

Assurance on Pro Forma Financial Information

June 2008 IAASB Survey of Non-EU Jurisdictions – Summary and Compilation of Responses

BACKGROUND

At the end of June 2008, 19 non-EU jurisdictions¹ were asked to participate in a brief survey of their national requirements and guidance regarding the preparation and presentation of pro forma financial information in prospectuses, and the nature of any assurance provided by practitioners on such information. The comment period closed on 15 August 2008 and 16 responses have been received. A summary of the responses is provided below. A compilation of the detailed responses is included in the Appendix.

A. MEANING OF PRO FORMA FINANCIAL INFORMATION

Q1. Does a definition exist in your jurisdiction for the term “pro forma financial information”? If so, please specify the definition.

If no definition exists, what is generally understood by the term “pro forma financial information” in your jurisdiction?

In many jurisdictions, the term is used to describe historical financial information that is adjusted to show the hypothetical effect of recording an acquisition or disposal or some other transaction (at a date earlier than that on which it actually took place) on the reported historical numbers of the issuer. Some jurisdictions take a broader view and consider any historical information that does not comply with a recognized framework to be pro forma; combined financial statements may fall into this category.

Summary of Responses

Of the jurisdictions responding:

- 2 (Australia and Canada) indicate that the term is defined in guidance issued by the national standard setter (NSS).
- 2 (HK and USA) indicate that although the term is not formally defined in their jurisdictions, a description of its nature is given in guidance or elsewhere in terms of the objective or purpose of the information.
- 9 (Brazil, China, Japan, Kenya, Korea, Malaysia, New Zealand, Singapore, and South Africa) indicate that although the term is not defined in their jurisdictions, it is generally understood to mean historical financial information adjusted to show the hypothetical effect of recording an event, transaction or proposed transaction as if it had occurred previously.

¹ The 19 non-EU jurisdictions surveyed included: Australia, Brazil, Canada, China (Mainland), Hong Kong, India, Japan, Kenya, Korea, Malaysia, New Zealand, Russia, Saudi Arabia, Singapore, South Africa, USA, Argentina, Mexico and United Arab Emirates. Responses were received from the first 16 of these jurisdictions.

- 2 (India and Russia) indicate that the term is not used in their jurisdictions, although in the case of India, the regulations appear to require prospectuses to include financial information that may be considered pro forma.
- 1 (Saudi Arabia) indicates that it is generally understood that pro forma financial information is related to prospective financial information.

On the basis of the majority of the responses, there does appear to be some common understanding of the key characteristics of pro forma financial information (i.e., it is based on unadjusted financial information as a starting point; adjustments are applied to that information to reflect events or transactions as if they had occurred previously; etc.). The absence of formal definitions of the term within law or regulations would seem to be a positive finding as this would minimize the risk of conflict if a definition were to be established in an international standard.

B. PREPARATION AND PRESENTATION OF PRO FORMA FINANCIAL INFORMATION

Q2. Is pro forma financial information used in connection with securities offerings in your jurisdiction? If so, is this through market practice or through regulation?

Please explain the nature of any requirement. Please provide a copy of any relevant regulatory requirement (in English if available). Please also describe briefly how pro forma information is presented in prospectuses. For example is it customary:

- *To present in a columnar format the historical financial information that has been adjusted, the adjustments and the resulting pro forma information?*
- *To permit presentation of the pro forma in a more summarized format than the historical financial information?*

Summary of Responses

- In several cases (i.e., Canada (limited circumstances only), China, HK, Kenya, Malaysia, New Zealand, Singapore, and South Africa and USA), regulation prescribes that pro forma financial information be used in connection with securities offerings. In other cases (Australia, Brazil, Japan and Korea), the use of pro forma financial information is based on market practice.
- Three respondents (Japan, Kenya and Malaysia) indicate that there are no guidelines in their jurisdictions that specify the form of pro forma financial information.
- Also in Japan, the use of pro forma seems to be confined to business combinations only, and the information can be presented in an aggregated manner.
- In India, the concept of pro forma does not seem to be common, although its regulations appear to address adjustments to historical financial information.
- In the case of Saudi Arabia, it is unclear whether regulation requires the use of pro forma financial information in connection with securities offerings.

On the basis of the responses, the use of pro forma financial information seems to be fairly widespread and, in several cases, required by regulation.

Q3. Does guidance on the preparation of pro forma financial information exist in your jurisdiction? Who has issued this guidance? If there is no guidance, what criteria are applied in the preparation of pro forma financial information? Please provide a copy (in English if available) of any relevant guidance.

Summary of Responses

- In the majority of cases (i.e., Australia, Brazil, Canada, China, India, Kenya, Korea, Malaysia, New Zealand, Russia and Singapore), no guidance exists for the preparation of pro forma financial information.
 - Canada makes it clear in its guidance addressing the auditor's responsibility regarding pro formas that there are no generally accepted standards in Canada regarding the preparation and presentation of pro forma financial statements that allow the auditor to assess the fairness of presentation of the information. The guidance goes on to indicate that because of this, the auditor's work would be normally confined to making inquiries about the pro forma adjustments and compliance of the pro forma statements with any regulatory requirements, and performing mechanical procedures on their compilation.
 - Two respondents (Kenya and Korea) indicate that the preparation of pro formas is left to practitioners to handle at the request of the clients or underwriters.
 - Brazil tends to follow US market practice.
 - Malaysia has some general guidelines specifying the information to be included in pro formas.
- In 3 cases (HK, South Africa and USA), there does appear to be guidance addressing the preparation/presentation of pro formas that has been developed by the national regulators and/or NSS. In one other case (Japan), regulatory guidance exists but it appears to address only the "disclosure" of the information.
- In 1 case (Saudi Arabia), it is unclear whether there is guidance dealing with the preparation or presentation of pro forma financial information.

From the responses, there does appear to be a lack of a uniform framework for the preparation of pro forma financial information. Even in the few jurisdictions that do seem to have some guidance, it is unclear whether any actual standard exists.

