

FORWARD-LOOKING GUIDANCE ON REPORTS

The Institute of Chartered Accountants in England and Wales has published a guides, which gives advice to those who publish prospective financial information for investors. Its aim is to ensure financial transparency and to ensure that this data is accurate and easy to understand.

This new consultation from the ICAEW comprises draft guidance for directors who publish prospective financial information (PFI) for investors.

It's aimed at directors of UK listed, AIM and OFEX companies, their professional advisers and investors and all those with an interest in the financial transparency of the capital markets.

There are at present no financial reporting standards or statements of best or recommended practice in the UK to help directors prepare PFI and to give investors confidence in its quality. Consequently, there are no objective and generally accepted criteria by which to judge the information value of PFI disclosures.

This consultation aims to address that gap and consolidate best practice. The plan is for authoritative Institute guidance to be issued by mid-2003.

Key ideas

The guidance is based on a framework of principles derived from the Accounting Standards Board's Statement of Principles. Aligned with current regulatory and legal requirements, it encourages directors to have regard to the concepts of business analysis, subsequent validation and reasonable disclosure, when preparing PFI for publication.

The consultation draft is in three parts. It builds up to the final part which guides directors through the rules that regulate common types of prospective financial information published in the UK.

The detail is supported by two introductory sections. The first of these comprises principles for making PFI useful in helping investors make decisions. The second summarises the legal and regulatory framework that UK directors need to bear in mind when they provide PFI to investors.

Although the guidance is designed to set a 'gold standard' for reporting PFI disclosure, it also provides a framework for other kinds of forward-looking information about strategy and risk.

Principles

Published financial information comprises primary financial statements, extracts and summaries of such statements and related disclosures drawn up to a date, or for a period in the future. PFI includes the forward-looking equivalent of any information that might subsequently be prepared as historical financial information:

- Announcements of changes in expectations;
- Working capital statements;
- Funding requirements;
- Profit forecasts;
- Merger benefits statements;
- Illustrative financial projections issued by OFEX companies;
- Other voluntary disclosures.

Prospective financial information should be useful for investors in their decision-making process. The characteristics of useful financial information is that it's:

Material It comprises only items of information whose size or nature means that their mis-statement or omission might reasonably be

expected to influence investors;

Relevant It's provided in a timely fashion to influence investors and it has predictive value;

Reliable It can be depended upon by investors as a faithful representation;

Comparable It can be compared with similar information for other periods and entities;

Understandable Transactions are presented in a way that lets the significance of information be understood by users.

Particular features of useful PFI

According to the guidance three concepts help clarify how to interpret the characteristics of useful financial information in relation to prospective, rather than historical, financial information. These are:

Business analysis This faithfully represents factually based strategies, plans and risk analysis;

Subsequent validation It's capable of comparison to subsequent historical financial data;

Reasonable disclosure This contains disclosures of assumptions and related risks and sensitivities the significance of which can be understood by users.

Legal framework

The UK environment surrounding the publication of information for investors, including PFI, is highly regulated. There are four underlying themes:

- There's an absolute prohibition on deception of any kind;
- There's a prohibition on omission of material information;

● All information must be compiled and presented in such a way that it's not misleading;

● Information must meet current market and user expectation as to content and quality of preparation.

Benefits

The authors claim that if the approach taken in the guidance is adopted as best practice, it will:

- Help underpin investor confidence in the reliability and quality of PFI disclosure as a sound basis for their investment decisions;
- Provide a set of benchmarks that directors, investors, analysts and commentators can use;
- Help directors to address legal risks in the current liability environment;
- Reinforce directors' efforts to prevent or correct unrealistic market expectations;
- Reinforce regulatory curbs on directors who may be too optimistic in their public statements.

Peter Williams.

www.financialdirector.co.uk/briefing

Useful links

● **Institute website**
www.icaew.co.uk/pfi
for a copy of the guidance.

● **Comments should be sent to De Wright at the ICAEW**
TDWright@icaew.co.uk. The consultation period ends 2 December 2002.