

UKLA FCA Technical Note

The sponsor's role on working capital confirmations

UKLR 8
UKLR 24.3
UKLR 24.4

In relation to working capital statements included in a prospectus or other disclosure document referred to in UKLR 4.2.1R(1) or UKLR 24.3.1R, a sponsor is required to confirm – in the case of an application for admission to listing, and the production of a class 1 or certain other types of circular – that it has come to a reasonable opinion, after having made due and careful enquiry, that the directors of the issuer have a reasonable basis on which to make the working capital such statement. The sponsor's role is to provide assurance to the UKLA FCA that the directors of the issuers have fulfilled their responsibilities under the Prospectus Regulation Rules and the UK Listing Rules.

A sponsor is expected to apply its judgement, experience, knowledge and expertise on the Prospectus Regulation Rules, the UK Listing Rules; and the Disclosure Guidance Requirements and the Transparency Rules when deciding whether the directors of an issuer has have a reasonable basis on which to make the working capital statement. To do this, the sponsor must have regard to the issuer's circumstances and the context of the transaction.

This role is in addition to the part played directly by the directors of the issuer or by any reporting accountant appointed by the issuer. in the working capital exercise. ~~This is not to say that~~ Third party work cannot be used to help a sponsor come to a reasonable opinion that the directors of the issuer have a rational reasonable basis on which to make the working capital statement. However, a sponsor need not presume that a working capital report, prepared by a reporting accountant, is required in all cases. The decision as to the nature, scope and extent of any additional procedures or reporting required to enable the sponsor to come to its opinion is an important aspect of the sponsor's judgement.

Where reliance on third-party work is performed, reliance on that work alone will not be sufficient evidence that a sponsor has discharged its obligation to make due and careful enquiry. Specifically, the sponsor must review, consider and challenge; (where appropriate); the work done by the issuer and any reporting accountant and, through its own knowledge and experience of the issuer and ~~its~~ the issuer's operating environment, ensure that the conclusion reached on the issuer's working capital position is the right one under the circumstances.

Where a sponsor has considered and is satisfied with the scope of an expert's work and receives draft and final reports in line with that scope which do not reveal matters warranting further discussion or challenge, it will be sufficient to make a brief contemporaneous note of these judgements and the basis for them. We are aware that, in response to our supervisory reviews, some sponsors feel pressure to provide evidence to demonstrate challenge to expert reporting, even where they are satisfied with the comfort that the report provides. We do not wish to encourage this practice, and ask sponsors to simply exercise, and demonstrate through a contemporaneous record, their judgement when relying on third party reporting.

We do not intend the wording of LR 8.4.2R(5), LR 8.4.8R(3) and LR 8.4.12R(3) to affect the obligations imposed on sponsors regarding the working capital statement. Given this, it is reasonable that we also do not expect that a reasonable sponsor should necessarily undertake more (or indeed less) work than it would already to make the new confirmation to us. What is important for us in reviewing the role a sponsor has played in a transaction will be recognition on the part of the sponsor of its role in the working capital exercise and evidence for it having carried out that role. To this end, a sponsor Sponsors should be aware of the need to have in place and maintain effective record-keeping arrangements in relation to working capital in accordance with LR 8.6.16AR UKLR 24.4.24R to LR 8.6.16CG UKLR 24.4.26G. Sponsors should refer to UKLA/TN/717.1 for further guidance on the application of record keeping requirements.