

UKLA Technical Note

The Sponsor's role on working capital confirmations

Ref: UKLA / TN / 704.1

LR 8

In relation to working capital, 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 statement. The sponsor's role is to provide assurance to the UKLA that the directors of the issuer have fulfilled their responsibilities under the Listing Rules.

A sponsor is expected to apply its judgment, experience, knowledge and expertise on the Listing Rules and Disclosure and Transparency Rules when deciding whether an issuer has 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 a 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 basis on which to make the working capital statement. However, reliance on third-party 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 and challenge the work done by the issuer and reporting accountant and, through its own knowledge and experience of the issuer and its operating environment, ensure that the conclusion reached on the issuer's working capital position is the right one under the circumstances.

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 should be aware of the need to have in place and maintain effective record-keeping arrangements.

Please note that we published changes to the record-keeping requirements for sponsors in CP12/25. These new requirements came into force on 31 December 2012.