects an entity's underlying merger plans and/or estimates of cost savings in a way that is appropriate for the purpose for which the QFBS is being prepared. The fact that a QFBS does not correctly predict the actual out-turn once reported, does not necessarily mean that it was not reliable when made. The reliability of a QFBS is, therefore, a function of:

    a. the availability of information at a sufficiently granular level;

    b. the quality of the analysis undertaken; and

    c. the degree to which that analysis is reflected in the QFBS.

Compilation of a QFBS

16. The compilation of a QFBS involves a securities exchange offeror, or the offeree company, gathering, classifying, summarizing and presenting relevant information that quantifies either:

    - the financial benefits expected to accrue to the enlarged group if an offer is successful; or

    - any financial benefits expected to accrue to the offeree company from cost saving or other measures and/or a transaction proposed to be implemented by the offeree company if the offer is withdrawn or lapses.[7]

17. The process followed by the preparer would be expected to include:

    - Identifying bases of belief which underpin the analysis of the information to be presented, including principal assumptions, the expected timing of benefits, and material uncertainties. There must be a clear distinction between assumptions or bases of belief about factors which the directors (or other members) of the company's management.) can influence and those which they cannot influence.

    - Identifying the sources of information to be used in compiling the QFBS and extracting the information from that source.

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[6] See *Guidance for preparers of prospective financial information* (ICAEW, updated periodically).

[7] *The City Code on Takeovers and Mergers.*

The source of that information will be heavily influenced by the nature of the proposed transaction and, in particular in the case of a statement by an offeror, the extent to which the offeror has direct access to information from the offeree company. Where a QFBS has been prepared on an 'outside in' basis then it is likely that the information will be drawn from published financial information including annual reports, interim financial statements or other market announcements. Information may also be sourced from internal documentation – from both the offeror and offeree company, including combined or joint merger plans.

- Classification of the information between benefits (including costs to deliver those benefits), dis-benefits, recurring and non-recurring items, and the timing of when these are expected to occur.

- Arithmetic computation of the QFBS.

- Preparers may reflect their confidence in financial benefits and cost estimates through the use of sensitivity analysis and/or use of discount or contingency and/or application of a risk weighting when presenting them in the QFBS.

- Providing appropriate disclosures to help intended users understand the QFBS, and the assumptions made (including the basis on which any subsequent updates or revisions have been made).

18. The *Takeover Code* requires in Rule 28.1 (a) (ii)[8] that a preparer is required to include in its QFBS publication a report by their financial advisers that the QFBS has been prepared with due care and consideration, as well as the reporting accountant's opinion on proper compilation. The reporting accountant considers whether sufficient time has been built into the compilation process to ensure that key individuals from the business and their financial advisers are properly engaged with the process.

Engagement acceptance and continuance

19. When accepting or continuing an engagement to report publicly on a QFBS, the reporting accountant ascertains whether the directors intend to comply with all relevant requirements of the *Takeover Code*, including those that are the basis of the reporting accountant's criteria: reliability and understandability.[9]

20. The reporting accountant considers whether it will require access to the work of the relevant financial advisers who are responsible for the report under the *Takeover Code* that the QFBS has been prepared with due care and consideration when agreeing the terms of engagement with directors.

[8] *The City Code on Takeovers and Mergers*, 28.1.a.ii

[9] *The City Code on Takeovers and Mergers*, Rules 28.4.b&c.

Legal and regulatory requirements

21. The *Takeover Code* contains provisions in relation to QFBSs that an offeree company or securities exchange offeror has published during an offer period (or in an announcement which commences an offer period).[10]

Planning and performing the engagement

22. **The reporting accountant shall obtain an understanding of the key factors affecting the subject matter sufficient to identify and assess the risk of the QFBS not being properly compiled and sufficient to design and perform evidence gathering procedures including:**

    (a) the background to and nature of the circumstances in which the QFBS was made;

    (b) the entities businesses; and

    (c) the procedures adopted, or planned to be adopted, by the directors for the preparation of the QFBS. (SIR 6000.1)

23. The reporting accountant gains an understanding of the background to and nature of the circumstances in which the QFBS is being prepared, by discussion with the directors or management and by reading relevant supporting documentation. Specific issues to consider, amongst others, include:

    a. The extent to which the offeror and offeree are working on joint proposals, or whether the QFBS is being prepared in the context of a hostile takeover bid, or where there are competing bids. In these circumstances additional risks may exist because of lack of information, or because of the potential for bias in the selection and presentation of key assumptions and estimates by both offeror and offeree.