C. Assurance on Pro Forma Financial Information

Q4. Where pro forma financial information is produced, is there any regulatory requirement or market practice for assurance to be provided on this information? Please provide a copy of any relevant regulatory requirement (in English if available).

Q5. If there is a regulatory or market practice requirement for assurance to be provided on pro forma information, what is the nature of this assurance and who provides it? Please provide a copy of an example assurance report (in English if available).

Summary of Responses to Q4 and Q5

- In 4 cases (HK, Malaysia, Singapore and South Africa), regulatory requirements exist for assurance to be provided in relation to whether the pro forma financial information has been properly compiled. In the case of South Africa, negative assurance is required. In the rest, reasonable assurance is required.
- In two cases (Australia and USA), no regulatory requirement exists. Nevertheless, in the USA, assurance standards exist that permit both reasonable and limited assurance engagements. In Australia, guidance exists indicating that at least a limited assurance engagement may be performed. However, in the latter case, the assurance is in relation to whether the pro forma historical financial information has been properly prepared on the basis of the transaction. In the former, the assurance is given on the pro forma financial information.
- In two cases (China and New Zealand), it appears to be subject to market practice. China indicates that the information should be “audited.”
- In 7 cases (Brazil, Canada, India, Japan, Kenya, Korea and Russia), no requirement exists for assurance to be provided on the information.
 - Brazil indicates that the extent to which assurance is given varies in practice, and where assurance is provided, the work is performed in accordance with the Brazilian standard on assurance engagements.
 - In Japan, the regulation seems to permit the pro forma financial information relating to business combinations to not be “audited” provided it is disclosed in the notes to the consolidated financial statements.
 - In Korea, assurance is provided at the request of the client or underwriter, and this can be reasonable or limited assurance on proper compilation. Some engagements can also be agreed-upon procedures.
- In 1 case (Saudi Arabia), it appears that both examinations and reviews of pro forma financial information can be performed.

From the responses, it is clear that differences exist around the world regarding the level of assurance that is currently being provided in relation to pro forma information, and the subject matter on which the assurance is being given. In some cases, regulation specifies only one level of assurance. In others, it allows a choice of reasonable or limited assurance. In cases where

regulation is silent on the matter, it appears to be a matter of choice from the client or underwriter as to whether assurance is sought.

Q6. Are there any standards or guidance relating to the provision of assurance on pro forma financial information? If there are, who sets the standards or guidance? Please provide a copy of any standard or guidance (in English if available).

Summary of Responses

- Specific standards or guidance exists in 6 jurisdictions (Australia, HK, Saudi Arabia, Singapore, South Africa and USA), in each case developed by the NSS.
- In China, auditing standards seem to be used.
- No specific standard or guidance exists in 8 jurisdictions (Brazil, Canada, Japan, Kenya, Korea, Malaysia, New Zealand, and Russia), although in Canada there appears to be some guidance addressing compilation reports.
- India does not appear to have a specific standard or guidance addressing the provision of assurance on pro forma information.

From the responses, there is scope for harmonization among the NSS that have promulgated standards or guidance given that the subject matter information is essentially the same. In those jurisdictions where no standard or guidance currently exists, there is a void that could be filled by an international standard. Canada appears alone in seemingly ruling out the provision of assurance on pro forma information.

Q7. Based on your experience, are there any known issues that affect the implementation or use of these standards or guidance in practice?

Summary of Responses

No summary provided – see detailed responses below.

Detailed Responses

7.1 Australia

None noted, however the AUASB is not responsible for regulation and monitoring of compliance with the standards and guidance referred to above. ASIC regulate issuers of disclosure documents for fundraisings and the conduct of auditors in reviewing those disclosure documents.

7.2 Brazil

Consistency with other GAAPs and GAASs (mainly USGAAP and USGAAS) on the application of the concepts and circumstances where pro forma financial information should be used is fundamental.

7.3 Canada

Yes, some of the issues related to providing assurance on pro forma financial statements are listed in the response to Q4. In addition, there is a risk that a report issued by an auditor on pro forma financial statements would cause a reader to place unwarranted reliance on the pro forma statements.

7.4 China

A standard is need absolutely. To facilitate implementation, it is helpful to articulate clearly:

- (1) the scope of the standards with more detail examples
- (2) what is special (in terms of degree of assurance, evidence, report etc.) in the assurance of pro-forma financial information compared with normal financial information.

7.5 Hong Kong

No.

1. Please note that we are in the process of updating AG 3.340 and replacing it with the proposed HKSIR 100 *Investment Reporting Standards Applicable to All Engagements in connection with an Investment Circulars* and proposed HKSIR 200 *Accountants' Reports on Historical Financial Information in Investment Circulars*
2. Along with the above proposed HKSIR 100 and 200, we are also developing the proposed AG 6 *Preparation of Historical Financial Information for Inclusion in Investment Circulars* and PN 2000 *Other Letters Issued in Relation to Investment Circulars*
3. We are pleased to note that the IAASB has taken up the proposed project currently undertaken by you. For your information, set out below are some points mentioned by us in our HKICPA submission dated 23 February 2007 to the IAASB Strategic Review Questionnaire.
 - At the IAASB meeting in March 2006 in Hong Kong, the HKICPA discussed briefly with the IAASB that there is a need for international standards on investment circular reporting. With the understanding that this topic is not on the IAASB's then agenda, we recommended that the IAASB consider putting this important subject on the agenda.
 - The scope of professional accountants' work is expanding and developing beyond the traditional "core" work of audits or reviews of statutory financial statements. Amongst the "non-core" work, engagements concerning investment circular reporting and assistance to sponsors/underwriters are becoming more important in many jurisdictions as regulators are increasingly relying on the professional accountants' opinion.
 - We are concerned about the inconsistencies in practice internationally and the increasing level of risks that reporting accountants are exposed to because of the increasing complexity of securities transactions and onerous regulatory requirements.

