MALAYSIAN INSTITUTE OF ACCOUNTANTS

Guidance Note

For Issuers of Pro Forma Financial Information

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Preamble

Preamble

I. The Council of the Malaysian Institute of Accountants ("MIA") has approved this Guidance Note for issuance to members upon the recommendation of the Capital Market Advisory Committee ("CMAC").

II. As stated in Paragraph R113.1(b) MY of Part A of the MIA By-Laws[1], a Guidance Note approved and issued by the Council is considered as one of the applicable technical and professional standards that members are expected to adhere. A breach of the MIA By-Laws will prima facie give rise to a complaint of unprofessional conduct against the member concerned. As such, members who fail to observe proper standards of ethics and professional conduct as set out in these by-laws may be required to answer a complaint before the Investigation and the Disciplinary Committees of the MIA pursuant to the Malaysian Institute of Accountants (Disciplinary) Rules 2002 [P.U.(A) 229/2002].

III. The MIA would like to extend its appreciation to the Institute of Chartered Accountants in England and Wales ("ICAEW") for granting permission to the MIA to use the ICAEW Technical Release TECH06/15CFF *"Guidance for Preparers of Pro Forma Financial Information"* as its main reference in developing this Guidance Note.

IV. This Guidance Note provides guidance for the preparation and presentation of the pro forma financial information for inclusion in the documents for public circulation ("DFPC"). DFPC is defined as dissemination of documents to general public, for example, prospectus, circular to shareholders and information memorandum.

V. This guidance does not address the work performed by the reporting accountant. In addition to regulatory requirements, reporting accountant may refer to the relevant Malaysian Approved Standard on Assurance Engagements ("ISAE") and guidance published by the MIA accordingly. The 'not misleading' principle is also important to the reporting accountant when engaging to report on pro forma financial information.

VI. This Guidance Note is issued as part of the MIA's initiatives aimed at achieving the highest standards in reporting. It should be read in conjunction with the respective laws and regulations applicable to capital markets in Malaysia.

VII. The Frequently Asked Questions (FAQs) attached to this Guidance Note as Appendix 1 illustrates various scenarios in relation to the preparation of pro forma financial information.

VIII. This Guidance Note is effective on [date].

Series	**Date Approved by the MIA Council**	**Effective Date**	**Serial Number**
1st Issuance	20 May 2020	19 Jul 2020	N/A

[1] Based on the prevailing MIA By-Laws as issued by the Council of the Malaysian Institute of Accountants on 30 May 2019, which came into effect on 15 June 2019.

1. Introduction

1.1 Pro forma financial information

1.1.1. Pro forma financial information comprises financial information shown together with adjustments, which represent a hypothetical illustration of the impact of an event or a transaction on an issuer's unadjusted financial information such as assets, liabilities and/or earnings and/or cash flows as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration.

1.1.2. Pro forma financial information does not purport to represent what the issuer's actual financial position or results, or cash flow position would have been had the transaction occurred at the date assumed for the purpose of its preparation.

1.1.3. Pro forma financial information is usually accompanied by related explanatory notes disclosing the matters set out as follows:

- Nature and purpose of the pro forma financial information, including the nature of the event or transaction, and the date at which such event is assumed to have occurred or transaction been undertaken;
- Source from which the unadjusted financial information has been extracted, and whether or not an audit or review report on such a source has been published;
- Pro forma adjustments, including a description and explanation of each adjustment. This includes, in the case of acquiree or divestee financial information, the source from which such information has been extracted and whether or not an audit or review report on such a source has been published;
- If not publicly available, a description of the applicable criteria on the basis of which the pro forma financial information has been compiled; and
- A statement to the effect that the pro forma financial information has been compiled for illustrative purposes only and that, because of its nature, it does not represent the entity's actual financial position, financial performance, or cash flows.

1.1.4. In addition, to the above, relevant law or regulation may require other specific disclosures.

1.2 Pro forma financial information under the Prospectus Guidelines and other relevant applicable guidelines on pro forma financial information

1.2.1 Subsection 1.2 provides the specific references which issuers should consider when issuing pro forma financial statements in relation to public offerings which are subjected to the Prospectus Guidelines and other relevant applicable guidelines on pro forma financial information (as defined in paragraph 1.2.3 (b) below) as issued by the Securities Commission Malaysia and the Regulation Functional Group of Bursa Malaysia Securities Berhad.

1.2.2. In this context, a prospectus prepared in relation to the issue of, offer for subscription or purchase of, or invitation to subscribe for or purchase of securities shall include pro forma financial information where the corporation had:

- acquired or disposed of a material entity or business;
- entered into any agreement to acquire or dispose of a material entity or business; or
- experienced a significant change to its capital structure, including any material distribution

during the period from the beginning of the most recent completed financial year to the latest practicable date.

1.2.3. The requirement for pro forma financial information is set out in the:

(a) Prospectus Guidelines SC-GL/PG-2012 (R7-2019) as revised on 26 November 2019 ("Prospectus Guidelines):
- Paragraphs 9.18 to 9.23 of Part II Contents of Prospectus, Division 1 *Equity* – Chapter 9 *Financial Information*;
- Paragraphs B (1) to (10) of Part II Contents of Prospectus, Division 1A, ASEAN Equity Securities Disclosure Standards - Part VIII – *Financial Information;*
- Paragraphs 8.06 to 8.07 of Part II Contents of Prospectus, Division 2, Corporate Bonds and Sukuk – Chapter 8 – *Financial Information*;
- Paragraphs B (1) to (10) of Part II Contents of Prospectus, Division 2A, ASEAN Debt Securities Disclosure Standards – Part XIII – *Financial Information*;
- Paragraphs 16.13 to 16.18 of Part II Contents of Prospectus, Division 4, Business Trust – Chapter 16 – *Financial Information;* and
- Paragraphs 5.13 to 5.16 of Part II Contents of Prospectus, Division 5 Abridged Prospectus – Chapter 5 – *Pro forma Financial Information*.

