ONE ADVISORY

Financial Position and Prospects Procedures (FPPP)

1. Introduction

FPPP's are crucial

Directors are responsible

- Completion of a board memorandum (Memo) on the Financial Position and Prospects Procedures (FPPP) of an applicant is a crucial part of London's IPO process. Directors of applicants to either the AIM Market or Main Market of the London Stock Exchange (LSE) are responsible for ensuring that they have established procedures which provide a reasonable basis for them to make proper judgements on an ongoing basis.

Appropriate for a Plc

- Essentially this means that the directors, including NEDs, must ensure that the FPPP includes procedures for establishing and reporting the company's financial position and prospects are appropriate for a London public company.

2. Typical areas included in a FPPP Memo are:

- high-level reporting environment;
- forecasting and budgeting;
- management reporting framework;
- significant transaction complexity, potential financial exposure or risk;
- strategic projects and initiatives;
- financial accounting and reporting; and
- IT environment.

Recent high-profile cases of inadequate FPPP

Some FPPP require assurance opinions

- FPPP Memos have risen in their importance recently due to several high-profile companies having hit the headlines in part to having inadequate FPPP Memos resulting in the loss of hundreds of millions in value for shareholders and lost jobs for employees. Increasingly, the Reporting Accountant is now being asked to issue an assurance opinion on the FPPP and a standalone FPPP long form report separate to their wider long form report, at the request of the AIM Nominated Advisor (Nomad) or LSE Sponsor.

All directors, including NEDs, sign off the FPPP

- At IPO, the Reporting Accountant, the Nomad (or Sponsor) sign off on the FPPP prior to sign off by the directors, therefore it is the directors responsibility to ensure they have properly assessed the risks and requirements of the business to establish adequate controls to mitigate risks and aid ongoing reasonable decision making in line with the latest corporate governance and compliance guidelines. All directors have responsibility for FPPP sign off prior to the IPO.

FPPP will need updating post IPO to changes in an organisation

- Post-IPO, the directors have responsibility for ensuring controls are monitored and adapted, if necessary, on an ongoing basis in line with any changes within the business. If, for example at IPO, the company has an expectation of high growth in the period post-IPO through either organic growth or acquisitions, then there is an expectation that the financial procedures and controls should be adapted as operations increase in complexity. These expectations and plans to adapt controls are detailed in the FPPP Memo at IPO, and the document should be amended to reflect these changes when they take place. T

FPPPs are live documents

- The FPPP Memo is a live document, and the directors should plan regular assessments of the document, for instance a full annual review prior to the annual audit, with brief quarterly reviews.

Risks

- *Personal liabilities*
- *LSE disciplinary action*
- *Resignation of NOMAD*
- *Failing corporate governance*
- *Delays in audit sign off*

3. Risks of an out of date FPPP include:

- potential personal liability for the directors if current procedures do not provide a reasonable basis for them to make proper judgements on an ongoing basis as to the FPPP of the company;
- potential disciplinary action taken by the LSE if adverse market announcements are deemed to be as a result of not maintaining an up to date FPPP Memo;
- resignation of an AIM company's Nomad or delay in onboarding of a company's new Nomad;
- non-compliance of the company with their chosen corporate governance code (e.g. QCA code);
- delays by auditors signing a company's annual audit report if the company's controls are not deemed to be operating effectively or may require increased substantive testing at additional cost; and
- and non-compliance with Rule 31 of the AIM Rules for Companies.

Benefits

- *Lower costs*
- *Improves culture*
- *Efficiencies*
- *Reduces risks*

4. Benefits of an up to date FPPP include:

- an efficient and lower-cost IPO or material corporate transaction post IPO;
- encourages new directors and employees to join the company; qualified, motivated candidates are attracted to a company with a culture of robust financial controls and clear processes.
- Ongoing reviews of processes may result in the company benefitting from efficiencies that may not have been realised otherwise; and
- Continual reviews of FPPP Memos results in lowering the risks of material misstatement/error/fraud or other risks not readily evident

- *Prioritise FPPP*
- *ONE Advisory expertise*

5. ONE Advisory expertise

- At the outset of an IPO, the directors should ensure adequate time and resource is given to the FPPP, that all procedures are considered in detail and documented effectively. The FPPP Memo should be started early in the process so that any control gaps or missing policies can be established in sufficient time prior to listing. This will reduce potential delays and contribute to an efficient and successful IPO process.
- ONE Advisory is the market leader in providing FPPP services to London's capital markets.
- For further guidance on the options available to you please contact info@oneadvisory.london.

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