- We are also aware that some international sponsors are “arbitraging” between different jurisdictions, making jurisdictions with less stringent requirements more vulnerable to risks. A number of more sophisticated jurisdictions, such as the UK, US, Canada, Singapore and also Hong Kong, have already issued local standards in this area and it is apparent that there is an urgent need for international standards in the light of globalization and the increasing importance of cross-border offerings.
- The HKICPA’s Council embarked on a project to develop a series of standards and guidance on investment circular reporting in 2001. We have communicated and negotiated with the regulators and sponsors to get their support for some of our proposals. We have finalized three out of the seven exposure drafts and the relevant exposure drafts and standards issued by the Institute are available at:
<http://www.hkicpa.org.hk/index.php?mainLocation=/professionaltechnical/assurance/artf/artf.php>.
- We have received adverse comments on one of the standards issued in relation to the provision of assistance to sponsors. Commentators have claimed that the standard is placing significant limits on the involvement of professional accountants in the due diligence process and that professional accountants are seeking ways to limit their potential liability. These same commentators want professional accountants to both prepare and report independently on the preparation of investment circular materials without fully appreciating the impact on independence.
- Given the International Convergence Programme that the HKICPA has adopted, we believe that we would be in a much stronger position to have our professional standards accepted if they are part of our International Convergence Programme, and as adopted from their equivalent international standards.
- In relation to ISAE 3400 “The Examination of Prospective Financial Information” In connection with investment circular reporting, we were considering the finalization of the Hong Kong equivalent of ISAE 3400. We issued some time ago an exposure draft of a Hong Kong version of ISAE 3400 as part of our International Convergence Programme. We have, however, received comments resisting the adoption of ISAE 3400 in Hong Kong on the basis that ISAE 3400 is rarely used in other overseas jurisdictions. Concerns were raised as to whether reporting accountants are in a position to provide assurance on the reasonableness of the assumptions on profit forecasts in respect of businesses that are in their start-up phase or those that do not have a long history, and whether reporting accountants have the expertise to comment on the assumptions. There were also comments which suggest limiting the period to be reported on to not more than one financial year, as profit forecasts that cover a longer period may not be reliable. We are pleased to note that the IAASB is reviewing ISAE 3400.

7.6 India

See response to Q1.

7.7 Japan

Based on the experience in Japan, it may be difficult to audit pro forma financial information, as there inheres many subjective assumptions when computing pro forma financial information.

7.8 Kenya

This is not applicable given that there are no standards.

7.9 Korea

We are not aware of any significant issues about implementation or use of these standards or guidance in practice.

7.10 Malaysia

Not applicable as there is no standard or guidance available.

7.11 New Zealand

N/A.

7.12 Russia

No experience of working with pro forma financial information.

7.13 Saudi Arabia

None.

7.14 Singapore

To establish best practices and consistency in practice globally, it may be useful for the IAASB of IFAC to issue some form of guidance relating to the provision of assurance on pro forma financial information.

7.15 South Africa

There are no known issues affecting implementation in practice. However, the JSE listing requirements and standards are updated for changes in legislation and changes in standards developed by the IAASB or National Standard Setter, IRBA.

7.16 USA

No.

Appendix

Detailed Responses TO Q1

1.1 Australia

In Australia, financial information is categorized as either historical, pro forma or prospective financial information. Historical information which does not comply with a recognized framework is not considered to be pro forma information in Australia, however it requires presentation in a special purpose financial report instead of a general purpose financial report.

Auditing Guidance Statement AGS 1062 *Reporting in Connection with Proposed Fundraisings*² (issued by the former AuASB) defines “pro forma historical information” in the context of “financial information” in relation to fundraising as:

“pro forma historical information” comprises historical information, adjusted for significant subsequent events and other matters relating to transactions associated with the fundraising. Pro forma historical information also includes adjustments for presentation and/or disclosure. Specific adjustments involved in preparing pro forma historical information include adjustments to the financial statements, including the statement of financial position, which may have formed part of the historical financial report, to show the impact of transactions associated with fundraising. The adjustments may also include, for example, adjustments for a discontinued part of operations, or sale of a business segment.

Auditing Standard AUS 804 *The Audit of Prospective Financial Information*³ (issued by the former AuASB based on ISA 810, and which is still current) provides the following definition of “prospective financial information”:

“Prospective financial information” means financial information based on assumptions about events that may occur in the future and possible actions by an entity. It is highly subjective in nature and its preparation requires the exercise of considerable judgment. Prospective financial information can be in the form of a forecast, or projection or a combination of both, for example a one year forecast plus a five year projection.

A “forecast” means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place, and the actions management expects to take as of the date the information is prepared (best-estimate assumptions).

A “projection” means prospective financial information prepared on the basis of:

- (a) hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or
- (b) a mixture of best-estimate and hypothetical assumptions.

Such information illustrates the possible consequences, as of the date the information is prepared, if the events and actions were to occur (a “what-if” scenario).

² AGS 1062 is attached and is also available on the AUASB’s website at www.auasb.gov.au.

³ AUS 804 is attached and is also available on the AUASB’s website at www.auasb.gov.au.

1.2 Brazil

No. In Brazil there is no formal definition for the term “pro forma financial information.” Also, in Brazil, still, there is not a consensus in terms of the definition of the term.

Although we have noted that the general practice is to use Rule 11-01 of Regulation S-X of the SEC as the rule of thumb for the determination of the need for providing pro forma financial information. Generally this is being used for purposes of presenting the financial position and the results of operations considering the acquisition (business combinations) of significant businesses (*).

Therefore, the financial information is usually presented on a pro forma basis with the application of a “concept of combination” (**) of the businesses financial position and results of operations and with the inclusion of other pro forma adjustments to provide investors with information about the continuing impact of a particular transaction by showing how it might have affected historical financial statements if the transaction had been consummated at an earlier time. Such statements should assist investors in analyzing the future prospects of the registrant because they illustrate the possible scope of the change in the registrant's historical financial position and results of operations caused by the transaction.