(b) Other relevant applicable guidelines on pro forma financial information pertinent to the Malaysian capital market which require the pro forma financial information, to be included in documents for public circulation such as prospectuses and circulars. These includes but are not limited to Equity Guidelines issued by Securities Commission Malaysia and Main Market Listing Rules issued by Bursa Malaysia Securities Berhad. (these together are referred to as "Other relevant applicable guidelines on pro forma financial information").

1.2.4 If the above guidelines are subsequently revised, updated or amended by the Securities Commission Malaysia, the procedures set out in this Guidance Note will continue to be the recommended practice to be undertaken by the issuer in performing the work prescribed under this Guidance Note until such time that this Guidance Note be revised by the MIA Council.

1.3 Other rules

1.3.1. Paragraph 6.08(1), 6.53(1) and 10.10 of the Bursa Malaysia Securities Berhad's Main Market Listing Requirements require the pro forma consolidated statement of financial position together with the auditors' letter to be included in the circular to obtain the securities holder approval in respect of:

- a new issue of securities;
- an issue of convertible securities; and
- very substantial transactions.

1.3.2. The same requirement is also set out in Rule 6.09(1) of the Bursa Malaysia Securities Berhad's ACE Market Listing Requirements.

1.4 Scope and application of the guidance

1.4.1. This guidance provides commentary and practical help to issuers for preparing pro forma financial information which is included in the documents for public circulation ("DFPC"). DFPC is defined as documents disseminated to general public, for example, prospectus, circular to shareholders and information memorandum including announcements to the public. This guidance is underpinned by the principle that pro forma financial information should not be misleading in the context of the DFPC in which it is presented.

1.4.2. The responsibility of compiling the pro forma financial information rests with the issuer. The role of issuer is to compile the pro forma financial information, in all material respects, on the basis of the relevant requirements.

1.4.3. This guidance is also applicable to issuers in situations where there are no regulatory requirements such as those outlined in subsections 1.2 and 1.3 above which governed the preparation of pro forma financial information.

1.5 Terms used in the guidance

1.5.1. For ease of explanation, reference has been made to Malaysian Financial Reporting Standards ("MFRS") throughout this guidance. However, it is recognised that other financial reporting standards may be applicable to the preparation of the financial information that forms the basis for the pro forma financial information to which this guidance applies. It is, therefore, necessary to consider any explanation that refers to MFRS in light of the relevant financial reporting standards employed in preparing the unadjusted financial information and to be aware that the guidance given may not be directly applicable where those standards are different.

1.5.2. The guidance uses the names of financial statements as they are referred to in MFRS. Hereafter, the guidance refers to 'statement of financial position' instead of 'balance sheet' and to 'statement of comprehensive income' instead of 'profit and loss account'.

1.5.3. The party responsible for the DFPC and the preparation and presentation of pro forma financial information contained within it is referred to in the guidance as to the issuer.

1.5.4. Pro forma adjustments are adjustments made to the unadjusted financial information and these include:

a) Adjustments that illustrate the impact of a significant event or transaction as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration; and
b) Adjustments necessary for the pro forma financial information to be compiled on a basis consistent with the applicable financial reporting framework of the issuer and its accounting policies under that framework.

Pro forma adjustments include the relevant financial information of a business that has been, or is to be, acquired ("acquiree"), or a business that has been, or is to be, divested ("divestee"), to the extent that such information is used in compiling the pro forma financial information ("acquiree or divestee financial information").

1.5.5. Unadjusted financial information comprises financial information of the issuer to which the pro forma adjustments are to be applied.

1.5.6. Pro forma financial information – Financial information is shown together with adjustments to illustrate the impact of an event or transaction on unadjusted financial information as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration.

1.5.7 'Transaction' or "Event" covers both a transaction/event which has already occurred and a proposed transaction/event which has not yet taken place but where the issuer has made a significant commitment, such as a significant financial commitment. A transaction which has already occurred will include one which has occurred since the beginning of the most recently completed financial period for which historical financial information has been published.

1.6 Structure of the guidance

1.6.1. Each of the sections that follow addresses a specific theme relating to pro forma financial information:

- Section 2 focuses on the requirement for information.
- Section 3 includes guidance on the presentation of information.
- Section 4 provides commentary and guidance on the pro forma adjustments made to historical information to illustrate the effect of the transaction.

2. Requirement for information

2.1. Requirements

2.1.1. The compilation of pro forma financial information involves the issuer gathering, classifying, summarising and presenting financial information that illustrates the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at the selected date. Steps involved in this process include:

- identifying the appropriate source of the unadjusted financial information to be used in compiling the pro forma financial information, and extracting the unadjusted financial information from that source;
- making pro forma adjustments to the unadjusted financial information for the purpose for which the pro forma financial information is presented;
- presenting the resulting pro forma financial information with accompanying disclosures;
- adequately disclosing and describing the pro forma financial information to the intended users if these are not publicly available; and
- ensuring the calculations within the pro forma financial information are arithmetically accurate.

2.2. Characteristics of pro forma financial information

2.2.1. Pro forma financial information is a hypothetical illustration of the impact of a transaction(s) on the issuer's assets and liabilities or earnings or cash flows, it does not represent a company's actual financial position or results or cash flow position. Furthermore, pro forma financial information does not purport to represent what the issuer's actual financial position or results would have been had the transaction occurred at the date assumed for the purpose of its preparation.

2.2.2. The issuer of pro forma financial information makes use of information that is already available to the issuer and which has been prepared for other purposes. Such information may come from different sources and relate to different dates or periods, and may not, therefore, be consistent or directly matched. The resultant illustration needs to be read in the context of the general limitations on its preparation and its necessarily limited objective, as well as in light of any specific limitations disclosed within the pro forma financial information. These limitations may include the omission of relevant adjustments because they do not meet one or more of the regulatory criteria. The illustration should also be read in light of the DFPC as a whole.

Applying ‘not misleading’ principle

2.2.3. The principle is that information should not be misleading. The inside cover or at least, on page 1 of the DFPC shall, among others, include a responsibility statement in which the directors confirm there is no false or misleading statement or other facts which if omitted, would make any statement in the DFPC false or misleading.

