<u>Specific Questions</u>

We seek your feedback on these targeted questions to assist our understanding for specific areas.

<table>
<tr><td colspan="2">Usefulness of PFI when assessing an offer</td></tr>
<tr><td>1</td><td>How do you use PFI when assessing an IPO? How much do you rely on PFI compared to other parts of the offer documentation?</td></tr>
<tr><td></td><td>Anecdotal discussion with most retail investors shows little reliance placed on the Prospective Financial Information (PFI) provided within initial public offer (IPO) documentation and associated product disclosure statements (PDS)

Seasoned investors are more used to determining their own forecasts of future performance based on well-understood market themes (‘thematics’). While they may compare outcomes with disclosed PFI, they will tend to rely on their own forecasts. More experienced investors will place greater focus on the strategy of the issuer and how that seeks to create value from market themes.

<u>Over-reliance:</u> Somewhat perversely, NZSA believes that less experienced investors accept the outcomes disclosed by PFI, without necessarily challenging the basis for the underlying assumptions or forecasts. This places less experienced investors at greater risk of falling victim to lower-quality disclosures.

<u>Quality and behavioural incentive:</u> Furthermore, from a behavioural perspective, there is an incentive for the IPO issuer to prepare forecasts that reflect an optimistic future. The FMCA places clear obligations to not mislead or deceive prospective investors (sections 22-23). Disclosed PFI based on a degree of logic would be unlikely to breach this test, while still allowing an issuer to portray relentless positivity relating to an optimistic future.

A lack of recent IPO’s on the NZX means that there is limited current discussion amongst investors on the merits of PFI. disclosure. However, the experiences of investors in relation to the last IPO on the NZX (My Food Bag) are well documented. Many experienced investors did not participate in the IPO, citing a significantly lower valuation than the IPO price and implied by the provided PFI.</td></tr>
<tr><td>2</td><td>Which part(s) of PFI do you find most and least useful and why? Does this change depending on the size and nature of the issuer undertaking the IPO?</td></tr>
<tr><td></td><td>There are a number of factors that impact on the quality of PFI, as outlined below. In terms of utility, investor concerns relate less to what is provided as compared with what is not provided.

1) The longer the forecast timeframe, the less reliable the PFI.

2) The ability of a company to highlight non-GAAP measures in its PDS, as compared with those of internationally accepted accounting standards (eg, a focus on EBITDA).

3) The provision of a scenario reliant on favourable assumptions – coupled with the lack of scenario analysis to describe potential variations to scenarios.

a. While a PDS will disclose investment risks, these are not usually applied in PFI disclosure to highlight potential downside (or upside) impacts on PFI.

b. PFI disclosure states the underlying assumptions that drives PFI outcomes, although these are not required to be shown in the PDS.</td></tr>
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	c. While there may be sensitivity analysis shown in the PFI, the boundaries for those sensitivities (both key assumptions and +/- ranges) are set by the issuer, leading to potential over-reliance by less experienced investors. 4) Differences in disclosure content between PFI and the PDS. This can ‘mask’ heroic assumptions leading to favourable outcomes. While summary information is shown in a PDS, more detailed information is shown in the PFI. While the intent of PFI is laudable, it is clear that the current disclosure regime has proven ineffective at preventing harm while creating a significant barrier for prospective issuers. *Issuer size* We do not believe there is a significant difference created by issuer size. If anything, the larger the issuer, the more complexity (and therefore scope for variability) is contained within the disclosed PFI.
3	Do you consider GAAP-compliant PFI is necessary or would PFI prepared on a different basis be sufficient to assist you in your decision making? Please explain why.
	NZSA has a strong preference to GAAP-based PFI, where PFI is required (see comment in 2.2 above). This allows future comparability with the initial PFI provided. Even where PFI is provided on a GAAP basis, however, NZSA contends that this does not resolve the underlying quality / behavioural aspects associated with the preparation of PFI. In this context, where PFI exists, we would also expect this to be supported by underlying operational metrics clearly disclosed within the PDS.
4	Product Disclosure Statements include selected PFI with full PFI available on the Disclose Register. To what extent do you rely on the selected PFI as against the full PFI?
	As per our feedback to Question 1, experienced investors place little reliance on provided PFI, although are more likely to review the PFI document. For less experienced investors, NZSA believes from anecdotal discussion that they may look at a PDS but are less likely to review the full PFI document. As per our comment in 2.4 above, this allows key assumptions to be ‘masked’.
5	How would your assessment process change if no PFI was provided?
	It is likely that investors would place greater emphasis on: 1) Track record – how well has the company performed in the recent past? 2) Current thematics, risks and opportunities – what is the wider context of the market within which the company operates. 3) Company strategy – how is the company taking advantage of those market dynamics? 4) Motivations – why does the company need capital via an IPO? Does the IPO enable new opportunity/growth or is it a recapitalisation of current capital? 5) Governance and Management – what protections, through governance quality, executive incentives and management quality, are on offer to investors? For most experienced investors, we do not believe this represents a change in how they would assess a prospective issuer. We note that this information is included within the existing PDS format