    b. In the case of an updated QFBS, the basis on which changes to estimates of synergy benefits, costs to achieve and dis-benefits have been made.

    c. Whether the proposed takeover may be subject to regulatory approval or conditions, including any review by the Competition and Markets Authority (CMA).

    d. Wider public and parliamentary interest in the proposed takeover, including information in the public domain which may contradict or otherwise undermine confidence in the information presented in the QFBS. For example, financial benefits or cost reductions which are predicated on moving or concentrating operations or business components to new locations may reasonably be expected to result in greater external scrutiny and may make those plans undeliverable in their original form.

[10] *The City Code on Takeovers and Mergers,* Rule 28.1.a.

24. Reporting on the proper compilation of a QFBS may require the reporting accountant to develop an understanding of the relevant systems and procedures of the preparer in order to assess the reliability of information extracted and compiled into the QFBS. The reporting accountant may also need to develop an understanding of the relevant systems and procedures of the offeree company in order to assess the reliability of information extracted and compiled into the QFBS where the preparer has had access to and has made use of those systems and procedures

Materiality

25. **The reporting accountant shall consider materiality and public reporting engagement risk in planning its work in accordance with its instructions and in determining the effect of its findings on the report to be issued. (SIR 6000.2)**

26. The *Takeover Code* sets out the matters which are required to be included in a QFBS[11], and the criteria which must be used in the preparation of the statement. However, it does not prescribe the level of disclosures required in detail, and therefore the preparer will need to make judgments about the information to be included within the QFBS in order to satisfy the requirement that it be understandable and reliable.

27. Matters are material if their omission or misstatement could, individually or collectively, influence the economic decisions of users of the outcome. Materiality depends on the size and nature of the omission or misstatement judged in light of the surrounding circumstances. The size or nature of the matter, or a combination of both, could be the determining factor.

28. An error in the context of the proper compilation of a QFBS might include:

    - Bases of belief including assumptions that are not consistent with the analysis of the business;
    - Mathematical or clerical mistakes in the compilation of the QFBS; and
    - Misapplication of a stated basis of belief.

29. There may be material deficiencies in the presentation of a QFBS which breach specific requirements of the *Takeover Code*. A material error could, therefore, also include:

    a. Insufficient detail presented to allow users to understand the bases of belief (including the principal assumptions and sources of information) which underpin the QFBS;

    b. Where a comparison is made with historical financial performance, or with existing cost bases and structures, failure to provide a base figure;

    c. The QFBS not separately identifying dis-benefits which may arise from, for example, additional regulatory or legal costs. Net presentation of benefits and dis-benefits may not provide sufficient information to allow users to understand material uncertainties;

[11] *The City Code on Takeovers and Mergers*, 28.6.

d. Insufficient information about the assumed timing or phasing of the realisation of synergy benefits;

e. Insufficient information about the nature and timing of the costs relating to the realisation of benefits;

f. An offeror including financial benefits which are not dependent on the transaction;

g. Insufficient detail about whether financial benefits and dis-benefits are expected to be recurring or non-recurring;

h. In the case of an updated or revised QFBS, an absence of sufficient explanation for changes in the bases of belief, including assumptions and plans, which have resulted in changes to estimated synergies and benefits.

30. Evaluating whether an omission or misstatement could influence economic decisions of the intended users of the QFBS, and so be material, requires consideration of the characteristics of those intended users. The intended users are assumed to:

    a. have a reasonable knowledge of business and economic activities and accounting and a willingness to study the QFBS with reasonable diligence;

    b. understand that QFBSs are prepared, presented and reported on to levels of materiality;

    c. recognise the uncertainties inherent in prospective financial information and the consideration of future events, as well as how the information within the QFBS may differ from other types of financial information which draw more heavily from the accounting records of the company or companies being reported on ; and

    d. make reasonable economic decisions on the basis of the QFBS.

    The determination of materiality, therefore, takes into account how intended users with such characteristics could reasonably be expected to be influenced in making economic decisions.

Public reporting engagement risk

31. ‘‘Public reporting engagement risk’’ is the risk that the reporting accountant expresses the positive and unmodified opinion required by the *Takeover Code* when the QFBS has not been properly compiled on the basis stated.