Evaluating if information is misleading

2.2.4. The requirement that pro forma financial information is not misleading does not imply that it reflects the actual effect of the transaction. To enable issuers to judge whether pro forma information is misleading, they need to identify the purpose of that information. Historical and forecast financial information is part of a range of information that investors use to decide what assessment to make and what action to take, if any, in response to the DFPC. Pro forma financial information provides investors with illustrative information about the impact of proposed transactions on historical information and so may provide some assistance in their assessment. In evaluating whether pro forma financial information is misleading, an issuer should consider, among other things, the relevance of the information to any assessment being made and the actions to be taken on the basis of the DFPC.

2.2.5. In making their judgement, issuers consider the pro forma financial information as a whole having regard to each of the components of the information set out below, within the context of the transaction or transactions that the pro forma financial information is illustrating.

- The introductory narrative explaining the purpose and nature of the pro forma financial information.
- The statements, formats and captions selected for presentation.
- The historical unadjusted information, the pro forma adjustments and the resulting pro forma financial information.
- The notes explaining, inter alia, the sources of information and basis for the adjustments.

2.2.6. Even where pro forma financial information satisfies the regulatory conditions relating to its preparation, it could still be misleading if it gives users of the DFPC a view of the effect of the transaction on the unadjusted financial information contrary to that which ought reasonably to be given if the illustration appropriately reflects the effect and, thereby materially affects users' assessment of the transaction. The action of 'standing back' and considering pro forma financial information having regard to the matters referred to in the preceding paragraphs can safeguard against this risk.

2.2.7. Notwithstanding the guidance set out in paragraphs 2.2.1 to 2.2.6 above, in the event where pro forma financial information must be prepared in accordance with specific regulatory or legislative requirements, the issuer must explicitly state this in the basis of preparation. In this context, the basis of preparation contained within the pro forma financial information must clearly set out the specific regulatory or legislative requirements, the relevant authorities and a statement that the pro forma financial information does not fairly present the financial effects of the proposed transaction.

3. Presentation of pro forma financial information

The presentation of the pro forma financial information shall include consideration of:

- The overall presentation and structure of the pro forma financial information, including whether it is clearly labelled to distinguish it from historical or other financial information;
- Whether the pro forma financial information and related explanatory notes illustrate the impact of the transaction in a manner that is not misleading;
- Whether appropriate disclosures are provided with the pro forma financial information to enable the intended users to understand the information conveyed; and
- Whether the issuer has become aware of any significant events subsequent to the date of the source from which the unadjusted financial information has been extracted that may require reference to, or disclosure in, the pro forma financial information.

3.1 Purpose of pro forma financial information

3.1.1. Disclosure of the purpose for which pro forma financial information is prepared is fundamental to its presentation. The purpose of pro forma financial information is to illustrate the effects of one or more transactions on certain unadjusted financial information or aspects of that information. It should therefore clearly identify the specific transactions and unadjusted financial information involved.

3.1.2. Where the purpose is to illustrate the effect on assets and liabilities, the unadjusted financial information involved is usually a statement of financial position. Where the purpose is to illustrate the effect on earning, the unadjusted financial information involved is usually a statement of comprehensive income.

3.1.3. Where financial information that gives a true and fair view is available for an issuer, the issuer could choose to illustrate the effect of a transaction on all that information. However, it would be highly unusual for an issuer to prepare pro forma information comprising a complete set of financial statements. The provision of more than the primary financial statements could actually frustrate the purpose of the information and give a false impression of its reliability. Issuers should nonetheless consider whether the provision of additional pro forma financial information would serve a useful purpose and whether the selection of specific items for presentation could itself be misleading.

3.1.4. Pro forma financial information must give effect to a transaction as if the issuer had undertaken the transaction, in the case of a statement of comprehensive income, at the commencement of the earliest period being reported on (first day of the period) or, in the case of a pro forma statement financial position at the date of the unadjusted financial information.

3.1.5. A consequence of the requirement in the paragraph above is that a pro forma statement of financial position does not reflect the cumulative impact of pro forma statement of comprehensive income adjustments. By way of example, it is appropriate to assume for the purposes of a pro forma statement of comprehensive income that adjustments will be made on the basis that the proceeds of a share issue or disposal are received at the beginning of the period. The proceeds might then be applied to the repayment of debts so that interest costs are reduced. However, a pro forma statement of financial position at the end of the period will not reflect the benefits of reduced interest costs since, in preparing the pro forma statement of financial position, the issuer assumes that it only receives the proceeds at the statement of financial position date. In such a situation, both the pro forma statement of financial position and the pro forma statement of comprehensive income are mutually exclusive.

3.2 Format of pro forma financial information

3.2.1. An issuer prepares pro forma financial information for inclusion in DFPC relating to a transaction by:

- starting from its unadjusted financial information that is included elsewhere in the DFPC or that has been previously published and released to the public; and
- making adjustments to that financial information to illustrate how it might have been affected had the transaction occurred at the date at which, or the beginning of the period for which, that financial information was prepared.

3.2.2. The unadjusted financial information must be based on the most recent published financial information which has been made available to the public. Correspondingly, the appropriate source from which the unadjusted financial information has been extracted will be the most recent audited financial statements or most recent published or announced interim financial report, which has been reviewed (if permissible by the relevant regulators) by the Reporting Accountant

3.2.3. Depending on how the issuer chooses to illustrate the impact of the event or transaction, the unadjusted financial information may comprise either:

- one or more single financial statements, such as a statement of financial position and a statement of comprehensive income; or
- financial information that is appropriately condensed from a complete set of financial statements, for example, a statement of net assets.

3.2.4. Pro forma financial information is the result of adjusting the issuer's financial information for a transaction(s) or event(s) at a specific date or for a particular period. Even though adjustments can be based on information related to a transaction at a different date or for a different period, the result is still described as pro forma financial information at the date or for the period covered by the unadjusted financial information of the issuer.

