



31 July 2017

External Reporting Board
By email: submissions@xrb.govt.nz

Exposure Draft NZAuASB 2017-1: Proposed Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client

NZX Limited ('**NZX**') refers to the exposure draft 'NZAuASB 2017-1: Proposed Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client' (the '**Exposure Draft**') published by the External Reporting Board ('**XR**B'). We would like to thank the XRB for the opportunity to make a submission. NZX limits its comments on the Exposure Draft to the proposed auditor rotation changes.

NZX agrees it is important for New Zealand's auditor rotation requirements to be of a high standard and, to the extent practicable, to align with international codes. Given the large number of companies listed on both NZX and ASX another important consideration in the New Zealand context is to ensure alignment with the position in Australia to the extent practicable.

Changes to sections 290 and 291 of the New Zealand Professional and Ethical Standard 1

NZX is interested to see the outcome of this review, and what the market preference is for auditor rotation periods regarding the new proposed seven year "time-on" period and increasing the mandatory "cooling off" period from two to five years cycle to match the International Code of Ethics. We note that lengthening the time between rotations may reduce the pressure on an already small pool of auditors and issuers within New Zealand.

As noted above, a number of issuers are listed on both the NZX and ASX exchanges. In Australia, the Corporations Act 2001 establishes both a "time on" and a "cooling off" period that differs from international requirements for listed entities. There are 30 companies that are listed on both the NZX Main Board and the ASX Main Board, who have the status of 'Foreign Exempt' companies on the ASX. The impact of a Foreign Exempt listing status is that these companies do not need to meet the majority of ASX's requirements. As a result, these companies will need to meet the NZX requirements in relation to auditor rotation but we need to better understand how this interacts with any auditor rotation requirements under the Corporations Act 2001. The total number of dual listed issuers is approximately 35 (both Foreign Exempt and ASX Standard Listed issuers). Alignment between regimes in New Zealand and Australia will remain a concern for dual listed companies.

There will be a difference between the maximum number of years an auditor has "time on" under PES1 (7 years) and NZX's current rules (5 years). This means that any public interest entity who is listed must meet the lower NZX requirement.

NZX Main Board Listing Rule Review

In August 2016, NZX sought views on whether auditor rotation timeframes should be updated from five to seven years "time-on". Many who responded were broadly comfortable

with the current five year audit partner rotation requirement but noted that extending the timeframe to seven years would align with the underlying ethical standards by the XRB PES1. In addition, a number of submitters highlighted that NZX should not seek to impose requirements in this area given the separate legal requirements.

NZX intends to commence a review of its Listing Rules this year and will raise this matter as part of the review. We plan to release an initial consultation paper in September 2017 and it will be helpful for NZX to consider the feedback received to XRB's current review as part of our review process.

NZX's rules are currently silent about a "cooling off" period in respect of auditor appointments. While we did not raise the question of introducing a "cooling off" period at that time, this is something we can consult on with stakeholders in the context of the NZX Main Board Listing Rule review. We will consider the impact of transitional relief for issuers as part of the consultation process.

NZX again thanks the XRB for the opportunity to submit comments on the Consultation Paper and is happy to discuss any of these comments further.

Yours sincerely

A handwritten signature in blue ink, appearing to read "H Macdonald".

Hamish Macdonald
General Counsel and Head of Policy