Consequently per the application of Rule 11-01 of Regulation S-X of the SEC pro forma financial information shall be furnished when any of the following conditions exist (among other 5 conditions):

- (i) during the most recent fiscal year or subsequent interim period for which a balance sheet is required by Rule 3-01, a significant business combination accounted for as a purchase has occurred;
- (ii) after the date of the most recent balance sheet filed pursuant to Rule 3-01, consummation of a significant business combination to be accounted for by either the purchase method or pooling-of-interests method of accounting has occurred or is probable;
- (iii) consummation of other events or transactions has occurred or is probable for which disclosure of pro forma financial information would be material to investors.

An example of the situation (iii) above could be the preparation of pro forma financial information related to a not-for-profit organization for which it would be necessary the preparation of its results of operations with the assumption that it was a tax paying entity.

(*) The term significant is used as described in Regulation S-X Rule 1-02(w) and Rule 11-01(b) of the Securities and Exchange Commission – SEC.

(**) The required financial statements of related businesses may be presented on a combined basis for any periods they are under common control or management.

1.3 Canada

Section 7110 of the CICA Handbook – Assurance “Auditor Involvement with Offering Document of Public and Private Entities” contains material dealing with pro forma financial statements. The Section defines pro forma financial statements as historical financial statements adjusted to show the effect of an event, transaction or proposed transaction as if it had occurred previously.

[See Attachment A – Section 7110, paragraphs 33 to 38 on guidance and requirements regarding pro forma financial statements].

Canadian securities regulations also use the term “pro forma financial statements,” usually in the context of business acquisition. While the term is not defined, the regulations explain how they are used. The following is an extract from relevant Canadian Securities Regulations:

Pro Forma Financial Statements Required in a Business Acquisition Report - If a reporting issuer is required to include financial statements in a business acquisition report, the business acquisition report must include:

- (a) a pro forma balance sheet of the reporting issuer, as at the date of the reporting issuer’s most recent balance sheet filed, that gives effect, as if they had taken place as at the date of the pro forma balance sheet, to significant acquisitions that have been completed, but are not reflected in the reporting issuer’s most recent balance sheet for an annual or interim period...;
- (b) a pro forma income statement of the reporting issuer that gives effect to significant acquisitions completed since the beginning of the financial year, as if they had taken place at the beginning of that financial year...; and
- (c) pro forma earnings per share based on the pro forma financial statements.

[See Attachment B – NI 51-102 FOFI on continuous disclosure requirements in Canadian securities regulations regarding FOFI.]

1.4 China

No official definition exists in China. Pro forma is used to describe historical financial information that is adjusted to show the hypothetical effect of recording an acquisition or disposal or some other transaction (at a date earlier than that on which it actually took place) or application of new accounting standards or even an hypothetical entity (not often now) on the reported historical numbers of the issuer.

1.5 Hong Kong

As part of the Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services, we have a suite of Standards and guidelines on investment circular reporting called Hong Kong Standards on Investment Circular Reporting Engagements (HKSIR).

The HKSIR suite of Standards is still under development. However, the followings Standards and Guidelines have already been issued and are effective:

1. HKSIR 300 *Accountants’ Reports on Pro Forma Financial Information in Investment Circulars*
http://www.hkicpa.org.hk/ebook/HKSA_Members_Handbook_Master/volumeIII/hksir300.pdf
2. HKSIR 400 *Comfort Letters and Due Diligence Meetings on Financial and Non-financial Information*
http://www.hkicpa.org.hk/ebook/HKSA_Members_Handbook_Master/volumeIII/hksir400.pdf

3. Auditing Guidelines AG 3.340 *Prospectuses and the reporting accountant*
http://www.hkicpa.org.hk/ebook/HKSA_Members_Handbook_Master/volumeIII/3_340.pdf
4. Auditing Guidelines AG 3.341 *Accountants' report on profit forecasts*
http://www.hkicpa.org.hk/ebook/HKSA_Members_Handbook_Master/volumeIII/3_341.pdf
5. Accounting Guideline AG 7 *Preparation of Pro Forma Financial Information for inclusion In Investment Circulars*
http://www.hkicpa.org.hk/hksaebk/HKSA_Members_Handbook_Master/volumeII/ag7.pdf
6. Accounting Guideline AG 5 *Merger Accounting for Common Control Combinations*
http://www.hkicpa.org.hk/hksaebk/HKSA_Members_Handbook_Master/volumeII/ag5.pdf

Given the above, please note that items 1 (HKSIR 300) and 5 (AG 7) are specifically standards and guidance on Pro Forma Financial Information for inclusion in investment circulars.

AG 7 paragraph 5 states that a listing applicant or a listed issuer is required to present pro forma financial information under the HK Main Board and GEM Listing Rules, in the cases of:

- (a) an acquisition constituting a major transaction, Listing Rules require pro forma financial information of the enlarged group;
- (b) a reverse takeover or a very substantial acquisition, Listing Rules require pro forma financial information of the enlarged group;
- (c) a very substantial disposal, Listing Rules require pro forma financial information of the remaining group;
- (d) a new applicant which has acquired or proposed to acquire any businesses or companies, which would at the date of application or such later date of acquisition before listing of the applicant be classified as a major subsidiary, since the date to which the latest audited financial statements of the issuer have been made up Listing Rules require pro forma financial information in respect of the enlarged group.
- (e) an issuer some part of whose share capital is already listed, Listing Rules require a pro forma statement combining the assets and liabilities and profits or losses for the latest financial years where the issuer acquires any company since the date of the last published audited financial statements of the group in respect of which an accountants' report has already been submitted to shareholders or which was itself during the last 12 months a listed issuer; and
- (f) an issuance of new securities, Listing Rules require a statement of net tangible asset backing for each class of security for which listing is sought, after making allowance for any new securities to be issued, as detailed in the listing document.