3.2.5. Pro forma financial information is normally presented in a columnar format where:

- the first column shows unadjusted financial information for the issuer on which the effect of one or more transactions is to be illustrated;
- subsequent columns reflect pro forma adjustments for the effect of the transaction(s) or event(s). The issuer may aggregate adjustments to simplify the presentation so long as there is sufficient disclosure by way of note to explain clearly the components of each column and, where more than one transaction is involved, the separate effects of each transaction, the inter-conditionality of the transactions; and
- the final column displays the resultant adjusted amounts, i.e. the pro forma financial information.

3.2.6. Issuers should state the sources of the pro forma financial information. Accordingly, the source of the unadjusted financial information must be identified.

3.3 Accounting policies

3.3.1. The policies adopted for pro forma financial information will be those in the unadjusted financial information of the issuer.

3.3.2. The requirement to prepare the pro forma financial information in a manner consistent with the financial reporting framework and the accounting policies adopted by the issuer in its financial statements does not preclude simplification of the presentation where such simplification assists in a clear reading of the pro forma financial information and is consistent with the specific purpose of the pro forma information. Furthermore, the format and purpose of the pro forma financial information meant that disclosures required by the issuer's applicable financial reporting framework which are supplementary to those contained in the primary financial statements do not normally form part of an issuer's pro forma financial information.

Application of acquirer's policies on an acquisition

3.3.3. The requirement to apply the issuer's accounting policies in preparing pro forma financial information applies to pro forma adjustments made concerning an acquisition target. The historical financial information for an acquisition target will be prepared in a form that is consistent with the accounting policies adopted by the issuer in its latest published financial information released to the public which may be its annual audited consolidated accounts (if the issuer is a group) or interim financial announcements.

3.3.4. Difficulties in presenting pro forma financial information are more likely to arise in contested bids when the directors of a proposed acquisition target choose not to recommend the issuer's offer to its shareholders and, in doing so, refuse or severely limit access to information relevant to the target.

3.3.5. The requirement to prepare pro forma financial information on a consistent basis with the accounting policies of the issuer, which is in accordance with the requirements of the Prospectus Guidelines, paragraph 9.22 of Part II Contents of Prospectus, Division 1 Equity – Chapter 9 - Financial Information, and other relevant applicable guidelines on pro forma financial information, is exclusively the responsibility of the issuer, and it is the issuer's inability to obtain the evidence needed to prepare the pro forma financial information on the required basis that precludes its preparation. Such restriction may prevent the preparation of pro forma financial information by the issuer.

3.4 Accounting periods

Coterminous accounting periods

3.4.1. Where a pro forma statement of comprehensive income or pro forma statement of cash flows are presented for an acquisition, the unadjusted financial information about the issuer and the adjustments in respect of the acquired entity should cover periods of the same length.

3.4.2. While desirable, it is not normally necessary to use coterminous accounting periods when preparing a pro forma statement of comprehensive income to illustrate the effect on an acquisition. For example, an issuer may be preparing a pro forma statement of comprehensive income based on its latest 31 December year-end results for inclusion in DFPC. If a 12-month statement of comprehensive income for the business to be acquired is only available up to 30 June prior to the latest 31 December year end, that information could generally be used for the purpose of making an adjustment to derive a pro forma statement of comprehensive income.

3.4.3. Even where businesses are seasonal, the use of non-coterminous accounting periods would not usually distort a pro forma statement of comprehensive income or pro forma statement of cash flows as long as all the information covers a complete year. Nevertheless, where pro forma financial information is presented for an interim period and seasonal factors are significant, coterminous accounting periods may be required to prevent the pro forma financial information from being misleading.

3.4.4. In cases where coterminous financial information for a target is not available to an issuer, but the issuer nevertheless wishes to present its pro forma financial information using coterminous financial information, it may be possible for the non-coterminous financial information of the target to be re-presented on a coterminous basis by the addition and subtraction of relevant period financial information derived from interim or quarterly financial information, or in some cases, management accounts information. Disclosure of the relevant adjustments will usually be included in the notes to the pro forma financial information.

3.4.5. Non-coterminous accounting periods may also be of concern when preparing pro forma statements of financial position. An issuer needs to consider any significant seasonal variations or transactions between the respective reporting dates, that would cause the pro forma financial information to be misleading. In the situation of an acquisition, it might not be appropriate to make adjustments to an acquirer's 31 December information using information relating to the preceding 30 June for the acquired business if it is known that seasonal factors would make the financial position of the acquired business significantly different at 31 December. The issuer should consider whether additional explanatory information would prevent the pro forma financial information from being misleading to the users.

4. Pro Forma Adjustments

4.1 The nature of pro forma adjustments

4.1.1 General considerations

4.1.1.1. Issuers will need to determine which pro forma adjustments are necessary in order to illustrate the effect of the transaction for the purposes of the pro forma financial information. Issuers should ensure that these pro forma adjustments do not create an impression that is materially biased or one-sided.

4.1.1.2. In considering pro forma adjustments to illustrate the effect of a transaction, issuers should give consideration to the full effect of that transaction in the context of the illustration. For example, where the purpose of pro forma information is to show the potential effect of an acquisition on asset backing and profitability, it would be inconsistent and incomplete to include property, plant and equipment in a statement of financial position at their fair values without reflecting depreciation charges based on those values in any pro forma statement of comprehensive income.

4.1.1.3. Similarly, it would be inconsistent and incomplete to illustrate an identified cost reduction without reflecting a consequential cost increase or revenue reduction. For example, where the proceeds of a disposal will be used to fund a debt repayment and this leads to a pro forma adjustment to reduce interest expense, the issuer should also reflect any related increase in its tax charge. Adjustments will not include items such as synergies which relate to future actions. The treatment of synergy benefits is discussed in section 4.2.5 of this Guidance Note.

4.1.1.4. In considering which adjustments to make, issuers must take into account the concept of materiality and focus on those pro forma adjustments which are material to the purpose of the illustration. By making adjustments for immaterial items, directors may give a false impression of the precision and reliability of the resulting pro forma information. Nevertheless, issuers should bear in mind that the materiality of an item is determined not only by its size but also by the qualitative factors of its nature and circumstances.

