

## Financial reporting – regulatory policy for financial reporting designations and exemptions

Please submit this feedback form electronically in both PDF and MS Word formats and email it to us at [consultation@fma.govt.nz](mailto:consultation@fma.govt.nz) with 'Feedback financial reporting' in the subject line. Thank you. **Submissions close on 28 February 2014.**

**Date:** 27 February 2014

**Number of pages:** 4

**Name of submitter:** Financial Services Federation Inc ("FSF")

**Company or entity:** Entity (Incorporated society)

**Organisation type:** The FSF is the industry body for responsible and ethical finance and leasing providers with its relevant members principally comprising finance companies.

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Part #	Section #	Paragraph #	Comment	Recommendations
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*You don't need to quote from the consultation document if you use part & paragraph numbers.*

*You may attach extra pages - please label each page with your name & organisation.*

NA	NA	NA	<p><b>Preliminary Comment:</b> The Consultation Document is relevant to "FMC reporting entities". The FSF's members include 8 that are in that category, because they are either non-bank deposit takers ("NBDTs") (6) or insurers (2). One of the 6 NBDT members is also involved in managed funds.</p> <p>Relatively little of the Consultation Document's proposals in respect of accountability designations or exemptions will directly affect the FSF members concerned.</p> <p>However, the relevant FSF members and indeed the FSF as a whole does have a wider interest in aspects of the Consultation Document, for reasons such as ensuring competitive neutrality, as is reflected in the comments that follow.</p>	The FSF does not wish to add any recommendations in addition to its comments.
1	B	Page 5	The FSF records its support for the more flexible approach to financial reporting that is made possible by the exemption making power mentioned here.	
2	C	1	<p>The FSF accepts that a high level of public accountability via financial reporting is generally appropriate for debt issuers such as those FSF members who are NBDTs. The possibility of an exemption for small issues by not-for-profit entities is addressed further below.</p> <p>The FSF also notes the possibility that lower accountability designations may be given to intermediaries involved in peer to peer lending and crowd funding. While the FSF appreciates the rationale for that, namely that investors are not</p>	

			<p>actually taking credit risk on those intermediaries as opposed to taking credit risk of the ultimate intended recipient of the funds, nevertheless to some extent investors are likely to be taking risk on the intermediaries, even if only short term risk.</p> <p>Although such risks may be able to be adequately protected against in other ways in regulations yet to be made under the FMC Act, until they are the FSF favours a cautious approach here.</p>	
2	D	1	<p>In respect of the possibility of not-for-profit entities making small debt securities issues being given a lower accountability designation, the FSF is wary of this: one FSF NBDT member operates in the socially responsible lending sector for example and, while it is not literally a not-for-profit, it may to some degree be competitive for funding with not-for-profit entities of the kind that the FMA is considering giving a lower accountability designation.</p> <p>While not opposed to that for “one off” offers of the kind mentioned in the Consultation Document, the FSF believes any such relaxation of the accountability designation would have to continue to be narrowly confined in such ways.</p>	
2	D	3	<p>The FSF strongly supports the proposal to ensure that recipients of conduit funding are subject to the same accountability levels as if they were the product issuer.</p>	
2	E	3	<p>In respect of the policy approach noted at 2 E 3 on page 8, as above the FSF accepts that a high level of public accountability is generally appropriate for NBDTs. However it questions whether the fact that NBDTs are prudentially regulated is a reason for requiring that. Some might think the function of prudential regulation was in part to guard against inadequacies in public accountability.</p>	
2	E	4	<p>However, the FSF agrees with this particular policy principle, which is more focussed on the nature of the bank or NBDT business than on whether it is subject to prudential regulation.</p>	
2	F	2	<p>In respect of the statement that full financial statements are appropriate for bond issuers that are not financial institutions, the FSF strongly agrees: such bonds are competitive with NBDT debt securities and competitive neutrality requires bond issuers to be subject to similar accountability levels.</p> <p>As regards the part of this section that addresses</p>	

			debt securities issued by not-for-profit entities, the FSF has addressed that subject at 2 D 1 above, but in respect of what is said about the possible exemption on page 10, the FSF tends to think the borrowing cap on exempted not-for-profit issues should be closer to the \$2m mentioned than to the \$15m in the Securities Act (Charity Debt Securities) Exemption Notice 2013, which the FSF regards as generous.	
2	F	5	The FSF repeats the comments about intermediaries involved in peer to peer lending and crowd funding that are made at 2 C 1 above.	
2	F	7	The FSF repeats the comments about recipients of conduit funding that are made at 2 C 1 above.	
2	F	8	The FSF agrees with the proposal not to change the higher public accountability required of financial institutions other than NBDTs.	
3	B	1 - 3	The FSF agrees with the policy approach reflected in these paragraphs.	
3	C	1	The FSF is comfortable with all of what is summarised in the exemptions policy section at 3 C 1, and notes that the FMA considers exemptions in most categories likely to be rare.	
3	C	2	What is summarised in the section at 3 C 1 will not impact FSF members, none of whom are “overseas entities”.	
3	D	1 – 5	As a result the FSF has no comment on these paragraphs either, since they also relate only to “overseas entities”	
3	D	6	The FSF’s only comment here is that it is of course comfortable with applications for exemptions being considered on their merits.	
3	D	7	The same comment applies here, but the FSF also adds that it agrees that a class exemption would not be appropriate for recipients of conduit funding. As set out above (see 2 D 3) the FSF believes that as a class they should generally be subject to the same accountability levels as if they were the product issuer.	
3	D	8	The FSF has an open mind about redesignating the conduit issuer itself with a lower level of public accountability. So long as the recipient of conduit funding was itself obliged to repay the funds, for example as a guarantor, and was itself subject to high accountability levels, this might be appropriate	

			in some cases. The FSF does however see that as being likely to be the exception rather than the norm.	
3	D	9	The FSF thinks there is likely to be a need for exemptions to avoid “technical difficulties”, to be assessed on a case by case basis.	
3	D	10	The FSF similarly welcomes the comment that the FMA may be prepared to grant exemptions from the tighter filing deadlines that will apply under the FMC Act, where circumstances justify that.	

**Concluding comment:** The FSF trusts the above comments have been of assistance, and would be happy to discuss any of them further if the FMA felt that might be helpful.

**Feedback Summary** – *if you wish to highlight anything in particular*

The FSF has no further comments.

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