32. **To form an opinion that the QFBS has been properly compiled on the basis stated, the reporting accountant shall obtain sufficient appropriate evidence that the QFBS is free from material error in its compilation by:**

    a. ensuring that information and data is appropriate for the purpose of preparing the QFBS, and has been extracted accurately;

    b. obtaining evidence that the directors have applied the criteria set out in this SIR and derived from the *Takeover Code*;

c. **checking that the QFBS has been accurately computed based upon the disclosed bases of belief including assumptions; and**

d. **considering whether the bases of belief including assumptions used are consistent with the directors' business analysis and the reporting accountant's own knowledge of the businesses – whether offeror or offeree. (SIR 6000.3)**

33. The reporting accountant considers the business analysis carried out by the preparer of the QFBS and whether there is prima facie evidence that it has been used by the directors in compiling the statement. The extent and nature of the analysis that is necessary to support a QFBS, and therefore the extent of the reporting accountant's consideration of such analysis, will be dependent upon the specific circumstances in which the QFBS is being prepared (including whether this is in the context of a hostile takeover). The reporting accountant discusses the preparer's plans, strategies and risk analysis with the preparer of the QFBS, considers documentary support for them and assesses whether they are consistent with the analysis of the business.[12]

34. Relevant issues for the reporting accountant to consider may include, amongst others:

a. Whether individuals with sufficient seniority and relevant knowledge about the business and its operations have contributed to the plan at an appropriate level of detail. This includes whether there has been proper Board engagement;

b. Whether the business, or components within it, have a proven track record of achieving comparable financial benefits or cost reductions;

c. The extent and expertise of any external expert advice;

d. Whether the directors have assessed the operational feasibility of the plans, including timings and operational changes;

e. The relative weighting within the statement of financial benefits with a greater or lesser inherent uncertainty attached. Revenue synergies, for example, may depend to a greater degree on factors outside the control of the preparers of the QFBS. Similarly, estimates of financing synergies predicated on reductions of costs of capital or tax efficiencies, may also depend on the actions of lenders, credit agencies or tax authorities rather than being in the gift of the preparers;

f. Whether specific financial benefits or costs to achieve are expressed as a range, and whether that range reflects underlying plans;

g. Whether savings are direct cash savings;

h. Whether all material dis-benefits have been identified, including those which might arise from cost savings;

i. The reasonableness of key assumptions;

[12] See specific guidance on QFBS business plans in *Guidance for preparers of prospective financial information* (ICAEW, updated periodically)

j. Whether contingencies have been included;

k. The extent to which any revised assumptions or estimates included in updated QFBS are supported by new information, or have arisen from a different approach to analyzing the original information;

l. The evidence supporting whether savings predicted by an offeror are dependent upon the offer proceeding;

m. Whether assumptions made about costs following the business combination, including remuneration for senior management, are realistic and property costed (whether a financial benefit or a dis-benefit); and

n. Whether financial benefits are vulnerable to more intangible aspects of the proposed business combination. For example, lack of cultural fit might cause dis-synergies or frustrate the ability to realise synergies.

35. The preparer can be expected to document the bases of belief including assumptions that have been made relating to matters significant to the QFBS. The reporting accountant will, therefore, obtain from the preparers details of those assumptions identified as being relevant. It will usually be the case that not all of the assumptions made in support of the QFBS will be published. This is because only those that are material to an understanding of the statement are required to be disclosed.

Presentation of the QFBS

36. **The reporting accountant shall consider whether it has become aware of anything to cause it to believe that:**

   a. the QFBS is presented in a way that is not understandable;

   b. a material basis of belief is unrealistic; or

   c. a basis of belief including assumptions or other information which appears to it to be material to a proper understanding of the QFBS has not been disclosed.

   If the reporting accountant is aware of such matters it shall discuss them with the parties responsible for the QFBS and with those persons to whom its report is to be addressed and consider whether it is able to issue its opinion. (SIR 6000.4)

37. Specific matters for consideration include whether the QFBS includes:

   - Bases of belief supporting the statement (identifying the principal assumptions and sources of information[13]);

   - An analysis, explanation and quantification of the constituent elements sufficient to enable the context and relative importance of those elements to be understood;

[13] The source for any fact which is material to an argument must be clearly stated, including sufficient detail to enable the significance of the fact to be assessed. *The Takeover Code*, Note 2 to Rule19.1.

