

18 October 2004

RH/VS

Mr. Fabrice Demarigny
Secretary General
The Committee of European Securities Regulators
11 - 13, Avenue de Friedland
75008 Paris
France

Dear Sir

Re: Consultation Paper: CESR's recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses no 809/2004

The Institute of Chartered Accountants in England & Wales ("The Institute") is pleased to respond to your request for comments on the Consultation Paper in connection with CESR's recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses no 809/2004 ("The Regulation") ("The Consultation Paper").

Our comments are restricted to the material points that we wish to address in relation to the Consultation Paper. It is essential that the recommendations given in the Consultation Paper provide guidance that is clear and unequivocal, which can be understood and applied consistently throughout all member states, in particular those member states which have had a less onerous regulatory and legislative regime in the past for the issue of prospectuses. There are, however, some matters on which additional guidance is requested over and above those dealt with in the Consultation Paper.

Although we have commented on the questions raised, where appropriate, there are other issues contained in the Consultation Paper for which no comment is sought but on which we would like to comment. These have all been referred to in the appendix to this response.

Of primary concern to us is the drafting of the Regulation and the Consultation in respect of an issuer with a "complex financial history". In many cases, for a variety of reasons, the financial history of the issuer seeking a listing of its securities may not reflect the underlying business of the consolidated entity going forward. The omission of such information would be misleading within the context of a prospectus. We therefore believe that it is essential that this matter is addressed in full in the recommendations by CESR to

ensure clarity and consistency of approach across the European Union and to ensure that documents are not misleading.

We also have a concern about the approach to working capital statements whereby a statement is either "clean" or it is not. We suggest that it would be preferable to allow issuers to give information within working capital statements relevant to the working capital position so long as this does not detract from the clarity of the statement; in particular, information could be given to take account of the impact of funds to be raised as part of the listing and / or new borrowings taken out in relation to the transaction in question.

We would be pleased to discuss any of the matters contained in this paper further with you, in which case please contact me.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Robert Hodgkinson', with a stylized, cursive script.

Robert Hodgkinson
Director, Technical
Institute of Chartered Accountants of England & Wales
Chartered Accountants' Hall
Moorgate Place
London EC2P 2BJ

APPENDIX 1

ICAEW COMMENTS ON CESR CONSULTATION ON RECOMMENDATION FOR THE CONSISTENT IMPLEMENTATION OF THE EUROPEAN COMMISSION'S REGULATION ON PROSPECTUSES NO 809/2004

1. SELECTED FINANCIAL INFORMATION

Question 30 *Do you agree with this proposal? If not, please state your reasons.*

In general, we are in agreement with the proposals that key financial information should be highlighted for the potential investor. There is an apparent contradiction, however, wherein paragraph 24 refers to direct extraction "on a straightforward basis" whereas paragraph 25 allows "...some kind of calculation from, or elaboration....". We consider that it is important that the information disclosed is consistent with and / or reconcilable to other publicly available financial information whether within the document or not. The "relevance criteria" should be considered in the context of financial information reported on elsewhere.

It is essential that selected financial information is given the appropriate level of prominence within the document. It may be that the guidance to use judgement to ensure that only relevant and understandable information is selected is sufficient but we suggest that it would be helpful to include a requirement to specifically exclude any information that does not meet those criteria to avoid confusion to both the preparer and the user of the prospectus.

We recommend that it is made clear in the guidelines that any non-GAAP numbers presented must be reconciled to the equivalent GAAP numbers somewhere in the document or an explanation of the reconciliation given.

2. OPERATING AND FINANCIAL REVIEW (OFR)

Question 37 *Do you consider that it is appropriate to include key performance indicators about past performance?*

We agree that it is appropriate to include key performance indicators about past performance. We do not believe that guidance should be too prescriptive. The nature and basis of disclosure of the key performance indicators is adequately covered in the Consultation Paper and no doubt best practice examples will emerge. The contents of paragraphs 31 to 36 make it clear that it is the assessment of the issuer and its advisers that drives the content of the OFR but, again, it is important to ensure that the content of the OFR does comply with GAAP and is consistent with other financial information presented within the document.

