



4 May 2012

Head of Primary Regulatory Operations
Financial Markets Authority
Level 8, Unisys House
56 The Terrace
PO Box 1179
WELLINGTON 6011

Attention: Sue Brown

Dear Sue

Draft Guidance Note: Effective Disclosure

1. The External Reporting Board (XRB) is pleased to submit its comments on the Financial Markets Authority's (FMA) Draft Guidance Note: Effective Disclosure.
2. Our comments in this letter focus only on matters that relate to financial reporting.

Table V: Examples of information about your business model which may be material – Performance factors (p.25)

3. Under the cell, Performance factors, we note the reference to projections of “underlying profit”. GAAP determines, through a legally enforceable suite of financial reporting standards what constitutes “profit”. The term “underlying profit”, while commonly used by some entities, has no generally accepted definition or basis.
4. We are concerned that the use of the term “underlying profit” in the Guidance Note ahead of any guidance being issued by the FMA on non-NZ IFRS information may encourage the use of profit figures that may not be consistent with GAAP. In the absence of a generally accepted basis or definition, such profit figures may not be consistently determined or comparable across entities and may be subject to manipulation by entities. The use of such terminology is potentially confusing for users of financial information, particularly where such profit figures are used out of context, with no explanatory material attached and/or with no reconciliation back to legally required GAAP figures. We suggest the deletion of the last sentence in the cell in the absence of any generally accepted basis or definition of the term.

Related parties and transactions (paragraphs 88-94)

5. While we do not disagree with the content of this section, we recommend that paragraph 88 refers to the definition of “related parties” in NZ IAS 24 *Related Party Disclosures*, rather than trying to state what the term includes. Specifically, we are concerned that the list in

paragraph 88 is inconsistent with the definition in NZ IAS 24, in that it excludes some related parties that are within the scope of NZ IAS 24. We consider that paragraph 88 may result in the omission of related party information that is legally prescribed in NZ IAS 24 and is potentially confusing. We are not opposed to the FMA providing additional examples in Table VIII provided the interrelationship with the information required to be disclosed by NZ IAS 24 is clear.

Section E: Financial Information – key points, 6th bullet point (p.35)

6. The bullet point states that the Regulations prescribe when prospective financial information must be included in disclosure documents. We suggest that the bullet point be reworded to say that Regulations “prescribe when and what prospective financial information must be included in disclosure documents”. This is because Regulations¹ also prescribe the form and content of prospective financial information by requiring such information to comply with FRS-42 *Prospective Financial Statements*.

Prospective Financial Information (paragraphs 110-117)

7. We note the detailed guidance notes in these paragraphs on prospective financial information notwithstanding that in New Zealand, unlike Australia, we have a legally enforceable accounting standard, FRS-42, on prospective financial statements. We suggest that it may be more useful for the Guidance Note to provide guidance on prospective non-financial information and/or prospective information expressed solely in general terms. This is because while FRS-42 requires prospective financial information to be in the form of prospective financial statements, the requirements underlying FRS-42 applies to all prospective financial information, as acknowledged in paragraph 111 of the Guidance Note. The prospective information that is scoped out of FRS-42 include:
 - special purpose prospective financial information;
 - prospective information expressed solely in general terms; and
 - prospective non-financial information.
8. Nonetheless, the principles and requirements of FRS-42 also apply to the above prospective information. The inclusion of the guidance in the Guidance Note on prospective financial information covering some but not all aspects covered by FRS-42 is potentially confusing for both the preparer and the user.

Glossary of Terms

9. In the Glossary of Terms, FRS-42, FRS-43 and NZ IAS 24 should be stated to be standards that are issued by the External Reporting Board (XRB), not the New Zealand Institute of Accountants (NZICA). When the XRB came into being on 1 July 2011, it issued all previous standards issued by the Accounting Standards Review Board (ASRB). NZICA only publishes the standards that are issued by the ASRB/XRB. Only standards issued by the ASRB/XRB have legal standing. The XRB’s website² contains all the standards that it issues.

¹ For example, clause 11 of the First Schedule to the Securities Regulations 2009 and clause 7 to the Third Schedule of the Securities Regulations.

² http://xrb.govt.nz/Site/Accounting_Standards/Current_Standards/default.aspx

Other miscellaneous points

10. The following are miscellaneous points:

- the reference in paragraph 89 to "IAS24" should be "NZ IAS 24" (and italicised as it is a defined reference);
- the word "Standards" in the first line of paragraph 89 should be "Standard";
- the reference in paragraph 107 to "FRS 43" should be "FRS-43" (hyphenated);
- the references in the Glossary of terms to "FRS 42" and "FRS 43" should be "FRS-42" and "FRS-43" respectively (hyphenated) and, conventionally, their titles are italicised; and
- the meaning in the Glossary of terms to NZ IAS 24 should also include the title of the NZ IAS 24 *Related Party Disclosures*.

Please do not hesitate to contact me or Lay Wee Ng [laywee.ng@xrb.govt.nz] if you need any further information.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Tony Dale', with a stylized flourish at the end.

Tony Dale
Chief Executive