



Snapshot

by Capital Markets & Accounting Advisory Services (CMAAS)

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MIA's Exposure Draft: Guidance Note for Issuers of Pro Forma Financial Information

The Malaysian Institute of Accountants ("MIA") has recently issued an exposure draft ("ED") providing guidance to issuers of Pro Forma Financial Information ("PFI") for inclusion in documents for public circulation such as prospectuses, circulars to shareholders and information memorandum. The ED is open for comments until 9 March 2020. A list of frequently asked questions ("FAQs") is also included to illustrate the principles in the Guidance Note ("GN")



What is PFI?

- The PFI illustrates the hypothetical impact of an event or a proposed transaction on a company's financial position, earnings or cash flows, as if the event had occurred or the proposed transaction had been undertaken at an earlier date selected for purposes of the illustration.
- PFI is not a forecast and hence does not purport to represent what a company's actual financial position and performance will be like had the transaction occurred at the date assumed for the purpose of its preparation.



How should PFI be prepared?

- Must not be misleading to readers
- Each pro forma adjustment must be:
 - Clearly shown and explained
 - Directly attributable to the event or proposed transaction
 - Factually supportable
- No cherry-picking transactions for which pro forma adjustments are made
- The GN also provides guidance on the following complex matters in the PFI in relation to:
 - 1) Determining the appropriate share price to be used in a proposed acquisition when the consideration is to be settled in shares
 - 2) Basis used to determine the amount for contingent consideration
 - 3) Determining the foreign currency translation rates
 - 4) Determining the appropriate fair values of the underlying assets and liabilities in a proposed business combination
 - 5) Tax impact arising from pro forma adjustments



Illustration of core principles of PFI

A list of FAQs is included to illustrate the principles in the GN. The FAQs provides guidance on a variety of topics including, amongst others, the following:

- PFI should not illustrate assumptions or transactions that are not factually supportable such as (a) utilisation of IPO proceeds for capital expenditure when there is no such contractual commitment and (b) future exercise of warrants as the future exercise is not contractually binding and hence, outcome of such transaction is uncertain
- PFI should not illustrate assumptions or transactions that are not directly attributable such as (a) drawdown of loan after year end and (b) dividends paid after year end

Pro forma adjustments which do not meet the criterion of 'directly attributable' or 'factually supportable' can only be illustrated if there are specific regulatory requirements such as in Bursa Malaysia's Main Market Listing Requirements or Securities Commission's Prospectus Guidelines.



Issuers are encouraged to assess the implications and submit their comments to MIA at ilham@mia.org.my by 9 March 2020

Do you need further information on this topic?

Refer to the Exposure Draft [here](#); or
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