The only regard to disclosure in the OFR of historical financial information is a requirement for reliability and comparability, but the issuer could contend that the required information provided in the OFR is reliable and comparable, but is not obviously

reconcilable to the financial information elsewhere in the document. Greater guidance on this should be given. If there is a difference in presentation of historical financial information between that in the OFR and elsewhere in the document then we recommend that the issuer should be required to explain any material differences, perhaps by way of reconciliation.

We consider that guidance should also be given in respect of the use of unaudited financial information within the OFR.

3. CAPITAL RESOURCES

Question 42 *Do you agree with this proposal? If not, please state your reasons and please provide alternative information.*

We agree with the proposals subject to explicitly making it a requirement there is consistency of treatment and presentation with the historical financial information.

We believe that the concept of the "period under review" (paragraphs 39 and 40) requires explanation. Although it would be reasonable to interpret the term to mean the most recent period, it could be interpreted to mean the historical three year period disclosed under 20.1, which would arguably involve a cost which would not be commensurate with the benefit of the information disclosed.

4. PROFIT FORECASTS OR ESTIMATES

Question 50 *Do you agree with the above approach in relation to profit forecasts and estimates? If not, please state which particular aspects you do not agree with and give your reasons*

Question 51 *Do you consider that it is appropriate to provide examples of what may or may not constitute a profit forecast or estimate? If so, could you please provide some examples?*

In relation to paragraph 43 it would be helpful to give similar guidance on "due care and diligence" such as contained in paragraph 132, in particular.

We do not agree with the point made in paragraph 46 that outstanding forecasts by issuers made outside of prospectuses will "inevitably" be material information and therefore do not agree with the proposal that they should be disclosed in a prospectus. The issuer should of course have regard to any outstanding statement which might be construed to be a profit forecast when drafting the prospectus and decide whether it intends to repeat it, but we do not consider that the guidance should oblige the issuer to repeat the statement. We consider that this position should also apply in relation to paragraph 47.

We express concern over the term "still correct" in paragraph 13.4 in the context of a profit forecast. It would be helpful to provide greater clarity on this in the Level 3 guidance and we consider that it would be more appropriate to determine whether a profit forecast remains or does not remain valid rather than whether it remains correct or not.

We consider that it would be helpful to give examples of what constitutes a profit forecast or estimate (at least in the interest of setting a level playing field for regimes which do not have a history of identifying and reporting on profit forecasts) as this has given rise to difficulties for both companies and their advisers in the past and is too open to interpretation. We do not agree that stating that "whether or not a statement constitutes a profit forecast is a question of fact and will depend upon the circumstances of the particular issuer" is realistic in practice. It is an area that is very open to interpretation. Consistent practice to ensure harmonisation is essential.

We consider that the term "properly compiled" needs to be clearly defined with guidance given on its meaning and practical application. This would seek to prevent a variety of applications by different member states within the European Union. The range of possible interpretations is very wide, from just meaning confirming that the additions, calculations and integrity of the forecasts have been checked, through to a thorough review of the forecasts including a critical assessment of their reliability and comparability.

We note that in September 2003 the Institute of Chartered Accountants in England & Wales, with the support of UK regulators published guidance for preparers of prospective financial information. The principles in this guidance could be considered for wider adoption within the European Union in the interests of promoting a single high quality capital market.

5. HISTORICAL FINANCIAL INFORMATION

Question 75 *Do you agree with the conclusion stated in the previous paragraph? If not, please state your reasons.*

A number of issues arise from this section as follows and the answer to the specific question posed in paragraph 75 is set out below in section 3 below.

