



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

28 February 2012

The Chief Executive
Financial Markets Authority
Level 8, Unisys House
56 The Terrace
PO Box 1179
WELLINGTON 6011

Attention: Sean Hughes

Dear Sean

Consultation Paper: Request for Feedback – Guidance Note: Effective Disclosure

The External Reporting Board (XRB) is pleased to submit its comments on the Financial Markets Authority's Consultation Paper on Guidance Note: Effective Disclosure.

Our comments, set out in the attachment to this letter, focus on matters that relate to financial reporting. We make no comment on other matters in the Consultation Paper.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Tony Dale', is written over a light blue horizontal line.

Tony Dale
Chief Executive

Submission on FMA's Consultation Paper: Guidance Note: Effective Disclosure

Submission by:

Company or entity: External Reporting Board

Organisation type: Statutory body

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Total pages: 4

Date: 28 February 2012

Guidance note para or table	Consultation question	Submission	Recommendation	Statutory references, if applicable
	1	The guidance should also apply to other disclosure documents associated with the offer, for example it should also apply to advertisements, to ensure that there is consistency in the manner in which an offer “package”, including any financial information, is presented to potential investors.	That the Guidance Note applies to all disclosure documents associated with an offer.	
	2	We agree with “clear and concise” as the standards of effective disclosure. We also suggest that, similar to the general requirement in financial reporting, the information disclosed should also be relevant to investors. Information may be clear and concise but not necessarily relevant. Effective disclosure is the result of clear, concise and relevant disclosures.	That “relevant” be added as a standard for disclosure.	
40 last sentence		In financial reporting, disclosure is only required when an item is considered to be material. We suggest the rewording of the sentence to state that only material, significant and relevant risks should be disclosed.	That the last sentence of paragraph 40 be reworded to state that only material, significant and relevant risks should be disclosed.	

Guidance note para or table	Consultation question	Submission	Recommendation	Statutory references, if applicable
43-47	17, 18	We consider that the Guidance Note should require issuers to use the definitions of “related party” and “related party transactions” in NZ IAS 24 <i>Related Party Transactions</i> . As the terms “related party” and “related party transactions” are defined terms in NZ IAS 24, we consider that issuers should be prohibited from using different definitions for those terms. Using defined and generally accepted definitions in different ways may lead to the disclosure of inconsistent, non-comparable and/or confusing information between offer documents and subsequent financial statements. We agree that issuers should disclose additional relevant information about transactions with parties that may be perceived to be related but this should not over-ride the NZ IAS 24 definitions or the information required to be disclosed under NZ IAS 24.	That issuers be required to use the definitions of related party and related party transactions in NZ IAS 24 and be prohibited from using different definitions.	
52		The components of a complete set of financial statements are the statement of financial performance/comprehensive income, the statement of financial position, the statement of cash flows and notes to the financial statements. As such, we consider that as a minimum, cash flows should also be a key component of the financial information of an issuer.	That cash flows be added as a key component of the financial information of an issuer.	
Table X		We agree with the requirement that summary financial information must comply with FRS-43 <i>Summary Financial Statements</i> . We do not consider it appropriate that summary financial statements should be prepared under any other “professional or industry” standard.	That summary financial statements must comply with FRS-43.	

Guidance note para or table	Consultation question	Submission	Recommendation	Statutory references, if applicable
		We are concerned that this may lead to the disclosure of inconsistent, non-comparable and/or confusing information between the offer documents and financial statements.		
Table XI		<p>We agree with the requirement that prospective financial information must comply with FRS-42 <i>Prospective Financial Statements</i>. We do not consider it appropriate that prospective financial statements should be prepared under any other "professional or industry" standard. We are concerned that this may lead to the disclosure of inconsistent, non-comparable and/or confusing information between the offer documents and financial statements.</p> <p>As FRS-43 <i>Summary Financial Statements</i> relates to historical financial statements, we do not consider it appropriate for prospective financial information to also comply with FRS-43 as stated in Table XI.</p>	That prospective financial information be required to comply with FRS-42 only.	
70-74		<p>We suggest that the term "extraordinary" not be used. The term was a defined term in accounting literature but is now not used because it was open to abuse. We are concerned that its use in the Guidance Note will have similar consequences. Moreover, if an entity's ordinary business is limited to investments, any other business it is involved in would not be in its "ordinary" course of business and therefore could always be considered extraordinary to its investment business. We suggest the replacement of the term "extraordinary" with the term "material non-recurring".</p>	That the term "extraordinary" be replaced with "material non-recurring".	
Table XVI		We note that the Standards FRS-42 and FRS-43 are taken to mean those	That FRS-42 and FRS-43 should be	

Guidance note para or table	Consultation question	Submission	Recommendation	Statutory references, if applicable
		two Standards as published by the New Zealand Institute of Chartered Accountants. We consider that the reference should be to the External Reporting Board, not the New Zealand Institute of Chartered Accountants.	taken to mean those two Standards as issued by the External Reporting Board.	

Submission Summary:

Our comments focus on matters that relate to financial reporting. We make no comment on other matters.

We consider that where relevant financial reporting standards exist, information in offer documents should be prepared in accordance with those financial reporting standards. This would prevent the inconsistent use of defined terms and inconsistent and non-comparable disclosures between offer documents and subsequent financial reports. Issuers should be prohibited from using other definitions or replacing disclosures required by financial reporting standards to ensure consistency in the types of information that is disclosed. Issuers are required by law to include any other information to ensure that the information they present is true and fair and not false or misleading. Such additional information should not extend to the use of alternative definitions from those in financial reporting standards or disclosures that replace those prescribed in those standards.