

UK Flotation – Financial Requirements

Marek Grabowski (Partner UK)

PRICEWATERHOUSECOOPERS 

Summary of financial requirements

Regulatory requirement	Covered by	Public/ Private reporting	Report addressed to
3 years' trading record	Accountants' report, unqualified 3 years UK GAAP + 1year IFRS	Public report from reporting accountant	Directors & Sponsor
12 months' cash resources available Current prospects, recent developments and disclosure of any significant change since latest audit	Working capital statement Significant change statement Profit forecast or estimate Pro forma	Private report Private comfort letter Private and public report Public report	Directors & Sponsor Directors & Sponsor

- Other disclosures may be included in other parts of the prospectus, i.e. Operating & Financial Review

Overseas companies

Exemptions and modifications

Accounting standards	Main List - Primary UK or US GAAP or IFRS (up to 1/1/2007)	Secondary UK or US GAAP or IFRS or alternative GAAP	GDRs UK or US GAAP or IFRS or alternative GAAP (narrative differences)	AIM (new rules 1.7.05) UK GAAP, US GAAP, IFRS or reconciliation (up to 1/1/2007)
Audited numbers	<ul style="list-style-type: none"> - 3 years audited financial statements - consolidated - no qualification - Not older than 6 months' old. - UK or US GAAS or ISA 	<ul style="list-style-type: none"> - 3 years audited financial statements - consolidated - no qualification - Not older than 9 months' old. - UK or US GAAS or ISA 	<ul style="list-style-type: none"> - 3 years audited financial statements - need NOT be consolidated - no qualification - Not older than 9 months' old. - UK or US GAAS or ISA or alternative 	<ul style="list-style-type: none"> - audited financial statements - consolidated - no qualification - Not older than 9 months' old. - UK or US GAAS or ISA or alternative
Continuing obligations	Fully apply	Less onerous	Significantly less onerous	No exemptions for overseas companies but less onerous than main list

Overseas companies

Exemptions and modifications

	Main List - Primary	Secondary	GDRs (Chapter 23)	AIM
Corporate Governance	Do not apply	Do not apply. Same for Transaction approval rules	Do not apply. Same for Transaction approval rules	No minimum. (Guidance in QCA publication)
Working capital statement	For 12 months	For 12 months	No statement required	For 12 months
Particular rules		- Letter from accountants (LR 17.3) - Consult LSE asap		Fast track process

Reporting accountants' role

- SIRS define the applicable reporting standards
- A public opinion is included in the accountants' reports in the prospectus
- Public reports on any Newco, on pro forma financial information and on any profit forecast or profit estimate
- Additional comfort in respect of other statements to be made by the Directors and the sponsor (either in private statements to the UKLA, or publicly in the prospectus), e.g.
 - Working capital statement
 - Financial reporting procedures
 - Due diligence procedures (“long form” report and comfort letters)

Public reporting

- Accountants' reports
- Pro forma financial information
- Profit forecast and estimates

Accountants' reports

- **Presentation** - Included in the prospectus in the form of a letter from the reporting accountants', with a public opinion given as at the date of the prospectus (unqualified)
- **Content** - Full consolidated financial statements in accordance with UK GAAP for the three years ended 31 December 2004 and in accordance with IFRS for the year ended 31 December 2004, to the standard required for a UK listed company. Inclusion of interim if annual accounts are more than 6 months old
- **Basis of preparation** - Prepared in accordance with the accounting policies of the business being listed - no hindsight
- **Also known as** - a "Short form" report

Pro forma financial information

- Not required but market practice for an IPO
- Shows the impact of the IPO had it happened at the date of the latest audited accounts. Detailed rules apply
- Must be reported on if presented

Profit forecast and estimates

- Not required
- Must be reported on if presented
- Detailed rules apply

Private reporting

- Long form report
- Working capital report
- Report on financial reporting procedures and systems
- Comfort and consent letters

Long form report

- Purpose: identifying relevant information on the Company for inclusion in the prospectus
- Addressed to the Directors and the Sponsor, for internal due diligence purposes
- Covers:
 - History and description of business
 - Management and employees
 - Accounting records and management information
 - Products and services and marketing
 - Trading results
 - Assets and liabilities, including pensions and benefits
 - Taxation
 - Other matters

Working capital report

- The prospectus must contain a statement by the Directors that in their opinion the working capital available to the group is sufficient for the group's "present requirements", that is for at least the next 12 months from the date of publication of the prospectus
- The reporting accountants provide an opinion to the sponsor and Directors, supported by a review which is documented in a detailed private report:
 - Analysis of monthly cash flow projections, cash headroom and sensitivities (current budgeting and forecasting procedures; underlying assumptions; review of material contracts; capital expenditure)
 - Analysis of committed facilities and related covenants

Report on financial reporting and systems

- The Directors must provide the sponsor with written confirmation that they have established procedures that will provide a reasonable basis for them to make proper judgments as to the financial position and prospects of the group
- The sponsor must be satisfied that this confirmation has been given after **due and careful enquiry** of the Directors
- The reporting accountants prepare or review a detailed memorandum on the group's financial reporting procedures, and based on this work will provide a private opinion to the Directors and the sponsor

Report on financial reporting and systems (continued)

- The memorandum builds on the long form report work covering the established financial reporting procedures, e.g.
 - High level financial controls
 - IT environment
 - Forecasting and budgeting
 - Treasury operations
 - Accounting policies
 - Financial accounting procedures
 - Management reporting framework

Comfort and consent letters

- The prospectus must disclose any significant change in the period since the date of the latest balance sheet in the accountants' report (includes indebtedness and contingent liabilities)
- The reporting accountants provide comfort on significant change based on agreed upon procedures
- Comfort on extraction of financial information from accountants' report or financial records
- Consent letter required for inclusion of report in prospectus

Impact of EU Prospectus Directive (PD) and Transparency Directive (TD)

- Choice of a fixed “ Home Member State” regulators for approval of prospectuses
- **Prospectuses** for an admission of shares to trading or a public offer under the PD: financial information will need to be in accordance with IFRS or “equivalent standards” → CESR mandate to assess equivalence
- Transition rule:
 - For admission to *trading* before 1 Jan 2007, non-EU issuers may use the accounts prepared under their GAAP and need not restate...
 - Unless they plan to seek also an admission to *listing* on the LSE (US GAAP or UK GAAP or IFRS)

Impact of EU Prospectus Directive and Transparency Directive (cont'd)

- **On-going transparency obligations** for companies admitted to trading under the TD: any accounts published after 20 Jan 2007 will need to be prepared in accordance with IFRS or equivalent standards → financial years ending December 2006 and 2005 comparatives
- GDRs with denomination above EUR50,000:
 - admission to trading: may continue using local GAAP with narrative differences BUT
 - On-going requirements: will have to publish accounts under IFRS under the TD