1. Issuers with an irregular track record

The guidance relates, as does the Prospectus Directive, to information dealing with the issuer only. The guidance is unclear and limited for issuers with an irregular track record where the consolidated accounts of the issuer for the historic period under review have not contained, for a variety of reasons, the business and assets of all relevant entities that a potential investor needs to consider in assessing an investment decision. Further guidance and clarification is essential to avoid the omission of material information about an underlying business which is integral, but not legally part of the entity being the subject of the prospectus for the required historical period. Two examples of this, inter alia, are set out as follows:

- if, for example, a new company is formed for the purpose of acquiring a pre-existing trading company(ies) (Newco) and then issuing the prospectus, the issuer itself, Newco, will not have any track record and therefore any historical financial information on Newco, the issuer, will be very limited and provide no meaningful information about the financial history of the trading entity going forward. No

historical financial information is apparently required by the Level 3 guidance on the trading businesses acquired. Such information is essential in order for a potential investor to make a soundly based investment decision.

- if, for example, the issuer has made a series of acquisitions over the period required to be reported on, the only element of the entities acquired that will be included in the issuer's consolidated accounts will be the trading history and assets from the date of acquisition. Under the Level 3 guidance there is no provision for providing additional financial information on each material acquisition during the period for the whole period under review.

We suggest, as a general rule, that for each material trading entity that is part of the business going forward, historical financial information is presented. Unless specific guidance on this area is given discrepancies will arise between member states. We suggest that further guidance is given covering "complex financial information" to enable the reader to have sufficient information on which to make an informed judgement about all material aspects of a group going forward.

Guidance should also be given on the presentation of financial information on a consolidated or aggregated basis in the situation where several companies are brought together for listing and then go forward as a new group. Alternatively, the financial information for the individual material entities could be presented separately.

A further request for guidance is made when an issuer acquires a trading company after its own financial period end but prior to the flotation. It is not clear from the Level 3 guidance whether or not separate financial information should be prepared on the newly acquired company, particularly if it is material to the overall "new group".

2. IFRS implications for formation of Newco and subsequent acquisitions

Where a new company is formed to be the issuer and subsidiaries have been acquired (rather than a conditional purchase), IFRS may require reverse acquisition accounting. It is unclear as to whether this should be applied in relation to the historical financial information although the implication is that it is. We suggest that this is clarified.

3. Advice in relation to IAS / IFRS bridging information

We consider that the advice in relation to IFRS and bridging information is sensible however we question whether many issuers will be in a position to provide the required information. However, in relation to paragraph 74 we suggest that the advice should be more robust to avoid confusion. In the interests of comparability, the advice could be improved by suggesting that the issuer "should" consider giving the giving additional IAS /IFRS based financial information rather than "might" consider giving such information.

4. Audit of the annual financial information

A request for guidance is made as to the extent of information required in relation to the use of funds raised, particularly where an issuer states its intention to acquire a trading

entity or subsidiary after the issue of the prospectus, the purchase being conditional on sufficient sums being raised from the prospectus. In such circumstances, no financial information on the intended subsidiary appears to be required. If financial information on the prospective acquisition is to be included then there should be guidance as to whether such information should be reported on or, if not, that there should be a clear statement that such information is not audited. We recommend that if an intended subsidiary / division is material then guidance should be given for it to be reported on.

Greater clarity is required in the Consultation Paper for when the issuer has not had to prepare audited financial information in the past. We presume that the IAASB will also be providing advice on this area as this is within their ambit.

5. Restatement of comparatives in underlying statutory financial statements

If historical financial information in a three year financial period is restated whether as a result of a correction of a fundamental error or a change in an accounting policy we believe that the information presented should be consistent for the whole of the three year period. It may be that the restatement has been prepared solely for the consistent presentation of the three year financial record or may reproduce comparative financial information that has been presented as restated in the issuer's financial statements for one or more of the accounting periods.