4.1.1.5. In addition to the general considerations above, it is also important for issuers to take into account the requirements in the relevant laws and regulations issued by regulators in Malaysia in considering whether an adjustment should be reflected or included in the pro forma financial statements. Although such requirements imposed by laws and regulations may not meet the principles of directly attributable and factually supportable in relation to the proposed transaction, the relevant adjustments and disclosures may still be required to be made to comply with the relevant laws and regulations.

4.1.2 Clearly shown and explained

4.1.2.1. It is important that issuers clearly show and explain pro forma adjustments so that investors can understand the underlying basis for these pro forma adjustments. It is also a requirement to identify the source of the adjustment.

4.1.2.2. Disclosure of the pro forma adjustments will involve a combination of the columnar presentation and information presented in the notes. While having a separate column for each adjustment may be desirable in the interest of greatest transparency, there are practical constraints on the number of columns that can be presented in a conventional document format. As a consequence, where there are more than a few potential individual pro forma adjustments, it is normal for the adjustment columns to contain information, with varying degrees of aggregation, reflecting more than one pro forma adjustment. In such cases, further details on the basis for aggregating these adjustments will be presented in the notes to the pro forma financial information.

4.1.2.3. When presenting the pro forma adjustments, the column headings and/or the notes to the pro forma financial information should be designed to achieve a number of objectives, including:

- reference to the purposes of the adjustment;
- details of the sources of the amounts concerned (in some cases this may be achieved by referring to information set out elsewhere in the DFPC);
- where relevant, how pro forma adjustments have been aggregated or allocated to financial statement captions; and
- where alternative outcomes are possible, explanation of the basis adopted for the purposes of the pro forma financial information.

4.1.2.4. The level of detail provided in relation to a pro forma adjustment may vary. In some cases, such as where the pro forma adjustment reflects the addition or subtraction of the net assets of the business to be acquired or disposed of, the purpose will be clear from the context and no further explanation will typically be given. In other cases, for example, where the deal structure involves the retention of certain assets or liabilities, more detailed disclosure may be required concerning what the adjustment relates to.

4.1.2.5. The sources of the pro forma adjustment may be specifically identified by cross reference, such as in the case of the financial information relating to a business to be acquired or disposed of. Alternatively, information that is contained elsewhere in the DFPC may be repeated, for example, details of the expected consideration for the transaction.

4.1.2.6. In some cases, pro forma adjustments presented may comprise the aggregate or net result of a number of pro forma adjustments. An example might be an adjustment to reflect the net proceeds of a fundraising or disposal, which is made up of the gross proceeds after deducting the costs of the fundraising or disposal. Disclosure of the two elements of the net figure would be made in the notes. Where proceeds are stated to be used in part to repay borrowings and in part for general corporate purposes, the notes may explain how the apportionment between borrowings and cash has been determined.

4.1.2.7. Where the form and/or amount of consideration is uncertain, for example, whether to receive consideration in the form of cash or shares, the notes will describe how the existence of the choice uncertainty has been dealt with for the purposes of the pro forma financial information (see paragraphs 4.2.2).

4.1.3 Directly attributable to the transaction

4.1.3.1. The purpose of the requirement that pro forma adjustments must be directly attributable to the transaction concerned is to prevent pro forma financial information reflecting matters relating to the transaction that are not an integral part of the transaction. In particular, pro forma financial information should not include pro forma adjustments which are dependent on actions to be taken once the transaction has been completed, even where such actions are central to the issuer's purpose in entering into the transaction, for example eliminating duplicate facilities after an acquisition.

4.1.3.2. This also ensures that pro forma adjustments are not selectively chosen.

4.1.4 Factually supportable

4.1.4.1. In order to provide assurance as to the reliability of pro forma financial information, pro forma adjustments must be supported by facts. The nature of the facts supporting a pro forma adjustment will vary according to the circumstances. Nevertheless, facts are expected to be capable of some reasonable degree of objective determination. Support might typically be provided by published accounts, other financial information and valuations contained in the DFPC, purchase and sale agreements and other agreements integral to the transaction or event covered by the DFPC.

4.1.4.2. Issuers may be aware of the need to make a pro forma adjustment while lacking the appropriate factual support. In these circumstances, they should bear in mind the stated purpose of the pro forma financial information and consider whether disclosing the omission of the adjustment will be sufficient to prevent the pro forma financial information from being misleading.

4.1.4.3. Where disclosure will not suffice, issuers should either make further efforts to obtain appropriate support or reconsider whether the use of the pro forma financial information to achieve its stated purpose is realistic. Issuers of pro forma financial information should not lose sight of the fact that where the pro forma financial information is included on a voluntary basis, there may be alternative ways of providing information to users of the DFPC, which may include presenting a narrative description. This is particularly important where pro forma financial information may be misleading for reasons that are beyond the control of the issuer. As in other areas of financial reporting, there is sometimes a trade-off between the relevance and reliability of financial information. This may mean that an issuer does not report information that may be relevant because it is not sufficiently reliable. The issuer may need to discuss with the relevant authorities whether the circumstances are such that a dispensation from presenting pro forma financial information will be permitted.

4.1.5 Continuing effects

4.1.5.1. For a pro forma statement of comprehensive income, issuer should identify clearly those pro forma adjustments which are expected to have a continuing effect on the issuer and those which are not.

4.1.5.2. Ultimately, it is the responsibility of investors to make their own individual assessments of future earnings and cash flows. Consequently, it is recommended that an issuer interpret the requirements of MFRS 101 *Presentation of Financial Statements*, MFRS 107 *Statement of Cash Flows* and MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which cover appropriate disclosure of the results and cash flows of continuing and discontinued operations and items of income or expense which are material. Pro forma adjustments related to discontinued operations will not have a continuing effect and should be disclosed as such. Other items should be considered on a case-by-case basis.

4.1.5.3. For the purposes of a pro forma statement of comprehensive income or a pro forma statement of cash flows, the relevant transaction is assumed to have been undertaken at the beginning of the most recent completed financial year. As a consequence, it is normally necessary to regard costs attributable to the transaction as falling to be accounted for in the period to which the pro forma statement of comprehensive income or pro forma statement of cash flows relates. Where such items affect the statement of comprehensive income or statement of cash flows, it would be normal to identify them as items which will not have a continuing effect.

