FMA
FINANCIAL MARKETS AUTHORITY
TE MANA TATAI HOKOHOKO - NEW ZEALAND

May 2019

Financial reporting reviews

This statement outlines our approach to financial reporting reviews, and highlights selected areas of interest for 2019/20 reviews.

The FMA regulates compliance with the financial reporting requirements for FMC reporting entities[1].

Our reviews focus on the quality of financial reporting. Good quality financial reporting allows investors to have access to the information they need to make well-informed decisions.

Financial reporting reviews include reviews of the financial statements as well as relevant market announcements, management commentary, investor presentations and other communications to shareholders and market participants[2].

FMC reporting entities need to focus on providing material information and communicating this in a clear, concise and effective way. This includes disclosing relevant and understandable information about material matters and accounting considerations, to assist investors with understanding the entity's financial performance, financial position and management decision-making. See our 2018 review Improving financial statements for more detail.

Our financial reporting reviews can be either:

- proactive (based on our internal selection model); or
- reactive (based on a specific event, such as a qualified audit report, media coverage, complaints and enquiries, referrals from other regulatory agencies).

In general, the approach to our reviews is risk-based, and areas of focus are individually determined based on the facts and circumstances relevant to the entity and the review.

Our reviews may also incorporate particular areas of interest. For our 2019/2020 reviews, these relate to:

Significant accounting judgements and sources of estimation uncertainty[3]

Significant accounting judgements and sources of estimation uncertainty should be separately identified and disclosed.

Disclosure of significant judgements should be specific and provide sufficient detail to help investors understand material judgements that management has made in applying its accounting policies.

Disclosure of estimates should provide investors with sufficient detail to understand:

- the assumptions management makes about the future; and
- other sources of estimation uncertainty that have a significant risk of resulting in a material adjustment in the next financial year.

This includes carrying amounts subject to a significant risk of material adjustment within the following year.

Where material, disclosures of estimates should be supplemented with information such as the sensitivity of estimates to changes in assumptions about the future, and the range of reasonably possible outcomes[4].

1: Section 451 of the Financial Markets Conduct Act 2013 (FMC Act)
2: Part 2 of the FMC Act contains a number of provisions that deal with misleading information, including prohibiting misleading or deceptive conduct, making of false or misleading representations and making of unsubstantiated representations.
3: NZ IAS 1 paragraph 122 requires entities to disclose the judgement, apart from those involving estimations that the management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
NZ IAS 1 paragraph 125 requires entities to disclose information about the assumptions they make about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
4: NZ IAS 1 paragraph 129

Impact of the new accounting standards[5]

Our interest in this area is based on the anticipated significant changes that the new standards have introduced.

1. Application of NZ IFRS 15 Revenue from Contracts with Customers (NZ IFRS 15)

   The new revenue standard provides clearer and more detailed principles for revenue recognition. For some FMC reporting entities it significantly changes timing for the recognition of revenue, among other changes.

   NZ IFRS 15 introduces extensive disclosure requirements relevant for all FMC reporting entities, regardless of the extent of the quantitative impact.

2. Application of NZ IFRS 9 Financial Instruments (NZ IFRS 9)

   The new financial instruments standard introduces changes to the accounting for credit losses, including the related disclosures. It also introduces changes to how financial assets are measured on an ongoing basis, to align with the asset's cash flow characteristics and the business model in which the asset is held.

   FMC reporting entities should provide relevant, material and entity-specific disclosures, taking into account the importance of financial instruments in their operations.

3. Disclosure of the expected impact of implementation of NZ IFRS 16 Leases (NZ IFRS 16)

   When NZ IFRS 16 is adopted it will have a significant effect on the financial statements of lessees, as they will reflect more assets and liabilities arising from their leases. The new leases standard also introduces new disclosure requirements.

   Before its adoption, FMC reporting entities should disclose known or reasonably estimable information relevant to assessing the possible impact of NZ IFRS 16 on the financial statements.

Non-GAAP financial information

Non-GAAP financial information is financial information outside of the financial statements, where that information is not prepared and presented in accordance with generally accepted accounting practice (GAAP), or is presented as an alternative to statutory profit[6].

In 2017, we issued the currently applicable guidance note Disclosing non-GAAP financial information. This sets out our expectations on the use of non-GAAP financial information.

Supporting documentation

FMC reporting entities and their directors are required to prepare and maintain appropriately detailed documentation that supports accounting considerations, decision-making and conclusions, and ultimately the application of generally accepted accounting practice in New Zealand.

This involves documenting relevant assessments and rationale, taking into account all relevant facts and circumstances. This includes detailing relevant analyses and evaluating the alternatives to arrive at well-reasoned professional judgements on application of the accounting standards.

In cases where the FMA makes enquiries, we expect FMC reporting entities to provide us with documentation that supports materiality assessments, accounting considerations, decisions and assumptions made to support compliance with generally accepted accounting practice in New Zealand. This includes consideration about the appropriate level of disclosure in the financial statements.

5: NZ IFRS 15 and NZ IFRS 9 are effective for annual periods beginning on or after 1 January 2018. NZ IFRS 16 is effective for annual periods beginning on or after 1 January 2019.
6: Non- GAAP financial information is commonly presented in market announcements, management commentary, investor presentations, disclosure documents filed with the Registrar and licensed market operators, and other communications to shareholders and market participants.

AUCKLAND

Level 5, Ernst & Young Building
2 Takutai Square, Britomart
PO Box 106 672, Auckland 1143

Phone: +64 9 300 0400

WELLINGTON

Level 2, 1 Grey Street
PO Box 1179, Wellington 6140

Phone: +64 4 472 9830

FMA
FINANCIAL MARKETS AUTHORITY
TE MANA TATAI HOKOHOKO - NEW ZEALAND