Depending on the circumstance and timing of the restatement it may also be necessary, in addition to the restated figures, to present the financial information as originally included in the historic financial statements in order to include the audit report from that year

6. Content of the historical annual financial information

Question 85 *Do you agree with this proposal? If not, please state your reasons.*

Clarity is requested concerning the number and nature of the audit reports required in a registration document. The confusion arises as follows:

- the first paragraph of 20.1, reiterated in paragraph 76 of the Consultation Paper requires issuers to provide "Audited historical information covering the latest 3 financial years..... and the audit report in respect of each year". Paragraph 76 states that this may be done as a comparative table extracted from the issuer's previously published statutory financial statements or the statutory financial statements may be incorporated by reference into the prospectus or attached to the prospectus, probably by reproduction therein.

Further guidance is required as to the format, composition and status of a comparative table, particularly as many jurisdictions include a constraint that an audit report can only be reproduced if the statutory accounts are reproduced in their entirety.

- In paragraph 76 the Level 3 guidance states that the statutory financial statements may be included by reference into a prospectus. It is not clear whether the reference in the final sentence of paragraph 76 to the statutory audit reports being provided in respect of each year presented is intended to mean presented "by reference" or whether the suggestion is that the audit report would be presented in the prospectus whereas the statutory financial statements would not. If the latter interpretation is intended we would not agree with the approach.
- if an additional statement, such as a cash flow statement, is to be prepared for the purposes of the prospectus, greater clarity is requested from CESR as to whether a full set of restated financial statements should be presented or just the additional statement alone. If the additional statement is presented alone then it is unclear how this statement can present a true and fair view and be audited.
- Paragraph 77 states that "... when historical information has been restated, an audit report produced for the purposes of the prospectus shall be provided on any restated accounts presented in the prospectus". It would be helpful if the use of the term "restated" could be clarified and what constitutes a reason for restatement. The historical statutory financial statements may have included restated comparatives reflecting changes in accounting policies and been subsequently audited. It should be made clear that the term "restated financial information" does not refer to such financial information.
- Paragraph 77 suggests that the re-stated financial information must be signed off by the auditor. The guidance should make it clear that the re-stated financial information can be reported on by any person capable of acting as an auditor (a reporting accountant).

6. PRO FORMA FINANCIAL INFORMATION

Question 92 *Do you agree with this proposal? If not, please state your reasons.*

We are concerned about the introduction of the content of paragraphs 86 to 91 in the context of pro forma financial information, the report on which does not constitute an audit, nor is it intended to. This guidance would be better considered elsewhere in the Recommendations. It would be helpful to have a separate section in the guidance clarifying the definition and role of auditors and reporting accountants etc rather than including the information under pro forma financial information. The rules of the relevant professional body within the UK require that an audit report is only signed by those persons who qualify as "Responsible Individuals". In relation to paragraph 87, we consider that clarification is required such that the qualification applies to the firm and not necessarily the individual within the firm.

Guidance is sought on the definition of "pro forma financial information" and which of the primary financial statements are required to be presented, in order to ensure harmonisation of interpretation across the EU. Pro forma financial information could include one or more

of the profit and loss account, balance sheet, cash flow statement and changes in equity, all of which could be adjusted to show the impact of the transaction.

Guidance needs to be given on the definition of a "transaction", the impact of which would give rise to a significant gross change. This definition will be in relation to the corporate structure of the entity whether by acquisition or fund raising.

Question 98 *Please provide examples of indicators of size which you consider appropriate.*

Question 99 *CESR members had a discussion on appropriate definitions of indicators of size. Should they refer to IAS/IFRS figures, local GAAP figures, other definitions or not defined at all?. If you provided examples of indicators of size in response to the preceding question, please explain your preferences on definitions of the proposed indicators.*

We believe that there is some merit in setting parameters as indicators of size to ensure conformity and provide guidance to those jurisdictions less familiar with making such value judgements.

In the case of pro forma financial information tests relating to gross assets and revenue / profit information will probably be the most meaningful tests applicable so long as the information is comparable between the entities concerned.