4.2 Issues encountered in making pro forma adjustments

A number of matters that may need to be addressed when considering pro forma adjustments in pro forma financial information are as discussed below.

4.2.1 Transaction costs

4.2.1.1. A pro forma adjustment should be made for costs directly attributable to a transaction that does not relate to future events or decisions and are factually supportable. Sufficient factual support can normally be given by written estimates from advisers which are provided to support estimated transaction costs that are disclosed in total elsewhere in DFPC.

4.2.2 Consideration in cash or shares

4.2.2.1. It may be necessary to make an assumption where there is a choice as to the form in which consideration is received or paid. For example, in a public takeover, it may not be possible to determine in advance the extent to which a mixed cash and shares offer would be taken up in cash or shares. Consequently, an issuer will need to make an assumption about the mix and state that assumption clearly. Any assumption that is made would be determined by the issuer in conjunction with its financial advisers and would need to represent an appropriate basis given the stated purpose of the pro forma financial information. Where the actual outcome could differ materially from that reflected in the pro forma financial information, this should be explained in the notes and, where possible, a quantitative indication of the possible impact on the pro forma financial information given.

4.2.2.2. Where the consideration for an acquisition will be settled by the issue of a specified number of shares, it is necessary to determine which share price should be used to calculate the pro forma adjustment. In the subsequent financial statements, it is most likely that the issue of shares will be recorded by reference to their value at the date of their issue. This value will not be known when the pro forma financial information is prepared. Therefore, the most appropriate value to use is the value at the latest practicable date as this is likely to be the best indication of the effect of the transaction. This should be clearly stated in the related note accompanying the pro forma financial information.

4.2.3 Contingent consideration

4.2.3.1. To the extent that consideration is payable or receivable in the future and is dependent on the outcome of future events, the issuer needs to make an appropriate assumption concerning the most likely amount to be paid. The need to make a best estimate of the amount of contingent consideration that is payable or receivable is a direct consequence of an acquisition or disposal. It would be appropriate to explain, by way of a footnote, that any difference between the estimate and the amount paid will result in a change to the pro forma net assets. The relevant future events determine how accurate such an accounting estimate turns out to be but do not determine whether an estimate needs to be made. Where initial estimates are subject to potentially significant subsequent changes, issuers will need to ensure that appropriate disclosure is made in the notes to the pro forma financial information.

4.2.3.2. It may appear prudent to assume that the maximum amount payable under an acquisition agreement will be paid or that the minimum amount receivable under a sale agreement will be received. However, the overriding requirement is to apply the accounting policies of the reporting entity, i.e. the issuer, and the relevant financial reporting framework. Therefore, it is likely to require that an appropriate estimate be made based on the applicable financial reporting standard given the stated purpose of the pro forma financial information. In circumstances where the impact of paying or receiving additional consideration could be significant, a similar approach to that described in section 4.2.2 should be adopted in dealing with such uncertainty.

4.2.3.3. For these contingent considerations, the issuer should disclose the basis and the assumptions used to derive these estimations in the accompanying note to the pro forma financial information.

4.2.4 Price adjustments

4.2.4.1. There may be occasions where the purchase price will be determined by adjusting a base figure for changes in certain statement of financial position measures, such as net assets or net debt, that occur between an agreed reference date and a completion reporting date. Such adjustments to the purchase price may include dividend payments or the settlement of intercompany balances where the intention is to impact the final transaction price and/or the value that the vendor will realise from the transaction.

4.2.4.2. The base figure for the purchase price used as a basis for the adjustment will normally reflect a reasonable indication of the current expectation of the eventual price and would not ordinarily reflect any anticipated price adjustment. However, where an event that would give rise to a price adjustment has occurred at the time that the pro forma financial information is prepared, consideration should be given as to whether adjusting for that event is necessary to illustrate the financial impact of the acquisition/disposal and, if it is, an appropriate pro forma adjustment should be made.

4.2.5 Synergy benefits

4.2.5.1. It is often the case that acquisitions are justified in terms of the synergies to be obtained from bringing two businesses together, either through savings in costs or through enhanced cross-selling of products and services. Synergies are normally dependent on the future actions of the management of the enlarged group after completion of the transaction. However, such synergies cannot be factually supported and/or directly attributable as these have yet to occur.

4.2.5.2. Consequently, synergies should not be the subject of pro forma adjustments made in preparing pro forma financial information, although it may be appropriate to indicate opportunities for synergy benefits elsewhere in the DFPC.

4.2.6 Cost and revenue eliminations and intercompany balances and trading

4.2.6.1. When considering the bringing together of two or more businesses on an acquisition, it is sometimes possible to identify past costs or revenues that will not occur in future financial periods under the terms of the transaction. For example, levels of remuneration paid prior to an acquisition can be inconsistent with agreements entered into at the time of such transactions. While it may be reasonable to consider eliminating such costs as an adjustment in a pro forma statement of comprehensive income and pro forma cash flows, they will often need to be offset against increases in other costs which the issuer will incur that are not capable of being factually supported. In such circumstances, issuers should disclose past costs or revenues which will not occur in future by way of a footnote to the pro forma financial information or by highlighting them within the unadjusted financial information on the face of the pro forma statement of comprehensive income and proforma statement of cash flows instead of eliminating them through pro forma adjustments.

4.2.6.2. Where there are significant balances between the issuer and the target, or there has been significant trading between the issuer and the target, issuers should consider their impact on the pro forma financial information. To the extent that such balances or trading are readily identifiable, adjustments may be needed to the unadjusted financial information or other appropriate disclosure made as a footnote so that the pro forma financial information is not misleading.

4.2.7 Foreign currency translation

4.2.7.1. It may be necessary to translate adjustments into the reporting currency of the issuer. For a pro forma statement of financial position, the rate applied would usually be the rate ruling at the date of the issuer's unadjusted statement of financial position, even if the target statement of financial position has been drawn up to a different date. In these circumstances, consideration should be given as to whether using the exchange rate at the date of the acquirer's statement of financial position could give rise to an anomalous result because, for example, significant assets and/or liabilities of the target were denominated in the reporting currency used by the acquirer and there had been significant movements in the relevant exchange rate between the respective statement of financial position dates.