1.6 India

The concept of “pro forma financial information” in connection with the securities offerings is not in vogue in India as on date. Issuers provide financial and other information to the prospective investors through a document called “Prospectus.” The requirements as to the Prospectus are governed by the provisions of the *Companies Act, 1956* as well as the *Disclosure and Investor Protection (DIP) Guidelines, 2000*, issued by the Securities and Exchange Board of India (SEBI) which is the capital markets regulator in our country. These Guidelines are available on SEBI’s website www.sebi.gov.in.

Further, the Auditing and Assurance Standards Board of ICAI has also issued a *Guidance Note on Reports in Company Prospectuses*. The relevant provisions of the Companies Act, 1956 as well as above mentioned DIP Guidelines relating to Prospectus have been explained in this Guidance Note. A copy of the same is attached for your reference.

1.7 Japan

There is no explicit definition for the term “pro forma financial information” in Japan, but it is generally understood that pro forma financial information is financial figures that are derived based on particular accounting methods or assumptions that are different from the entity’s accounting policy or historical data.

For example, issuers are required to disclose pro forma financial information in their notes to consolidated financial statements within their annual reports, when there are business combinations accounted for using the purchase method during the year. The information includes the approximate amount of the computational effect on the current financial figures, provided that the business combination had taken place at the beginning of the fiscal year. Please see further details in our response to Q3.

1.8 Kenya

There is no definition of pro forma financial information in the Capital Markets Regulations in Kenya.

However, it is taken to refer to financial information based on assumptions about events that may occur in the future and possible actions by the entity i.e., historical information that takes into account “what if” aspect of a transaction.

1.9 Korea

We don’t have the definition for the term “pro forma financial information,” but most of the accounting firms recognize, as AICPA defined, the term is used to describe historical financial information that is adjusted to show the hypothetical effect of recording an acquisition or disposal or some other transaction (at a date earlier than that on which it actually took place) on the reported historical numbers of the issuer.

1.10 Malaysia

The term “Pro forma financial information” is not defined in our jurisdiction.

1.11 New Zealand

The term is not formally defined in New Zealand.

1.12 Russia

There is no such term and correspondingly there is no its definition in Russia, but firms if they want may compile their pro forma information reports in accordance with IFRS or GAAP.

1.13 Saudi Arabia

There is a definition exists in our jurisdiction for the term ‘pro forma financial information’. It is generally understood that pro information is related to prospective financial information.

1.14 Singapore

Reference to “pro forma financial information” is made in the Securities and Futures Regulations (SFR), which is part of the subsidiary legislation under the Securities and Futures Act, administered by the Monetary Authority of Singapore (MAS). There is no formal definition of “pro forma financial information” in the SFR.

For your information, the website of MAS is www.mas.gov.sg.

1.15 South Africa

The term “pro forma financial information” is not defined in the Companies Act of South Africa, Act 61 of 1973 (“the Act”) or the Johannesburg Stock Exchange Ltd’s (“the JSE”) Listing Requirements. Pro forma financial information is generally understood as prospective financial information as defined by IFAC and adopted by the IRBA.

1.16 USA

While we don’t have a definition per se, we do sort of define it by its objective. The objective of pro forma financial information is to show what the significant effects on historical financial information might have been had a consummated or proposed transaction (or event) occurred at an earlier date.

Detailed Responses TO Q2

2.1 Australia

Regulation, under the *Corporations Act 2001* (the Act), in Australia requires that there must be “disclosure” where an offer is made for the issue of securities, apart from enumerated exceptions. This disclosure is made by way of a “disclosure document” which must be prepared for the offer, lodged with the Australian Securities and Investments Commission (ASIC) and offers must only be made in or accompanied by a disclosure document. The disclosure document provided to investors can take a number of forms depending on the circumstances: a full prospectus, profile statement, short form prospectus, a prospectus for continuously quoted securities with less disclosure or an offer information statement for fund raisings under \$5 million.

The disclosure document may comprise historical, pro forma historical and prospective financial information and generally needs to comply with Australian Accounting Standards. Prospective financial information may be presented in the format of the financial report as required in the Act.

The regulatory framework for fundraising consists principally of:

- (a) a requirement for the person or client entity offering securities to comply with the Chapter 6D fundraising provisions of the Act and the requirements of the *Financial Services Reform Act 2001* that may be applicable;
- (b) relevant ASIC regulatory guides (RG), practice notes (PN) and information releases (IR) applicable to specific activities in relation to fundraising⁴; and
- (c) for entities seeking admission to a prescribed financial market such as the Australian Stock Exchange (ASX), the relevant ASX Listing Rules that may be applicable to the entity⁵.

2.2 Brazil

Yes. It is being very common to have pro forma financial information included in prospectus issued in connection with IPOs at Bovespa – São Paulo Stock Exchange and other offerings.

In Brazil most of these deals are also Rule 144-A/ Reg-S type of deals and therefore it is a market practice to apply Regulation S-X requirements for all jurisdictions (local, US and Non-US offerings).

2.3 Canada

Yes, but in limited circumstances. Securities regulations require pro forma statements in limited circumstances, for example, when a significant acquisition is involved. [See Attachment C – CP to NI41-102 Prospectus filing]. Paragraphs 5.4(1) and 5.10 discuss pro forma financial information.

⁴ Regulatory Guides (RG) (also referred to as Policy Statements (PS)), Practice Notes (PN) and Information Releases (IR) are available at the ASIC website (<http://www.asic.gov.au>).

⁵ See the Australian Securities Exchange website, <http://www.asx.com.au>, for a complete set of Listing Rules and ASX guidelines.

