



LONDON INVESTMENT BANKING ASSOCIATION
6 Frederick's Place, London, EC2R 8BT
Tel: 020 7796 3606 Fax: 020 7796 4345
e-mail: liba@liba.org.uk website: www.liba.org.uk

Mr Steven Leonard
Project Director
The Auditing Practices Board
5th Floor
Aldwych House
71-91 Aldwych
London WC2B 4HN

12 November 2007

Dear Steven

LIBA submission on the Exposure Draft SIRS 5000 – Investment Reporting Standards Applicable to Public Reporting Engagements on Financial Information Reconciliations

I am writing to you on behalf of the members of The London Investment Banking Association (LIBA). LIBA is the trade association for investment banks with operations in London. Its objective is to ensure that London continues to be an attractive location for the conduct of international investment banking business. A list of our members is attached (and is also available on our website: www.liba.org.uk).

Thank you very much for extending the time frame for our submission on SIRs 5000.

Answers to the specific questions posed in the Exposure Draft are attached.

Our main concern is that the SIRS make clear that a reporting accountant is required to assess a determination by an issuers' directors that no material adjustments need be made in order to reconcile a target's financials with the issuer's financials. Paragraph 26 indicates that a reporting accountant is not required to evaluate a determination by the issuer that no material adjustments to the target's financials need be made. But it goes on to say that the reporting accountant is bound to discuss with an issuer any view of its own that an adjustment is necessary. Taking these together leads to question whether the reporting accountant should assess the process and thinking of an issuer's determination that no material adjustment is necessary. In our view it is essential that such a determination be reviewed and commented on by the reporting accountant. There should be clarity that the issuer has carefully and comprehensively ascertained the accounting policies of the target company and correctly identified the differences from the issuers' accounting policies. The mathematical calculations quantifying any differences should also be reviewed by the reporting accountant. We propose that SIR 5000.3 (paragraph 32) be amended to make this clear. We also propose that SIR 5000.5 (paragraph 47) also

be amended to clearly state that the reporting accountant should state that is responsible for determining whether any material adjustment – or a decision that none is required – has been properly determined.

With respect to Appendix 2, the section on Responsibilities should make clear that it is also the responsibility of the reporting accountant to form an opinion as to whether any determination that no material adjustment is necessary has been properly and reasonably made.

With respect to Appendix 4, we would ask that it be supplemented with a form of letter which could be used by a reporting accountant to give its opinion that the issuer's determination that no material adjustments are required has been reasonably made.

With respect to Appendices 2-4, we propose that language be added in paragraphs 14, 43 and 46 that the forms are not obligatory and are not intended to pre-empt negotiations in good faith.

Thank you very much for your consideration of our comments. We would be happy to discuss them with you, if that would be helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'W. J. Ferrari', with a stylized flourish at the end.

William J Ferrari
Director

LIST OF QUESTIONS AND ANSWERS - SIRS 5000

Q1 Do you support the Standards and guidance in paragraphs 12, 21 (d), 22 and 23 that describe the extent to which the engagement team should have knowledge of the target's financial reporting framework?

We do support the Standards and guidance in paragraphs 12, 21 (d), 22 and 23.

Q2 Do you agree that the work effort of the reporting accountant described in paragraphs 36 to 40 of the proposed Exposure Draft is pitched at a level that is appropriate for the opinion to be given by the reporting accountant?

With respect to paragraphs 36 – 40 it would be appropriate to extend them to assessing any directors' judgement that there is no material adjustment necessary in order to present the financial information on a basis consistent with the issuer's accounting policies.

Paragraph 36 should apply also to the determination by directors that no adjustments are needed. The directors should be asked to explain the accounting policies of the target and to explain their conclusion that there are no material differences. The reporting accountant should assess whether the directors' determination has been properly reached.

Paragraph 37 should state that "directors should have carefully analysed the target's accounting policies and the application of the issuer's accounting policies to the target's financial information. We are concerned by the language that such would be "likely" as opposed to being required.

Paragraph 38 should also require reporting accountants to obtain sufficient evidence that the directors of the issuer can support any determination that no material adjustment needs to be made.

Q3a Do you support the publication of these conventions by the APB as an Annexure to the proposed SIR? If not, please indicate what existing source of generally accepted criteria should be used by reporting accountants instead?

Yes, we support publication of these conventions by the APB

Q3b Do you agree with APB's description of the conventions?

We have no objections to the APB's description of conventions.

Q3c Are there any significant conventions that you believe should be added to the Annexure?

We believe there should be explicit reference to the need for a reporting accountant to assess an issuer's determination that no material adjustment is required. Thus, the issuer should perform the tasks discussed in Paragraphs 18-21 in all cases, and the reporting accountant should review/assess that work even in cases where the directors of the issuer have determined that no material adjustments are required.

Q4 *Do you agree that the Annexure should include paragraphs 18 to 25 on management's processes?*

Yes, we believe that paragraphs 18 – 25 should be included in the Annexure, and the Annexure should specifically refer to the responsibility of the reporting accountant to form an opinion whether a decision that no material adjustments are required has been properly and reasonably made..

LIBA

MEMBERS OF THE ASSOCIATION

ABN AMRO Bank
Altium Capital Limited
Ambrian Partners Limited
Arbuthnot Latham & Co., Limited
Arbuthnot Securities Limited
Arden Partners plc
Banc of America Securities Limited
Barclays Capital
Bayerische Hypo- und Vereinsbank AG
Bear, Stearns International Limited
BNP Paribas
Brewin Dolphin Securities
Calyon
Cantor Fitzgerald Europe
Cenkos Securities Limited
CIBC World Markets
Citigroup Inc.
Close Brothers Corporate Finance Ltd
Collins Stewart Europe Limited
Credit Suisse Securities (Europe) Ltd
Daiwa Securities SMBC Europe Limited
Dawnay, Day & Co., Limited
Deutsche Bank AG London
Dresdner Kleinwort
Evolution Securities Limited
FoxPitt Kelton Limited
Goldman Sachs International
Greenhill & Co. International LLP
HBOS Treasury Services plc
HSBC Bank plc
ING Bank NV London Branch
Instinet Europe Ltd
Investec plc
Jefferies International Limited
JP Morgan Cazenove Ltd
J.P. Morgan Securities Ltd
KBC Peel Hunt Ltd
Kaupthing Singer & Friedlander
Landsbanki Securities (UK) Limited
Lazard & Co., Limited
Lehman Brothers
Libertas Capital Group plc
Merrill Lynch Europe PLC
Mizuho International plc
Morgan Stanley & Co. International plc
NCB Stockbrokers Limited
Noble & Company Limited
Nomura Code Securities Limited
Nomura International plc
N M Rothschild & Sons Limited

Numis Securities Limited
Oriel Securities Limited
Panmure Gordon & Co
PiperJaffray Ltd
Sanford C. Bernstein Limited
Société Générale
3i Group plc
UBS AG London
Winterflood Securities Limited