4.2.7.2. For a pro forma statement of comprehensive income and pro forma cash flow statement, the issuer would adopt its normal translation policy for subsidiaries. If the issuer uses an average rate, the rate applied for the purposes of making an adjustment would normally be calculated on the basis used by the issuer in preparing its unadjusted financial information for the relevant period.

4.2.7.3. Where the consideration for a transaction is denominated in a foreign currency, it would be usual to translate the adjustment relating to the consideration using the exchange rate at the latest practicable date. Alternatively, if the consideration for the transaction has been fixed due to hedging arrangements, the issuer should account for the hedging instrument based on its accounting policy, whereby the rate applied and the basis for the rate applied should be disclosed in the note accompanying the pro forma financial information.

4.2.8 Transaction proceeds

4.2.8.1. The transaction that is the subject of the DFPC may be a disposal, the effect of which is to provide proceeds that will be used to repay debt. Questions that commonly arise in determining the relevant adjustments are:

- how to allocate the proceeds of the disposal or issue to the repayment of different debt instruments when insufficient funds will be raised to repay all debt; and, conversely
- how to treat any excess of the amount to be received over the debt shown in the unadjusted financial information of the issuer; and
- how to determine the amount of the adjustment where the actual repayment is to be calculated by reference to an amount of debt at a particular date or is a fixed amount and this amount differs significantly from the amount of debt included in the unadjusted financial information that is used in preparing the pro forma financial information. Similar considerations arise where an amount of debt is being capitalised rather than being repaid.

4.2.8.2. Transaction proceeds should be allocated to the repayment of debt instruments on the basis of commitments stated in the document or legally binding obligations existing at the date of the document. A management's intention to use the proceeds for one or more possible purposes would relate instead to future events or decisions and no consequential adjustment would be made to reduce debt balances or interest costs in the pro forma financial information. Cash which is intended to be used for general corporate purposes is generally included as an increase in cash balances. However, where the proceeds will offset short term overdrafts, the cash received may alternatively be presented as a reduction in such overdrafts. Issuers do not generally discount the proceeds to reflect them being received at the beginning of the period concerned.

4.2.8.3. Where the transaction proceeds result in an increase in cash balances, it is normally inappropriate to make an adjustment to reflect interest or other income which those cash balances might generate. This is because management has discretion over how to use those cash balances. Exceptions would only arise where an issuer states an intention to invest funds in a particular way which meant that it could demonstrate that income would be earned and could quantify it. Issuers should draw investors' attention to the treatment of transaction proceeds where they consider it to be of particular significance in helping investors understand the issuer's prospects.

4.2.8.4. A transaction may be undertaken in order to reduce a debt balance to zero. For the purposes of pro forma financial information, the amount of existing debt included in the unadjusted financial information may differ significantly from the actual amount that will be repaid or capitalised as a result of the transaction. This may occur due to other transactions, including normal trading, that has taken place since the unadjusted financial information date and are therefore not reflected in the pro forma financial information. In the case of a pro forma statement of financial position, this may result in the pro forma financial information containing a residual debt balance or an excess cash balance according to whether the balance in the unadjusted financial information is greater than or less than the actual outstanding debt balance as at the date of the transaction.

4.2.8.5. It is not appropriate for the pro forma financial information to seek to introduce pro forma adjustments that are not directly attributable to the transaction, such as subsequent movements in balances shown in the unadjusted financial information, but the issuer may consider that in a particular situation it would be misleading not to do so (see paragraph 4.2.11.1 for further detail). It is also not appropriate for the pro forma financial information to introduce hypothetical transactions, such as additional payments. The objective of the pro forma financial information is not to illustrate the resultant financial position of the company, but to illustrate the effect of the actual transaction on a hypothetical basis, i.e., as if it had occurred at an earlier date. The issuer should consider including additional disclosure, for example, to explain that the resultant debt balance will not be indicative of the balance that would be reported immediately subsequent to the transaction taking place. As in all cases, consideration needs to be given to whether, notwithstanding the disclosures made, the pro forma financial information may be misleading.

4.2.9 Fair values

4.2.9.1. An issuer using MFRS that enters into a business combination will need, as a direct consequence of the transaction, to ascertain the fair values of the underlying assets and liabilities of the business that is treated as the acquired entity in accordance with MFRS 3 *Business Combinations* and MFRS 13 *Fair Value Measurement*. However, the extent of factual support for potential fair value adjustments will often be a key issue in determining whether an issuer can reflect them in pro forma financial information. Factual support may be provided through formal valuations which the issuer commissions or carries out either for commercial purposes or to satisfy other regulatory requirements in respect of the DFPC. In calculating fair values, issuers use the actual price paid or expected to be paid, determined as set out in sections 4.2.2 to 4.2.4 of this Guidance Note.

4.2.9.2. The exercise undertaken to arrive at the fair value of intangible fixed assets and the subsequent amortisation and impairment of these intangible fixed assets very often requires a degree of judgement and the use of assumptions. The purchase price allocations may be deemed to be 'factually supportable' for the purposes of adjustments in arriving at pro forma financial information, i.e., on a basis consistent with that which the issuer would use in its financial statements if the issuer:

- sets out in the explanatory notes as transparently as possible the basis adopted in making the purchase price allocations;
- specifies any assumptions used;
- quotes the relevant supporting evidence, such as the sale and purchase agreement; and
- indicates, where relevant, that the purchase price allocation is preliminary and discloses what events are expected to occur to complete the exercise and the potential impact of any reallocation.