- A base figure where any comparison is made with historical financial performance or with existing cost bases and structures;
- Details of any dis-benefits expected to arise;
- A statement that the expected financial benefits will accrue as a direct result of the success of the offer and could not be achieved independently of the offer;
- An indication of when the financial benefits are expected to be realised;
- An indication of whether the expected financial benefits will be recurring, clearly identifying any non-recurring benefit(s);
- The recurring and non-recurring costs to achieve of realising the expected financial benefits;[14] and
- In the case of an updated QFBS, a clear explanation for the changes in assumptions and methods.

38. The reporting accountant therefore also considers the wider context in which the QFBS is presented, including public statements and presentations made by those responsible for the QFBS. These include the statements required by the *Takeover Code* when an announcement is made of a firm intention to make an offer.[15]

39. The manner in which the QFBS is presented in the investment circular will also be considered. The choice of captions and disclosure or emphasis of particular numbers or attributes may determine how the QFBS will be interpreted and consideration is given as to whether this is consistent with the purpose for which the QFBS has been prepared. In addition, the *Takeover Code* has specific requirements in respect of the use of quotations and pictorial representations:

    - *Since the use of a quotation will carry the implication that the quotation is endorsed by the party to the offer using it, quotations must not be used unless the party is prepared, where appropriate, to corroborate or substantiate them and they are covered by the directors' responsibility statement.* [16]
    - *Pictorial representations, charts, graphs and diagrams must be presented without distortion and, when relevant, must be to scale.* [17]

40. The *Takeover Code* also prohibits certain 'unacceptable' statements, including those where: an offeror suggests that it may improve its offer, or make a change to the structure, conditionality or the non-financial terms of its offer, without committing itself to doing so and specifying the improvement or change.[18]

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[14] *The City Code on Takeovers and Mergers*, Rule 28.6.

[15] *The City Code on Takeovers and Mergers*, Rule 2.7.

[16] *The City Code on Takeovers and Mergers,* Note 3 to Rule 19.1.

[17] *The City Code on Takeovers and Mergers*, Note 4 to Rule 19.1.

[18] *The City Code on Takeovers and Mergers,* Rule 19.3.

Representation letter

41. Some of the assumptions used in the compilation of a QFBS will be dependent on the intent of the directors and management. Consequently, the representations of directors and management as to their intent are a particularly important source of evidence for the reporting accountant. The reporting accountant therefore considers the extent to which those representations are:

    - Reasonable, and consistent with other evidence obtained; and
    - Whether those who have supplied the representations have sufficient specific knowledge about the relevant matters.

Reporting

42. **Before finalizing its report and opinion on the proper compilation of a QFBS the reporting accountant shall consider the implications of any findings by the financial advisers on whether the statement has been prepared with due care and consideration for its opinion. (SIR 6000.5)**

Responsibilities

43. **In all reports on QFBSs in investment circulars the reporting accountant shall explain the extent of its responsibility in respect of the QFBS by including in its report:**

    (a) a statement that the reporting accountant's responsibility is to form an opinion (as required by the relevant regulatory requirement) on the compilation of the QFBS and to report its opinion to the addressees of the report; and

    (b) a statement that the QFBS and the bases of belief on which it is based are the responsibility of the directors. (SIR 6000.6)

44. The *Takeover Code* requires each document, announcement or other information published, or statement made, in the course of takeovers to be prepared with the highest standards of care and accuracy.[19] The language used must clearly and concisely reflect the position being described and the information given must be adequately and fairly presented.[20]

45. The *Takeover Code* requires that each document published in connection with an offer by or on behalf of an offeror or the offeree company, must state that the directors accept responsibility for the information contained in the document (including any expressions of opinion) and that, to the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in the document is in accordance with the facts and that it does not omit anything likely to affect the import of

[19] *The City Code on Takeovers and Mergers*, Rule 19.1.

[20] *The City Code on Takeovers and Mergers*, Rule 19.1.

the information.[21] Where information is compiled by an offeror from published sources the directors only accept responsibility for ensuring that such information has been correctly and fairly reproduced and represented.