2.4 China

Yes. Mainly, two circumstances

- (1) According to regulation issued by China Security Regulatory Commission, if after a listed company has been restructured and wants to issue new shares or debentures, it is entitled to prepare historical financial statements as if the restructuring had been happened at an earlier date, provided that certain conditions have been met.
- (2) According to regulation issued by China Security Regulatory Commission, when a listed company is planning to restructure significantly, it is required to prepare pro-forma financial statements

The pro-forma financial statements or information either appears as notes to historical financial statements or as a standing-alone statements.

2.5 Hong Kong

As described in above, it is through regulation, being the Hong Kong Stock Exchange Main Board Listing Rules and the GEM Board Rules.

2.6 India

See response to Q1.

2.7 Japan

As noted in our response to Q1, pro forma financial information is disclosed in the notes on financial statements for business combinations. The information may be presented in an aggregated manner by highlighting headline items, and the form is not specified by regulations or accounting standards. However, in Japan it is not required or customary to present pro forma financial information in connection with securities offerings, other than in instances of business combinations.

2.8 Kenya

Yes, pro forma financial information is used in connection with securities offering in Kenya.

The Capital Markets (Securities) (Public Offers, Listings and Disclosures) regulations 2002 require that issuers provide pro forma financial information in the information memorandum for equity or debt securities to be offered to the public. Part A and B of the First Schedule to the Regulations provide as follows regarding pro forma financial information to be provided for offers to the public of equity securities:

Particulars of -

- (a) The dividend policy to be adopted
- (b) The pro-forma balance sheet prior to and immediately after the proposed issue of securities; and
- (c) The effect of the proposed issue of securities on the net asset value per share.

The above particulars must be prepared and presented in accordance with the International Accounting Standards (IAS). If the issuer is a holding company, the information must be prepared in consolidated form.

Part C of the First Schedule provides as follows regarding pro forma financial information to be provided for offers to the public of debt securities:

G.11 The accountant's report shall disclose a pro forma balance sheet, profit & loss account and a cash flow projection for the next twelve months following the issue and the following ratios for the last three financial years immediately preceding the issue -

- (a) Earnings before interest and taxes interest cover;
- (b) Funds from operations to total debt percentage;
- (c) Free cash flow to total debt percentage;
- (d) Total free cash flow to short-term obligations;
- (e) Net profit margin;
- (f) Post-tax return (before financing) on capital employed;
- (g) Long term debt to capital employed; and
- (h) Total debt to equity.

There is no customary way of presenting pro forma information as it is dependent on the reporting accountants. The pro forma information is usually presented in a summarized manner. The Authority only requires that the information be in line with the International Accounting Standards.

2.9 Korea

Without formal regulation on pro forma financial information, it is sometimes used in securities offerings through market practice at the request of a client or an underwriter.

2.10 Malaysia

The Prospectus Guidelines issued by the Securities Commission required pro forma financial information to be included in the prospectus in connection with securities offerings in our jurisdiction. The Guidelines do not specify the format to be presented but it is customary that a columnar format of the historical financial information to be presented adjusted by the adjustments and the resulting pro forma information.

2.11 New Zealand

Yes, pro forma financial information is oftentimes used in connection with offers of securities by new issuers formed from the combination of a number of existing entities – this is typically done under the legal authority of an “Exemption Notice” issued by the Securities Commission in New Zealand. This permits the historical financial information for the existing entities to be presented for the new issuer entity on a “pro forma” combined basis, for inclusion in a prospectus document.

2.12 Russia

No term.

2.13 Saudi Arabia

The Saudi Capital Market Authority issued the Offers of Securities Regulations. These state:

- ...16. The audited financial statements of the issuer for a minimum period of three financial years or from incorporation, whichever is shorter. The financial statements must include an income statement, balance sheet, cash flow statement and notes thereon.
- 17. Where a profit forecast appears in the private placement memorandum, a statement of the principal assumptions upon which it is based. The accountants must examine the accounting policies and calculations methods for the forecast and issue a report in this respect. The accountants must report in addition that they have satisfied themselves that the forecast has been made after due and careful enquiry.

2.14 Singapore

Yes, pro forma financial information is used in connection with securities offerings in Singapore. This is through regulation found in the SFR.

2.15 South Africa

Yes, through section 148 and schedule 3 of the Act and if an entity listed on the JSE provides such information it must comply with paragraph 8.15 of section 8 of the JSE listing requirements.

Please refer to section 8 of the listing requirements attached.

Pro forma information is presented in columnar format in accordance with paragraph 8.19 showing separately the unadjusted financial information, the pro forma adjustments and the pro forma financial information.

2.16 USA

Yes it is used through market practice and also regulation from the SEC. Pro forma rules are set forth in regulation S-X part 210.8-05.

Detailed Responses TO Q3

3.1 Australia

No requirements relating to the preparation, presentation and disclosure of pro forma financial information exists in regulation.

3.2 Brazil

No. No guidance has been issued in Brazil. As indicated above, in Brazil most of these deals are Rule 144-A/ Reg-S type of deals and therefore it is a market practice to apply Regulation S-X requirements for local, US and Non-US offerings.

3.3 Canada

The only relevant material is contained in Section 7110 dealing with the auditor's responsibilities regarding pro forma financial statements in an offering document. [See Attachment A]

3.4 China

No. The China Security Regulatory Commission has issued an ED but fails to find its way to being final. However, the ED is followed to some extent. In practice, the accounting principles and policies followed are the same with normal historical financial statements.

3.5 Hong Kong

The HKICPA has issued all the standards and guidance referred to in above.

3.6 India

See response to Q1.

3.7 Japan

The disclosure of the pro forma financial information regarding business combinations is required by Article 15-12 (12) of the "Regulation for Presentation and Disclosure of Consolidated Financial Statements" issued by the Financial Services Agency (the "FSA"), as well as paragraph IV-2 (12) of the "Accounting Standards for Business Combination" issued by the Accounting Standards Board of Japan ("ASBJ").

To ensure consistent application, guidance is provided in paragraphs 326 - 330 of the implementation guide, namely ASBJ Guidance No. 10 "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

3.8 Kenya

There is no guidance on preparation of pro forma financial information prescribed in the Capital Markets Regulations. The preparation is normally left to the reporting accountants and the Capital Market Authority has no reservations about the information as long as it is in line with the accounting standards.