4.2.9.3. To ensure that pro forma financial information is not misleading, issuers should weigh the following factors when considering whether they need to record fair value adjustments:

- The nature of the acquisition and its commercial justification (e.g., there is an expectation that asset-based deals would be more likely to require fair value adjustments than those involving significant amounts of goodwill).
- The extent to which uncertainties regarding fair values are commercially addressed through warranties, indemnities or adjustments to the purchase consideration (e.g., the fair valuation of environmental liabilities or pension surpluses/liabilities might not be significant for a pro forma statement of financial position if any fair value adjustments are compensated by changes in the consideration paid by the issuer).
- The stated purpose of the pro forma financial information and the consequential significance of any misallocation of the purchase consideration between, on the one hand, assets and liabilities that would be subject to a fair valuation exercise and subsequent amortisation and, on the other hand, goodwill. This might be significant if a pro forma statement of comprehensive income were being presented.

- The likely materiality of fair value adjustments based upon the issuer's investment appraisal and acquisition due diligence.
- Any other matters described elsewhere in the DFPC that have been brought to the attention of investors and which indicate that a fair value adjustment might be material.

4.2.9.4. Where it has been decided that adjustments will be made to reflect fair values, consideration needs to be given as to how to obtain relevant information on which to base the adjustments. For the purpose of preparing future financial statements reflecting the actual transaction, fair values will be determined initially at the effective date of the acquisition and may then be subject to further revision. For the purposes of pro forma financial information, the issuer will need to consider whether there is factually supportable information relating to fair values that will be suitable as a basis for an adjustment.

4.2.9.5. Where such factually supportable information is available for more than one date, it will generally be appropriate to use the most recently available information on the basis that this is likely to be most indicative of the actual fair value adjustments that will be made. Where such information is only available at an earlier date (for example where an independent property valuation had been carried out at the target's reporting date), it may be acceptable to make adjustments based upon that information, provided that there is no evidence to suggest that there had been a change subsequent to that date such that its use would cause the pro forma financial information to be misleading.

4.2.9.6. A potential consequence of using valuations as at dates subsequent to the target's reporting date is that they may relate to assets and liabilities that are different from those reflected in that statement of financial position. For example, assets may have been acquired or disposed of since the reporting date. Where such acquisitions or disposals are not directly attributable to the transaction, they will not have been reflected as adjustments in the pro forma financial information. As the objective of the pro forma financial information is to illustrate the effects of a specific transaction, in such circumstances consideration should be given as to whether the proposed adjustment is likely to be indicative of the actual fair value adjustment that will subsequently be made. If it is concluded that it is not, or that it is unlikely to be the case, consideration should be given as to whether a further adjustment can be made and/or disclosure included to rectify this if it is material to an understanding of the pro forma financial information.

4.2.9.7. Where issuers judge that fair value adjustments are unlikely to be material in the context of the stated purpose of pro forma financial information, such adjustments are not necessary. For example, where a pro forma statement of financial position is intended to illustrate the impact of an acquisition on gearing, as opposed to tangible net assets per share, then any misallocation of the purchase consideration between goodwill and a fair value adjustment on properties is unlikely to be significant. In such a case, issuers should make appropriate disclosure in the notes to the pro forma financial information. In other circumstances, issuers may need to record fair value adjustments, supported as appropriate, by note disclosure of their provisional nature and any related uncertainties and contingencies.

4.2.10 When the issuer is a Newco

4.2.10.1. In some instances, a transaction may involve an issuer which is a newly incorporated holding company (Newco), created as the new parent company of an existing trading company or group (Oldco). As a consequence, the DFPC will usually be required to include relevant financial information relating to Oldco. Such information should be deemed to relate to the issuer. Where the Newco has not traded or entered into any transactions since incorporation, issuers may be permitted not to present any financial information for Newco for inclusion in a DFPC. Instead, the DFPC will usually include a statement that Newco has not traded or entered into any transactions since incorporation. Issuers may also include a statement that no financial information for Newco has been audited.

4.2.10.2. In the context of such a transaction, issuers may be required to include pro forma financial information in the DFPC to illustrate the effect of an acquisition. In presenting unadjusted financial information, they may present Oldco's financial information where Newco has not traded or entered into any transactions since incorporation.

4.2.11 Reflecting other transactions

4.2.11.1. Issuers may wish to make pro forma adjustments to reflect other transactions which have taken place since the latest statement of financial position date but are not directly attributable to the proposed transaction. Issuers should consider the purpose of this and the need for this not to be misleading in deciding whether to make pro forma adjustments for other transactions.

4.2.11.2. The requirement that the resulting information is not misleading precludes cherry-picking transactions for which pro forma adjustments are made.

4.2.11.3. It is highly likely that other transactions would only be permitted to be reflected as pro forma adjustments if there are specific regulatory or legislative requirements. In such events, the guidance as set out in paragraph 2.2.7 should be used as a reference by the issuer.

4.2.12 Tax and similar effects

4.2.12.1. Issuers should consider the tax effects of pro forma adjustments directly attributable to a transaction, along with other non-discretionary effects such as any material impact on profit-related bonuses. In quantifying tax effects, issuers should look at the incremental impact on tax liabilities and assets using their accounting policies for taxation rather than simply applying their overall effective tax rate.

4.2.13 Subsequent events

4.2.13.1. Other than where a subsequent event qualifies as an adjusting event under MFRS 110 *Events After the Reporting Period* and is reflected in the unadjusted financial information of the issuer or an acquisition target, it should not be reflected in pro forma financial information unless it is relevant to the transaction and qualifies to be reflected as a pro forma adjustment in accordance with the relevant laws and regulations.

4.2.13.2. If an issuer believes that pro forma financial information would be misleading if it does not reflect subsequent events which are significant non-adjusting events after the end of the reporting period (as defined in MFRS 110) which are relevant to an understanding of the matters addressed in the pro forma financial information given the purpose for which the pro forma financial information is being presented, it should consider whether these events qualify as adjustments to the pro forma financial statements in accordance with the relevant laws and regulations and disclosure of the events in the notes to the pro forma financial information could be made which would prevent the pro forma financial information from being misleading.

4.2.13.3. It is a practice to draw attention to the approach taken concerning subsequent events by making a disclosure in the notes to pro forma financial information to the effect that it does not take account of any trading or transactions (other than those specified) subsequent to the date of the unadjusted financial information included in the pro forma information.