Basis of preparation

46. **The reporting accountant shall include a basis of preparation section of its report that cross refers to the basis of belief disclosures within the QFBS. (SIR 6000.7)**

Basis of opinion

47. **The reporting accountant shall include in its report a statement that because the QFBS and any bases of belief on which it is based relate to the future and may, therefore, be affected by unforeseen events, the reporting accountant does not express any opinion as to whether the actual results achieved will correspond to those shown in the QFBS. (SIR 6000.8)**

48. As the reporting accountant is not required to form or express an opinion on the achievability of the result shown in the QFBS, it is inappropriate for the reporting accountant to include in the basis of preparation section of its report cautionary language relating to uncertainty beyond that referred to above.

Expression of opinion

49. **The report shall contain a clear expression of opinion that complies with applicable regulatory requirements. (SIR 6000.9)**

50. In forming its opinion, the reporting accountant takes account of those events or information which the reporting accountant becomes aware of occurring up to the date on which the reporting accountant signs the report, that affect the opinion expressed in the report.

51. The investment circular in which the reporting accountant's report is included may be made available in other countries which have their own standards for accountants when reporting on a QFBS. In such circumstances, the reporting accountant considers whether to include a reference to the fact that a report issued in accordance with the SIRs should not be relied upon as if it had been issued in accordance with the standards applicable in that other country.

Modified opinions

52. **The *Takeover Code* requires a positive and unmodified opinion. Therefore, the reporting accountant shall not express an opinion when the directors have not applied the criteria set out in this SIR and in the reporting accountant's judgment the effect of not doing so is, or may be, material. (SIR 6000.10)**

53. In the event that the reporting accountant concludes that it is unable to report in the manner prescribed it invites those responsible for the QFBS to consider whether the QFBS can be amended to alleviate its concerns or whether the QFBS should be omitted from the investment circular.

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[21] *The City Code on Takeovers and Mergers*, Rule 19.2.a.

54. An example of a report on a QFBS expressing such a positive and unmodified opinion is set out in Appendix 1 of this SIR.

Confirmations of the report continuing to apply - subsequent documents

55. If a QFBS has been included in any document or announcement published by an offeror or offeree, the *Takeover Code* requires any subsequent document published by the offeror or offeree during an offer period, to include a statement by the directors that the QFBS remains valid (unless superseded by information included in the new document, in which case a new report from the reporting accountant would be required). In addition, the document is required to include a statement by the directors that the reporting accountant has confirmed that its report continues to apply.

56. In determining whether it can provide such a confirmation, the reporting accountant makes such enquiries of the directors (and, in the case of an offeror's statement, with relevant management within the offeree if possible) as it considers necessary.

57. In conducting its enquiries the reporting accountant considers:

    a. any material uncertainties that existed at the date of its report;
    b. the evidence that was relied upon in forming its opinion in the context of the matters discussed with the directors; and
    c. the procedures performed by the directors in determining the continued validity of the QFBS statement

    and determines whether such matters give any reason to conclude that the report no longer continues to apply.

58. The procedures performed and enquiries made by the directors may include matters such as;

    In relation to an offeror statement

    a. data and other information from relevant personnel within the offeror's business and/or the offeree's business following the publication of the QFBS;

    b. public statements issued by the offeree in relation to the offer;

    c. new announcements by the offeror related to the offer which might contain relevant information; for example intention statements or post offer undertakings;

    d. facts and circumstances outside the control of the directors that may impact the synergy plan, for example any actions required to be taken by competition regulators or other authorities or changes in legislation or economic conditions; and

    e. updated versions of the financial benefits plan as a result of the above or as a result of discretionary changes in management's intentions for other reasons;

    In relation to an offeree statement

    f. facts and circumstances outside the control of the offeree that may impact the cost savings plan, for example changes in legislation or economic conditions;

g. latest management information including management accounts and internal status reports or progress trackers,

h. updated versions of the cost savings plan as a result of the above or as a result in other discretionary changes in management's intentions for other reasons;

i. further data and other information from relevant personnel within the offeree's business following the publication of the QFBS; and

j. new announcements by the offeree related to the offer which might contain relevant information.

59. The reporting accountant considers obtaining updated or additional written representations from the persons responsible for preparing the QFBS.

60. The reporting accountant satisfies itself about the form and context in which reference is made to the confirmation that the reporting accountant's report continues to apply, and provides the Company with that confirmation in writing. An illustrative example of a confirmation letter is set out at Appendix 2.

