



15 November 2017

Hamish MacDonald
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Dear Hamish

Consultation Paper: *NZX Listing Rules Review – Discussion Paper*

The External Reporting Board (XRB) is pleased to have the opportunity to comment on the NZX's *NZX Listing Rules Review – Discussion Paper* (Discussion Paper).

The XRB is an independent Crown Entity responsible for financial reporting strategy and the development and issue of accounting and auditing & assurance standards in New Zealand.

General Comments

We support the NZX's objectives for the review of its Main Board/Debt Market Listing Rules (Listing Rules) as set out in the Discussion Paper. We agree it is important to modernise and future-proof the Listing Rules so that they are customer-focussed and can better accommodate a wider range of products and issuers. We also support the simplification of the Listing Rules to make them more flexible to maintain, easier to use and reduce unnecessary compliance costs. We consider this is appropriate given the size of the New Zealand market and the size of New Zealand entities.

The NZX has a critical role, through its Listing Rules, to build confidence in, and grow, the listed market and to ensure adequate investor protection. We encourage the NZX to use this opportunity to ensure the requirements of the Listing Rules are robust, up-to-date and reflect emerging international trends and best practice.

Specific Comments

Our comments focus on matters relating to the overall structure of the proposals. We make no comment on the aspects raised in the Discussion Paper relating to specific rule settings for the different classes of issuers.

Proposed market structure, updated Rules and differential standards

We support the NZX's proposals to consider an updated market structure, to update the Listing Rules and to have differential requirements for different types of issuers and product classes.

We support the NZX considering options for organising the Listing Rules into a more structured, fit-for-purpose and modular format. We agree a modular approach would also support NZX's intention to have more flexible rules for the future. A modular approach will future-proof the Listing Rules, enabling the NZX to maintain key and common obligations across issuers but having the ability to add specific requirements for different issuers and/or products in the future.

We agree the current approach to differential requirements for equity issuers via three separate markets and rule-sets is unduly complicated for a small New Zealand market. We therefore support the NZX considering differential requirements for different classes of equity issuers within a single market. In particular, we agree with the NZX's preferred option to have a single equity market and single set of rules, with differential requirements for smaller equity issuers.

The NZX's preferred option is similar to the XRB's approach to the Accounting Standards Framework Tier Structure used by entities applying our accounting standards¹. For example, in the for-profit sector, entities meeting specified Tier 1 criteria must apply the full requirements of accounting standards (that is NZ IFRS). Entities that do not meet the Tier 1 criteria may opt to report applying certain disclosure concessions under the reduced disclosure regime (NZ IFRS RDR). This tiering system within a single set of accounting standards has worked well for our reporting entities. The ease of entities moving between the Tiers (in terms of familiarity and costs) when their Tier criteria change was a consideration in the XRB adopting the RDR approach.

NZX regulatory framework

We agree with the proposed NZX regulatory framework comprising principles-based Listing Rules that are flexible in their application to allow a diverse range of issuers to achieve the outcomes that are sought by the rules, without unnecessary rigidity or compliance costs. We consider it useful to have supporting templates to reduce the ambiguity of regulatory requirements where possible and guidance and practice notes to assist users in interpreting their obligations.

The NZX's proposed structure is also similar to the manner in which the XRB approaches its standard setting structure – principles-based standards, supported by explanatory guidance, practice notes and templates, as necessary. We think this works well, based on the majority of constituent comments we receive.

Options for Differentiation

We note the two options proposed by NZX for approaching the differentiation of requirements:

- “Option One – mandated, eligibility based segmentation – for example, all companies within the S&P/NZX 50 (or equivalent, if the index is extended), or of a certain market capitalisation, are subject to full compliance requirements. All other companies are subject to more flexible requirements.” and

¹ The XRB's Tier Structure is set out in XRB A1 [Application of the Accounting Standards Framework](#).

- “Option Two – self-selected, subject to eligibility - companies who meet the eligibility criteria (e.g. size, stage of development and track record) can elect to meet the highest standards. All other companies (either because they don’t meet the criteria or elect not to do so) are subject to more flexible requirements.”

The NZX could consider an approach that combines both options, taking into account the advantages each option brings. For example, as proposed in Option One, there should be some entities that are subject to mandatory full compliance based on specific eligibility criteria (eg inclusion in an index etc). All other entities that do not meet the eligibility criteria should be given the option to self-select and opt into full compliance. This ensures greater comparability for investors in the top tier entities and provides for greater certainty to those top tier entities on the set of requirements they must apply. The self-select option for the other entities gives those entities greater control and choice over the set of requirements they wish to apply.

The combination of mandatory and self-select options is similar to the manner in which the XRB has approached the Tier Structure that applies to entities using our accounting standards. As mentioned above, entities meeting specified Tier 1 criteria must apply the full requirements of accounting standards. Entities that do not meet the Tier 1 criteria may apply the full requirements of Tier 1 accounting standards or opt to report under a lower tier.

Notwithstanding the option adopted, we agree with the NZX that there should be appropriate labelling and disclosure of the set of requirements the entity has applied and entities should provide sufficient notice to investors of any movement between the tiers.

Audit requirements

In relation to audit requirements, we appreciate the opportunity to continue to engage with the NZX on the auditor rotation requirements to ensure a workable solution for New Zealand entities.

If you have any queries or require clarification on any matters in this submission, please contact Lay Wee Ng (laywee.ng@xrb.govt.nz) or me.

Yours sincerely



Graeme R Mitchell
Chairman
External Reporting Board