In respect of Article 20.2 of the Regulation we recommend that a definition of a "relevant transaction" should only be one that has been

- entered into or
- agreed to be entered into subsequent to the date of the most recent published financial information
- conditionally agreed to be entered into, the condition being limited to the successful raising of funds from the issue of the prospectus.

7. FINANCIAL DATA NOT EXTRACTED FROM THE ISSUER'S AUDITED FINANCIAL STATEMENTS

Question 103 *Do you agree with this proposal? If not, please state your reasons.*

We believe that the guidance should provide that the actual, audited historical financial information should be given at least equal prominence to any forecast, estimated or pro forma figures. If it is required that historical financial information is given "greater" prominence, it will be necessary to provide guidance on how this might be achieved. We comment elsewhere within this paper on the need to safeguard the use of unaudited or extrapolated data within the registration document.

8. INTERIM FINANCIAL INFORMATION

Question 112 *Do you agree with this proposal? If not, please state your reasons.*

We agree with the proposal as set out in section 8, but we question the requirement to include items c and d at Paragraph 111 as we consider them unnecessary in the context of interim financial information.

9. WORKING CAPITAL STATEMENTS

Question 134 *Do you agree with this proposal? If not, please state your reasons.*

In general, we agree with the proposal as set out in the Consultation Paper but we would make the following comments.

We understand that a "clean", unqualified working capital statement is one that makes no reference to the funds to be raised in the proposed fund-raising, for example, or the facilities currently available at the date of the document to the issuer and its group for at least the period covered by the working capital statement. Paragraph 122 sets out the matters that may not be referred to in a "clean" statement. However, an issuer may be coming to market for the purpose of raising funds and therefore in making such a statement, funds raised at admission should not be a caveat to the working capital statement but an integral part of it.

As a consequence of what is proposed it will be necessary for issuing companies to:

- either have sufficient funds at the time that the prospectus is issued, without the need for additional funds / current facilities
- or the working capital statement must be qualified to make it clear that the net proceeds of the fundraising (or even state the minimum required) and / or the facilities presently extended to the issuer and its group, are essential to the issuer and group going forward in order for it to achieve its objectives as presumably set out elsewhere in the document.

It should not be unduly onerous for most companies to be in either of the above two situations. Many companies, in particular those with fast growth plans, will be unable to make a "clean" working capital statement without reference to the sums planned to be raised.. However the appearance of a qualification of the working capital statement for what we consider to be "normal" reasons may serve to confuse prospective investors.

We recommend that the guidance should allow the working capital statement to include information relevant to the working capital position so long as this does not detract from the clarity of the statement; in particular, information could be given to take account of the impact of funds to be raised as part of the listing and / or new borrowings taken out in relation to the transaction in question.

We suggest, additionally, that paragraph 119 is extended to cover prospective subsidiaries where the intention to acquire is stated in the prospectus or, indeed, the acquisition is one of the matters covered in the document.

We note that ICAEW guidance on prospective financial information referred to above also contains principles relevant to the preparation of working capital statements. These principles could be considered for wider adoption in the interests of promoting a single high quality capital market.

10. CAPITALISATION AND INDEBTEDNESS

Question 136 *Do you agree with this proposal? If not, please state your reasons.*

We believe that guidance should clarify that shareholders' equity is not intended to include the profit and loss account reserve. However, if this is the intention, a considerable amount of work will be required in order for the information to be disclosed, and potentially it will be possible for a reader of the figures to deduce a profit / loss figure which might constitute a profit forecast (and hence require further work in relation to that to be undertaken).

IV NON FINANCIAL INFORMATION ITEMS

SPECIALIST ISSUERS

Question 142 *Recital 22 of the Prospectus Regulation invites CESR to produce recommendations on the adapted information that competent authorities might require to the categories of issuers set out in Annex XIX of the Regulation. Do you think detailed recommendations are needed for specialist issuers or do you think the special features of these issuers could be addressed mainly by the disclosure requirements set out in the schedules and building blocks of the Regulation?*

Our preference would be towards additional building blocks. This would make it easier to address specific problems relating to particular issues.