61. In the event the reporting accountant concludes it is unable to issue a confirmation letter the reporting accountant discusses its concerns with the directors and the financial adviser to explore whether a resolution can be found. If, as a result of these discussions, the reporting accountant is either uncertain about or disagrees with the course of action proposed the reporting accountant may consider it necessary to take legal advice with respect to its responsibilities in the particular circumstances.

Events occurring between the date of the reporting accountant's report and the completion date of the transaction

62. If, as a result of discussion with those responsible for the investment circular concerning an event that occurred prior to the completion date of the transaction, the reporting accountant is either uncertain about or disagrees with the course of action proposed the reporting accountant may consider it necessary to take legal advice with respect to its responsibilities in the particular circumstances.

63. After the date of its report, the reporting accountant has no obligation to perform procedures or make enquiries regarding the investment circular, other than those described above in respect of confirmations.

Effective date

64. This Investment Reporting Standard is effective for reporting accountant engagements commencing on or after 15 September 2020. For those engagements already underway before the 15 September 2020, the reporting accountant may comply with the requirements of the previous versions of the SIRs.

Appendix 1: Illustrative Report

ACCOUNTANT'S REPORT ON QUANTIFIED FINANCIAL BENEFITS STATEMENT

Date

Reporting accountant's address

Addressees, as agreed between the parties in the engagement letter

Dear xxxx

Report on Quantified Financial Benefits Statement by XX plc ("XX")

We report on the quantified financial benefits statement (the "Statement") by the Directors included in the [ref to document] dated xx xxxx xxxx to the effect that:

Opinion

In our opinion, the Statement has been properly compiled on the basis stated.

The Statement has been made in the context of the disclosures in..[ref]..of the .. [ref to document]..setting out the basis of the Directors' belief (including the principal assumptions and sources of information) supporting the Statement and their analysis and explanation of the underlying constituent elements.

This report is required by Rule [*28.1(a*)] of the City Code on Takeovers and Mergers (the "Takeover Code") and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the Directors/Board to prepare the Statement in accordance with the requirements of Rule 28 of the Takeover Code.

It is our responsibility to form our opinion, as required by Rule 28.1(a) of the Takeover Code, as to whether the Statement has been properly compiled on the basis stated and to report that opinion to you.

Basis of preparation of the Statement

The Statement has been prepared on the basis stated in..[ref]..to the [ref to document]..

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Financial Reporting Council in the United Kingdom. We are independent of the [Company] and the [Target] [and Sponsor/Nominated adviser where relevant] in accordance with relevant ethical requirements. [In the United Kingdom this is the FRC's Ethical Standard] [set out relevant Ethical requirements where the engagements does not involve an investment circular prepared for issue in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom] as applied to

Investment Circular Reporting Engagements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We have discussed the Statement, together with the underlying plans (relevant bases of belief/including sources of information and assumptions), with the Directors and [other relevant – financial and legal advisers etc.] Our work did not involve any independent examination of any of the financial or other information underlying the Statement.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Statement has been properly compiled on the basis stated.

[This paragraph may be omitted if the document is not to be distributed outside [the UK]] Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in [jurisdictions] and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.]

We do not express any opinion as to the achievability of the benefits identified by the Directors in the Statement.

Since the Statement and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we express no opinion as to whether the actual benefits achieved will correspond to those anticipated in the Statement and the differences may be material

Yours faithfully,

Appendix 2: Confirmations

Date

Addressees, as agreed between the parties in the engagement letter

[Salutation]

[ABC plc]

We refer to the quantified financial benefits statement made by the directors of ABC plc and our report thereon set out in the [describe document] dated [date].

We also refer to the statement by the directors of ABC plc confirming that the quantified financial benefits statement remains valid as contained in the [describe document] [to be] dated [date].

We confirm that our report dated [date], referred to above, continues to apply.

This letter is required by Rule 27.2(d) (ii) of the Takeover Code and is given for the purpose of complying with that rule and for no other purpose. [Insert the following text where the quantified financial benefits statement is made by an offeree. Accordingly, we assume no responsibility in respect of this letter to the Offeror or any person connected to, or acting in concert with, the Offeror, or to any other person who is seeking or may in future seek to acquire control of ABC plc (‘an Alternative Offeror’) or to any person connected to, or acting in concert with, an Alternative Offeror.]

[Save for any responsibility which we may have to those persons to whom this letter is expressly addressed, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this letter.]

Yours faithfully

Reporting Accountant

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