3.9 Korea

No, we don't have guidance on the preparation of pro forma financial information, but the accounting firms provide a preparation service, at the request of a client or an underwriter, in accordance with the guideline of the firm's worldwide network policy or of other jurisdiction such as AR section 120 of AICPA.

3.10 Malaysia

There is no guidance available in our jurisdiction to prepare pro forma financial information. The pro forma financial information is prepared based on a set of audited financial statements which is adjusted on the assumption that the proposed transactions under the corporate proposals had been in existence throughout the period under review in accordance with approved accounting standards to show the effect of the corporate proposal on the financial position of the affected entity. The Prospectus Guideline paragraph 13.14 – 13.16 specifies information to be included in the pro forma financial information.

3.11 New Zealand

There is no guidance on preparation of pro forma financial information in New Zealand. However, the Securities Commission scrutinizes the 'pro forma' information compiled for a prospectus document to ensure it satisfies the terms of the applicable Exemption Notice.

3.12 Russia

There is no guidance in Russia, since the term is not used and such information is not commonly prepared.

3.13 Saudi Arabia

The prospective financial information is issued by auditing standards committee of Saudi Organization for Certified Public Accountants (SOCPA).

3.14 Singapore

Minimal guidance can be found in the SFR.

3.15 South Africa

Yes.

Comprehensive guidance was issued by the South African Institute of Chartered Accountants (SAICA) and the JSE on Pro Forma Financial Information issued September 2005.

Please refer to SAICA Guide attached.

3.16 USA

Yes, the AICPA has issued a standard on examining or reviewing pro forma presentations. Our standard is AT 401 in our codification.

Detailed Responses TO Q4

4.1 Australia

No regulatory requirements exist regarding the provision of assurance on pro forma financial information.

4.2 Brazil

No. In Brazil there is no regulatory requirement for assurance on this information.

Since the issuance of NPO 01 (Brazilian Standard on Assurance Engagements) some auditors have been applying this form of report for the purpose of providing comfort to underwriters on the pro forma financial information. Although it is important to note that if such pro forma financial information is being prepared and included in a prospectus for offering of shares or other securities under a Rule 144-A/ Reg-S type of deal, the auditor's report under NPO 01 is only presented in the annexes to the local prospectus.

Therefore, for the purposes of providing comfort in connection with the US and Non-US prospectus, only negative assurance is provided in the context of the comfort letters issued directly to the underwriters.

Before the issuance of NPO 01, some auditors have used ISAE 3000 (International Standards on Assurance Engagements) as a form to report on the pro forma financial information. We also note that the same comments above used to be applied in the context of ISAE 3000.

4.3 Canada

Generally no. The reason is that it is generally not feasible for the auditor to audit pro forma financial statements, since this would entail performing an audit of all of the underlying historical financial statements, in addition to auditing the pro forma adjustments and the compilation of the pro forma statements. There are no generally accepted standards in Canada regarding the preparation and presentation of pro forma financial statements that allow the auditor to assess the fairness of presentation of the pro forma financial statements appearing in a prospectus.

4.4 China

It is to be audited as normal historical financial statements.

4.5 Hong Kong

1. For an IPO, in the accountants' report, the reporting accountants would normally state that they have carried out independent audit procedures on the Financial Information for the relevant periods in accordance with Hong Kong Standards on Auditing (which is fully converged with ISAs) issued by the HKICPA and any additional procedures as are necessary in accordance with AG 3.340 issued by the HKICPA. There is a regulatory requirement for an assurance report as the reporting accountant is required to state whether,

in their opinion, the financial information gives a true and fair view of the results and cash flows of the group for each of the relevant periods and of the state of affairs of the group in accordance with HKFRSs/IFRSs.

2. For reporting on pro forma information (as that described above) under HKSIR 300 and AG 7, the opinion as shown in the example provided in HKSIR is as follows:

[In our opinion:

- (a) the unaudited pro forma financial information has been properly complied by the directors of the company on the basis stated:
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.]

Accordingly, an assurance report is not required in this regard.

4.6 India

See response to Q1.

4.7 Japan

Article 1 (7) of the “Ordinance for Audit Assurance of Financial Statements etc.” issued by the FSA requires issuers’ consolidated financial statements (including its notes) to be audited by independent auditors. However, Article 15-12 (12) of the regulation permits pro forma information relating to business combinations to not be audited, provided that it is disclosed in the notes to the consolidated financial statements.

In practice, in most cases, pro forma financial information relating to business combinations is not audited.

4.8 Kenya

No assurance is required on pro forma financial information. However, it is expected that the reporting accountant or auditor gives the assurance since it is part of the accountant’s report.

In addition the directors of the issuer give an undertaking on the information contained in the information memorandum.

4.9 Korea

We have no regulatory requirement, but the accounting firms provide assurance, at the request of a client or an underwriter, in accordance with the guideline of the firm’s worldwide network policy or of other jurisdiction such as AR section 120 of AICPA.

4.10 Malaysia

Yes, the Prospectus Guidelines para 13.18 requires assurance to be provided on this information.

4.11 New Zealand

It is market practice for auditors to provide assurance on the information.

4.12 Russia

It is not produced.

4.13 Saudi Arabia

The standard for prospective financial statements issued by the auditing standards committee of Saudi Organization for Certified Public Accountants (SOCPA) specifies the procedures that must be followed by the auditor in reviewing or compiling prospective financial statements, or in applying certain agreed-upon procedures to partial presentations. In addition, the attestation standard specifies the general requirements that the public accountant should comply when engaged to perform an examination or a review of a written assertion (such as pro forma financial statements) issued by a responsible party.

4.14 Singapore

Where pro forma financial information is produced, the SFR requires the auditors to provide assurance on this information.