PROPERTY COMPANIES

Question 150 *Do you agree with the usefulness of requesting a valuation report in general? Please state your reasons.*

We agree that valuation reports should be called for all material properties, although not necessarily published in full in the listing document. The nature of the property has to be taken into account, its position as at the date of the report and also the directors' intentions.

Question 151 *What rules do you think the report should comply with (such as those of the*

country of the competent authority that approves the prospectus or other different rules)? Please state your reasons.

Where a valuation is appropriate, the valuation requirements of the local competent professional body should be adopted. However, as in the case of the UK Listing Rules, perhaps general guidance on valuation reports for public reporting could be given to provide comparability.

Question 152 *Do you think that the condensed report should be allowed if the company holds more than 60 properties or would you choose another figure? Please state your reasons.*

We believe that a condensed report should be acceptable to assist the reader of the prospectus.

Question 153 *Do you think a valuation report is needed with respect to each property or do you consider a condensed report as sufficient? Please state your reasons.*

A condensed report should be the basic requirement, with the detailed reports being available for public review on display as required (but only for those individual properties that are regarded as material in the context of the company / group as a whole). The format of the condensed report should be prescribed to enable comparability across documents.

The adoption of the number 60, or any other number of properties (we do not comment on the number), is likely to result in the prospectus being excessive in length giving rise to the difficulty that the reader cannot distinguish material from immaterial matters. We consider that a summary would suffice.

Question 154 *Considering the objective of the report, do you think it can be older than 60 days?*

We see no reason why the report should not be older than 60 days, so long as the valuer – as at the date of the Prospectus – confirms that there have been no material or significant changes since the date of his report. Commissioning an additional report, merely because it is 61 days old, is an unnecessary expense and does not ensure that a report 59 days old is current or relevant.

Question 155 *Do you agree with the proposed recommendations? If not, please state your reasons.*

Please see above.

MINERAL COMPANIES

- Question 164.** *Q: Do you agree with the usefulness of requesting a valuation report? If yes, do you agree with the content and scope of the reports proposed above? If not, please state your reasons*
- Question 165.** *Q: Do you consider the definitions provided in these recommendations to be adequate? If not, please give your reasons and provide new definitions, explaining the benefits of the change*
- Question 166.** *Q: Do you think that issuers that are involved only in exploration of mineral resources and are not undertaking or propose to undertake their extraction on a commercial scale should also be classed as mineral companies? Please state your reasons*
- Question 167.** *Q: Do you agree with the proposed recommendations? If not, please state your reasons*

We limit our comments on the recommendations on mineral companies as follows. It is the case that mining companies often come to the market with a proposal that may be in two or more stages – to raise capital to survey various sites and to return to the market, depending on the results of such surveys, to raise capital for exploitation. A number of companies already traded have negotiated rights to potential sites, but have not conducted the full survey to determine the extent of reserves. To require a full valuation of the reserves at this stage may prevent an opportunity coming to market. It is only at the later stage, where they return to the market to raise funds to exploit the location, should that company should be classed as a mineral company for all disclosure purposes.

SCIENTIFIC RESEARCH BASED COMPANIES

Question 177. *Q: Do you agree with the proposed recommendations? If not, please state your reasons*

We do not have any comment other than to record our view that we do not see why information on this sector should be singled out as the disclosure requirements included in the CESR guidance overlap with what is required by the generic prospectus requirements.

START-UP COMPANIES

Question 187 *Do you agree with the specific disclosure requirements set out for start-up companies? If not, please state your reasons and refer to the additional information you think should be required*

We agree that it is essential that sufficient information is provided in a prospectus about a "start-up" company, however defined, and its business plan, as set out in the Discussion Paper, to enable a potential investor to make a considered investment decision based on that information. This would include any appropriate sensitivity analysis so long as potential investors do not obtain too high a level of confidence from the range of outcomes. It may be better to describe rather than evaluate potential sensitivities.

