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GUIDANCE NOTE – THE IMPACT OF NZIFRS ON CONTINUOUS DISCLOSURE

INTRODUCTION

This continuous disclosure guidance note has been prepared to assist Issuers to comply with their continuous disclosure obligations in light of the preparation for, and first time adoption ("First Time Adopters") of, New Zealand Equivalents to International Financial Reporting Standards ("NZIFRS").

It sets out NZX's expectations in relation to best practice in complying with the NZX continuous disclosure listing rules ("the Rules") as they apply to First Time Adopters.

Background

The New Zealand Accounting Standards Review Board has approved the adoption of NZIFRS as the mandatory standards under which all reporting entities must prepare their financial statements.

The adoption of NZIFRS becomes mandatory for reporting entities in relation to all accounting periods beginning on or after 1 January 2007 and allows for early adoption from 1 January 2005 should entities wish to do so.

For many First Time Adopters, the move to preparing their financial statements in accordance with IFRS may result in material changes to the manner in which their financial information is classified and whether items will or will not be disclosed in their financial statements (or notes to those statements).

Preparing for the First Time Adoption of NZIFRS

As the mandatory date for the adoption of NZIFRS gets nearer, First Time Adopters will need to undertake appropriate planning and preparation for their move to accounting under the new standards.

First Time Adopters have many sources available to them to aid with this process including their external accountants, seminars run by the New Zealand Institute of Chartered Accountants, and discussing issues with other First Time Adopters.

Some useful steps to follow in preparing for the adoption of NZIFRS are:

1. Be prepared early!
2. Train your staff on the content of NZIFRS and its differences to current accounting standards and practices;
3. Evaluate the potential impact of adopting NZIFRS on your entities financial statements, accounting software systems, and processes;
4. Consider whether disclosure will be required under the Rules as a result of any of the above impacts; and
5. Develop and implement appropriate processes and systems to allow accurate documentation and reporting under NZIFRS.

First Time Adopters should not underestimate the time and scope of preparation and changes that may be required from the application of NZIFRS. Entities that adopted NZIFRS earlier than the required timeline have indicated that early preparation is the key to a smooth transition.

NZSX and NZDX Listing Rule 10.6.1 and NZAX Listing Rule B1.6.1 state that:

> "Each Issuer shall comply in respect of its financial statements with the provisions of the Financial Reporting Act 1993."

Compliance with the Financial Reporting Act 1993 requires Issuers to comply with applicable Financial Reporting Standards. First Time Adopters will now be required to comply with NZIFRS rather than the previous Financial Reporting Standards (unless no commensurate NZIFRS exists), and thus First Time Adopters must ensure their financial statements are prepared in accordance with NZIFRS or face breaching the Rules.

If an auditor provided a qualified opinion on an Issuer's financial statements, whether as a First Time Adopter or not, NZX will take such actions necessary to ensure that there is sufficient information in the market to allow equal trading. Should NZX be provided with a set of qualified financial statements by an Issuer, it is likely that, in the first instance, NZX will make an additional announcement to the market under that Issuer's code highlighting this fact and any other matters which NZX believes are required to fully inform the market. NZX also notes that if the qualification in the audit opinion was of a sufficiently significant nature, NZX may demand from that Issuer such information as it believes is necessary to fully inform the market and/or suspend that Issuer.

Thus the importance of ensuring that the financial statements of First Time Adopters comply with NZIFRS is significant and should be given the appropriate level of consideration and resource.

Application of the Rules to First Time Adopters

This guidance note does not provide specific background to the Rules as this information is outlined in NZX's "Guidance Note – Continuous Disclosure" published on its website at www.nzx.com/regulation

However, we restate a section of that Guidance Note relevant to financial matters below to provide Issuers with some background to the treatment of financial matters under the Rules:

> "Financial matters
> Issuers often report to the market about financial matters. Understanding the financial position of an Issuer is important to investors as it provides an indication of that Issuer's value. For the purpose

of this guidance note we can class financial matters that require disclosure into three groups. These are:

First, and most significant, are matters that relate to specific events such as major acquisitions or disposals.

Second, a material change to prospective financial information such as forecasts is likely to require disclosure. The two aspects of this are prospective financial information about the Issuer from the Issuer and prospective financial information about the Issuer from persons outside the Issuer. Issuers should keep broker forecasts relating to their performance under review.

Third, an Issuer's financial position could change gradually due to a number of influences that would not in themselves require disclosure. Review of the Issuer's monthly accounts could reveal patterns that may need disclosure. For example a gradual decrease in monthly income. For this reason we suggest that examination of the monthly accounts include the question whether there are any changes that would require disclosure to be made to the market.

Reporting material incremental changes in the Issuer's finances as they are identified should help smooth out changes in share prices. If information is provided on a continuous basis it is less likely that markets will plunge as drastically as they may if a huge loss is reported at the end of a significant period without the market having been prepared."

NZIFRS

As NZIFRS will apply a uniform set of standards across all entities, the impact on the financial statements of many First Time Adopters will be similar and potentially well understood by the market. In such a case Issuers may weigh up the changes NZIFRS has made to its financial statements and decide that no disclosure under the Rules is required as the changes may not be material or may relate to securities or Issuers generally.

This analysis would be in line with a scenario where, for example, the company tax rate was reduced from 33% to 25%. As the impact of this change is uniformly applicable to all Issuers and the market is quite clear of this impact, no disclosure would be required.

However, some First Time Adopters may have significant changes to the presentation of their financial statements resulting from reporting under NZIFRS. Where a First Time Adopter becomes aware of an impending impact on their financial statements that "a reasonable person would expect, if it were generally available to the market, to have a material effect on the price or value" of its securities, that First Time Adopter will be required to disclose such impact under the Rules, unless that impact will apply to securities or Issuers generally. Issuers should be particularly aware of the possibility that presentation or other changes to financial statements could give a misleading impression that material changes or events have occurred. Additional statements by way of explanation may be required to address this.

In addition, during the period prior to the release of the financial statements first prepared in accordance with NZIFRS, a First Time Adopter will consider whether the exception in Rule 10.1.1(a) applies. We note that for this exception to apply, each of the three limbs, (i) to (iii), must be satisfied. If at a future point in time one of the limbs is not still satisfied, an Issuer must then disclose that Material Information.

We also note that a further instance that may require disclosure under the Rules relating to financial matters is the application of not just NZIFRS for First Time Adopters, but also the adoption of new accounting policies or Financial Reporting Standards for Issuers.

As with any consideration of a matter potentially requiring disclosure under the Rules, it is for each individual Issuer to undertake the necessary evaluation and to make the ultimate decision. However, as a broad rule of thumb, a disclosure will be required under the Rules where an impact of NZIFRS, which a reasonable person would expect to have a material effect on the price or value of securities, does, or is likely to, affect an Issuer to a greater or lesser extent than other similar Issuers or entities.