4.15 South Africa

Yes, it is required by the JSE listing requirements paragraph 8.45.

4.16 USA

There is neither a regulatory requirement nor a market practice to issue assurance reports on pro forma financial information, although it is permitted and there is a standard (AICPA Attestation Standard AT 401).

Detailed Responses TO Q5

5.1 Australia

See response to Q4.

5.2 Brazil

See response to Q4.

5.3 Canada

N/A. See response to Q4.

5.4 China

An audit.

5.5 Hong Kong

See response to Q4.

5.6 India

See response to Q1.

5.7 Japan

As stated in our response to Q4, an audit is required for pro forma financial information related to business combinations.

5.8 Kenya

No assurance is required on pro forma information.

5.9 Korea

The accounting firm provide opinion as to whether management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the transaction or event, whether related pro forma adjustments give appropriate effect to those assumptions, and whether to the pro forma column reflects the proper application of those adjustments to the historical financial statements (for example, IPO in EU following to the requirements of EU). Some accounting firm does the practice by agreed-upon procedures or by negative assurance.

5.10 Malaysia

The reporting accountants are required to state their opinion the following:

- (a) the pro forma financial information has been properly prepared on the appropriate basis using financial statements prepared in accordance with approved accounting standards in Malaysia and in a manner consistent with both the format of the financial statements and the accounting policies of the issuer; and

- (b) each material adjustment made to the information used in the preparation of the pro forma financial information is appropriate for the purposes of preparing such financial information.

5.11 New Zealand

Usually, assurance is required about whether the pro forma information has been correctly extracted from the audited financial statements of the entity (or of one or more entities, where the information is being presented for entities that are to be combined) for which the pro forma information is prepared.

5.12 Russia

No regulations or market practice, since there is no object to regulate.

5.13 Saudi Arabia

Please see response Q4.

5.14 Singapore

The SFR states that the independent auditor would audit the pro forma information.

5.15 South Africa

It is provided in terms of International Standard on Assurance Engagements (ISAE) applicable to *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and the SAICA guide.

Limited assurance is provided in terms of the JSE listing requirement paragraph 8.48(b) on:

- (a) whether the pro forma financial information has been properly compiled on the basis stated;
- (b) whether such basis is consistent with the accounting policies of the issuer; and
- (c) whether the adjustments are appropriate for the purposes of the pro forma information as disclosed.

It is provided by the Reporting Accountant defined as an auditor registered with the IRBA.

5.16 USA

CPA can provide either an examination level assurance (high) or review level assurance (moderate).

Detailed Responses TO Q6

6.1 Australia

Guidance on the provision of assurance on pro forma historical financial information is contained in Auditing Guidance Statement AGS 1062 *Reporting in Connection with Proposed Fundraisings* (issued by the former Auditing and Assurance Standards Board (AuASB) in August 2002). AGS 1062 is applied in conjunction with the requirements and guidance in auditing standards (ASAs issued by the AUASB and certain remaining AUSs issued by the former AuASB) for audits and standards on reviews engagements (ASREs) for reviews of pro forma historical financial information. At present the applicable standard on review engagements is Auditing Standard AUS 902 *Review of Financial Reports* (issued by the former AuASB in July 2002 based on ISRE 2400). In August 2008 the AUASB will be withdrawing AUS 902 and issuing the following standards on review engagements, for engagements commencing on or after 1 October 2008, which will be applicable to reviews of pro forma historical financial information:

- ASRE 2400 *Review of Financial Reports Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* (based on ISRE 2410) – applicable to reviews by an assurance practitioner other than the auditor of the entity of pro forma historical financial information presented in a financial report.
- Amended ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity* (based on ISRE 2410) - applicable to reviews by the auditor of the entity of pro forma historical financial information presented in a financial report.
- ASRE 2405 *Review of Other Historical Financial Information Other than a Financial Report* (based on ISRE 2400) – applicable to reviews of pro forma historical financial information presented other than in a financial report.

We also note that the requirements and guidance on provision of assurance on prospective financial information is contained in Standard on Assurance Engagements ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* (issued by the AUASB in July 2007 based on ISAE 3000), which applies to both audits and reviews, AUS 804 which applies to audits and AUS 902 which applies to reviews (until AUS 902 is withdrawn).

The AUASB is responsible for revising and issuing standards and guidance on the provision of assurance on pro forma and prospective financial information. The AUASB intends to revise and reissue AUS 804 and AGS 1062 for consistency with the current suite of AUASB Standards in due course.

6.2 Brazil

No specific guidance exists. Although, as mentioned above, NPO 01 is being regularly applied.

6.3 Canada

The guidance mainly discusses compilation of pro forma financial statements. This guidance is contained in Section 7110 [See Attachment A; paragraphs 33 – 38].

6.4 China

Auditing standards are followed.

6.5 Hong Kong

See comments above.

6.6 India

See response to Q1.

6.7 Japan

There is no standard or guidance prepared specifically for assurance on pro forma financial information.

6.8 Kenya

Currently there is no guidance or standards relating to provision of assurance on pro forma financial information.

6.9 Korea

We don't have jurisdictional standards or guidance relating to the provision of assurance on pro forma financial information as described above.

6.10 Malaysia

There is no standard or guidance relating to the provision of assurance on pro forma financial information at the time of submission of this questionnaire.

6.11 New Zealand

No.

6.12 Russia

There are no standards or guidance since the information is not in use.

6.13 Saudi Arabia

Please see response Q4.

6.14 Singapore

ICPAS had issued a Statement of Auditing Practice (SAP) 24 "Auditors and Public Offering Documents" to provide guidance to auditors.

6.15 South Africa

Yes. It is required by the JSE listing requirements in paragraph 8.47 that the engagement should be performed in accordance with the relevant IAASB standards and the SAICA guide.

ISAE 3000 issued by IFAC and adopted by IRBA is used.

Please refer to SAICA guide attached.

6.16 USA

Yes, AT 401.