Question 188 *Do you agree with the proposed definition of start-up companies? Would you instead prefer that these companies are defined as those that have less than three years of existence? Please state your reasons.*

The definition of a start-up company needs to consider the period of operation of underlying businesses under an issuer's statutory control at the time of listing rather than just the three year rule for the business of a statutory company itself (eg management buy-outs within the three year period). This is consistent with the comments above about the presentation of historical financial information for entities with complex financial histories.

A start up company should be clarified as one which has operated "in its current sphere of economic activity" for less than three years, taking account of any pre-existing, underlying business which is part of its group at the time of the listing but not necessarily throughout the three year period.

Question 189 *CESR may recommend to its members one of the following four options. Please state your preference and reasons for your answer:*

- (i) *the issuer should always provide an expert's report on the services/products of the issuer;*
- (ii) *the issuer should provide an expert's report on the services/products when these are unproven;*
- (iii) *the expert's report on the services/products of the issuer should be provided unless a very good reason is presented to the competent authority that would impede the report from being provided;*
- (iv) *the report would not be mandatory but the issuer would be free to include it.*

Our preference is Option iv. This is because start up companies fall into a number of different categories and therefore an expert's report in certain situations may not be meaningful. It may also be difficult to obtain and costly. An expert's report should only be prepared if relevant and required for the directors to discharge their responsibilities to compile a reliable, meaningful document. Situations in which we question the value of an expert's report for a start-up company include, *inter alia*:

- a start up to exploit and develop new technology. By definition, there may be no expert available to prepare a report and even if there is, there may be practical difficulties in the production of the report, including cost implications. Forcing a report may restrict the ability to fund such ventures;
- experts' reports on businesses in the services sector may be difficult to obtain.
- a cash shell. Such a company may be moving into a new area of operation – but that operation may be fully established and an expert's report unnecessary.

Question 190 *When considering whether the report should be mandatory or not, CESR also considered its content and, if required, CESR is proposing that the expert assesses and concludes on:*

- (i) *the merits of the issuer's products and/or services;*

- (ii) the issuer's business plan including the critical path and timescale to commercial exploitation and any projections of the market potential for the issuer's products and/or services;*
- (iii) the risk factors which might affect the issuer's business plan.*

The report should be prepared by an individual or organisation independent of the issuer and of demonstrable high standing, repute and expertise in the field concerned and should confine the opinions expressed to matters within such expertises.

Do you agree with the content of the report? If not, please state your reasons and indicate what additional information you would require or delete.

If presented, the report should be of similar quality, and be prepared by a person of similar standing, to any other valuation report. It would be appropriate to develop such guidance for all such reports – not just for start-ups.

RELATED PARTY TRANSACTIONS

Question 243 *Do you think recommendations are needed in this matter? If not, please state your reason.*

We believe that recommendations are needed in this area.

INFORMATION ON HOLDINGS

Question 291 *Do you agree with the usefulness of the proposed recommendations and with the level of detail being provided? If not, please state your reasons and propose the details that you consider appropriate.*

The level of disclosure required is both unnecessary and onerous in the following areas.

- the registered office of each holding provides no useful information. The country of incorporation may be useful in giving an idea of the risks involved in that location.
- capital, reserves and profit are an unnecessary disclosure if the investing entity has no power over their disposition. In such circumstances, it should be sufficient to rely on the directors' impairment assessment and the auditor's report thereon. If the holding is material, the potential investor should be able to rely on the consolidated financial information – within which the holding should be accounted. If the holding is proposed and is material (using the same criteria as for a pro forma), then consideration should be given to a requirement for the presentation of financial information which may be reported on.
- in relation to debts owed to and by the undertaking, this amount would be better disclosed in the financial information