

7 March 2011

Ms Katerina Joannou  
ICAEW  
Chartered Accountants' Hall  
Moorgate Place  
London  
EC2R 6EA

Dear Katerina

**Re: ICAEW Consultation: Reporting Accountants' Work on Financial Reporting Procedures**

Thank you very much for arranging the opportunity for AFME members to meet with you and your colleagues and to respond to the ICAEW consultation paper: Reporting Accountants' Work on Financial Procedures.

We agree that the project is important and timely, and we support your effort to update FRAG 95/10. Our responses to the specific queries raised in the consultation paper are attached.

The most important element of FRAG 95/10 to be preserved in the revised guidance is the provision of a reasonable assurance comfort level in every case. Our members would strongly oppose guidance which would establish an alternative standard of assurance e.g. a limited assurance alternative standard. Given the context of the Reporting Accountant's work, and the representations required from sponsors and issuers, it is clear that a limited assurance level would heighten the risks to be faced by companies, sponsors and ultimately investors.

ICAEW has indicated that there is no legal or regulatory requirement that ISAE 3000 be made to govern Reporting Accountants' work in this context. It would be acceptable to maintain the current market practice with an updated version of FRAG 95/10. It is not clear to us whether ISAE 3000 would introduce consideration of an alternative comfort level to the capital raising process. However, our members strongly urge that the current market practice requiring a reasonable assurance level of comfort from Reporting Accountants which closely tracks the sponsor's required representations be maintained in the revised guidance. This would avoid the development of two standards of risk in the capital raising market which in many cases could not be covered fully by a sponsor or other party.

We also suggest that the revised guidance explicitly apply to GDRs and standard listings.

Finally, as we discussed previously with you, there is a need for the guidance to provide that letters from Reporting Accountants may be routinely

addressed also to joint book-runners and global coordinators who are not sponsors. This is an accommodation which is made in many but not all cases currently, and it would be helpful if this were countenanced in the revised guidance.

In closing, may we reiterate that we are grateful to the ICAEW for the opportunity of responding to the issues raised in its consultation. We note our willingness to work with the ICAEW working group as it develops the revised proposed guidance for consultation.

Very truly yours,

A handwritten signature in black ink, appearing to be 'W. Ferrari', written in a cursive style.

**William Ferrari**  
**Managing Director**

## AFME RESPONSE TO ICAEW CONSULTATION PAPER

### Directors' responsibilities for financial reporting procedures

- 1. Do you agree with our interpretation of the scope of financial reporting procedures?**

It is our understanding that many accounting firms have significantly enhanced the scope of their consulting and reporting accountancy businesses to include sophisticated and experienced teams and procedures to test and evaluate an issuer's systems and procedures which enable compliance with listing and transparency rules. Such expertise enables professional judgement on the efficiency of such systems and procedures generally. This would enable a board to be informed accordingly.

- 2. Do you believe that the illustrative list of issues set out in FRAG 10/95 and reproduced as Appendix 2) remain key issues and should other areas be covered?**

We do agree that the ability of directors to obtain timely information about events with a material financial, and therefore potentially price sensitive, impact between periodic reporting dates, should be added to the non- exhaustive list of key issues. Included among these could be compliance with listing and transparency rules, with covenants, and with capital requirements (regulated entities).

- 3. Do you agree with our interpretation of the meaning of established procedures?**

We refer to our response to question 1. We believe that many accounting firms would be able to give a positive assurance regarding new but documented systems and procedures in the listed examples based on appropriate testing especially where the accounting firm has consulted on them.

### Responsibilities of others

- 4. Do you agree with our characterisation of the responsibilities of sponsors in relation to financial reporting procedures and our proposition that sponsors have responsibilities in relation to financial reporting procedures beyond engaging reporting accountants to perform due diligence work?**

We do agree that sponsors' responsibilities go beyond receiving accountant's reports e.g. FRP, working capital reports, and other UK sponsor comfort from reporting accountants. Yet the accountant's report and the other standard comfort letters and reports are extremely important elements of a sponsor's due diligence because they are based on an extensive review of financial and management systems and procedures. This is recognised by FRAG 95/10. However, we do not agree that a reporting accountant's work cannot relate in any way to other sponsor declarations regarding listing, disclosure, and transparency rules and the relating rules on continuing obligations. Accountants are best placed to evaluate management reporting systems.

**5. How, if at all, might differences between the nominated adviser and sponsor regimes influence our proposal to address the requirements of AIM in new guidance?**

The role of reporting accountants and the reports and comfort letters provided by them to nomads should be similar to those used in the main market since the due diligence required of nomads is similar to that required of sponsors.

**6. Should new guidance cover the PLUS market as well as the Main Market and AIM?**

We have no comment at this time.

**Involvement of reporting accountants**

**7. Should the form of the reporting accountant's comfort letter reflect ISAE 3000 or should market practice be used to justify a departure from the IAASB framework?**

We understand there is no imperative that the reporting accountant's comfort letter reflect ISAE 3000 principles. Therefore, there is no need to justify a departure from the IAASB assurance framework which formally applies to public reporting. In our view, the current market practice yields comfort letters with a positive assurance opinion as a result of performing the agreed procedures. We believe that any change from current market practice which would introduce the possibility of negative assurance comfort letters, would be deleterious to UK capital raising in general, as well as prejudicial to the interests of investors.

- 8. If IAASB pronouncements are followed, should the reporting accountant's work result in a comfort letter expressing a positive reasonable assurance opinion or a negative limited assurance opinion or a factual report of findings from performing agreed-upon procedures?**

In our view, if ISAASB pronouncements are to be introduced, it is critical that a comfort letter expressing a positive reasonable assurance opinion should be the result of performing the agreed-upon procedures. As noted above, this would be to the advantage of the UK capital market and to affected investors. In our view, the established market practice meets the needs of accountants, issuers and sponsors. There is no evidence that the procedures envisioned by FRAG 95/10 are insufficient to interpret a positive reasonable assurance level of comfort. We are not aware of any adjudication on this issue in the UK.

- 9. If the reporting accountant's involvement is to result in a comfort letter, what would be suitable criteria for providing such comfort?**

Our only comment is that FRAG 95/10 as observed in current market practice seems to be adequate.

- 10. Do you agree with our view that changes to the Listing Rules introduced since 2005 have not led to a need for additional involvement of reporting accountants and, if not, what do you consider such involvement should entail?**

In our view the practices of accounting firms have expanded to advising issuers with respect to processes and systems required for management purposes, including regulatory requirements such as listing and disclosure rules. This means that at least some accounting firms are able to opine competently, on such systems and processes. Thus, it may be appropriate to develop guidance on such reporting which would assist a listing process.

### **Purpose and role of market guidance**

- 11. How should the development of new guidance for reporting accountants take account of the impact of such guidance on other parties?**

As noted above, ICAEW will wish to consider the efficacy of its guidance in terms of the UK capital markets and the interests of investors. As the

consultation paper notes, directors require confidence that their judgements are independently substantiated.

**12. Do you agree that ICAEW guidance is the appropriate means of enhancing market practice in this area?**

We agree that ICAEW guidance is an appropriate means of enhancing market practice. We do agreed that ICAEW guidance should not be prescriptive. In our view, the suggestion that members of the ICAEW should seek legal advice regarding any alternative interpretation of an unstated principle, however, creates a coercive element. Accounting firms should be free to contract with issuers and sponsors in reporting matters as they do in their consultancy business, based on their own competence.