Alternatives to current PFI settings	
Opt-in or opt-out PFI	
6	Do you think the PFI settings for an IPO should be opt-in or opt-out as the starting point? What are the key pros and cons for doing so? Please provide reasons.
	NZSA believes that an "opt-in" approach should be the starting point for any PFI regime. From a behavioural perspective, the very act of an IPO issuer 'opting in' will be of interest to investors, in terms of investment quality. It also removes the behavioural incentive for the issuer to focus on relentless positivity in their PFI; the very act of voluntary providing PFI sets the tone for the quality of the issue. 1. We believe that any IPO issuer opting in to disclosure should still be subject to the same requirements of the FMCA (ie, to not mislead or deceive) and that there should be better disclosure of operational assumptions and sensitivities within the PDS itself (see Question 2). 2. However, given the inherent uncertainty of forecasts, NZSA would support the introduction of '**ranges**' for key figures as part of "opt-in" PFI, with the key factors underpinning the 'forecast range' highlighted. NZSA also believes this will negate issues associated with directors perceptions as regards a potential breach of s.22-23 of the FMCA relating to misleading or deceiving investors. 3. We believe that the use of forecast ranges, coupled with an opt-in regime, is likely to encourage issuers to consider disclosing PFI voluntarily. We also believe that this would place NZ markets on a comparable footing with other regimes commonly utilised by NZ investors (notably, the ASX). We believe that an opt-in regime will be more widely utilised where in a listing environment where there is greater competition for capital. Ironically, the relaxation of disclosure requirements for PFI may help to create the conditions for this to occur.
7	What conditions or specific criteria should the issuer need to meet for either an opt-in or opt-out regime? In particular, what changes to disclosure requirements are necessary to protect investors' interests?
	Please see our comments in 6.1 above, in relation to both the FMCA and disclosure within the PDS of operational assumptions and sensitivities.
Type of PFI and IPO information	
8	Without PFI, what information do you rely on to assess the future performance and position of the issuer? How useful is that compared to PFI?
	Please refer to our response to Question 5. While historical track record is no guarantee of future performance, NZSA believes that greater consideration of qualitative factors offer greater insight as to the likely future performance of a new issuer. A clearer focus on the baseline provided by a company's historic track record and how that is impacted by "future" factors support an investor's decision-making on long-term investment performance. Those forward-looking factors include market thematics, an issuer's strategy and the risks & opportunities. Such information is at the core of existing PDS disclosures.

9	If you assess offers in other jurisdictions that do not mandate PFI what information do you rely on when making your assessment? Do you consider this information to be more or less reliable than PFI in New Zealand?
	Please refer to our response to Question 5 – this is not specific to any single jurisdiction.
10	Are there disclosure requirements in other jurisdictions not present in New Zealand that you consider would help you make better investment decisions? If so, please provide details and explain why.
	Disclosure requirements in NZ compare favourably to other jurisdictions at present. NZSA fully recognises this has not come about by accident and appreciates efforts by FMA, NZX and other stakeholders.
11	Do you use PFI to compare with the next audited financial statements or other external sources of information? If not, what information do you compare and report on between the PDS and the published financial results?
	NZSA notes the paucity of IPO's in recent years that allow such comparisons to be made. Certainly, in the case of the My Food Bag IPO, the comparison of their PFI with actuals for FY21 and FY22 appears broadly favourable – however the PFI did not extend to the significant issues faced by the company in FY23.
12	What do you see as the pros and cons of making producing PFI voluntary for first equity offers?
	Please see our response in Question 6. In addition, we note concern from potential issuers on fulfilling the requirements of PFI in order to list. This ultimately impacts the choice of investments available for investors in NZ's capital markets. Pros: - Encourage more issuers to list, thereby providing choice for investors. - A change in the behavioural dynamic for issuers associated with the current 'opt-out' regime. - A change in perception by investors for those to choose to 'opt in' to providing PFI. - Less incentive for issuers to be relentlessly positive in their forecasts, resulting in better-quality disclosures. - Better consideration for longer-term factors (including strategy, governance etc – see our response in Question 5). - Greater potential for issuers to provide PFI in an environment where competition for capital intensifies. Cons: - More work required by investors to come to their own assessment of future cashflows of the issuer, and therefore value, for an IPO
13	If the scope of what must be covered in a PFI is changed or reduced, what would be essential to retain?
	Content: NZSA contends that it will be difficult to reduce the scope of disclosure under the current settings at the same time as reducing issuer workload associated with producing those forecasts.

	For example, a key figure for investors should be 'operating cashflow' – however, the determination of operating cashflow still requires the same accounting workload to create an accurate forecast disclosure. Timeframe: NZSA believes it could be possible to reduce the time frame scope of disclosure to produce a forecast comprising key figures for the *current* financial year. This is little different to listed issuers providing updated forecasts to investors as they progress through the financial year. Even under this scenario, however, NZSA would prefer the concept of a forecast range introduced to alleviate any uncertainty and provide transparency of that uncertainty to individual investors.
Cost of reviewing PFI	
14	Do you seek professional advice to understand PFI? If so, from whom and are there particular things you look for in that assistance? If you provide professional advice, what particular things do individuals and organisations look for to understand PFI?
	NZAS is not a financial advisor so creates its assessments in much the same way as an experienced investor might undertake due diligence on a potential investment. There are many different types of investors, some of whom will take financial advice. One of the key concerns of NZSA is the potential conflict between the investment bank bringing an IPO to market and clients of their wealth management practices. It becomes relatively easy to justify the inclusion of IPO shares in the wealth manager's funds that support DIMS and funds management activity.
15	Please provide details of the estimated average cost you incur in reviewing PFI on an IPO.
	NZSA is unable to answer this question
16	Do you consider your costs would change if PFI was no longer available? If so, please provide details including degree of change and what the required changes may be.
	There is unlikely to be any material change in costs incurred by investors in assessing IPO's and their quality if PFI were no longer available.
17	Is there any other feedback you think we need to consider as a part of our review of PFI settings in an IPO?
	NZSA has covered relevant issues in its responses above.

Potential options for reform

If the current PFI requirement were to be changed, we seek your comments on the following three approaches for reform. Note that some of these approaches are not mutually exclusive.

In particular, we are interested:

- Whether you would support each option
- Any comments on the pros and cons of each option,
- Any suggestions on the best way to implement each option,
- Any other suggested options for reform.

Option	
1	*Option 1: Reform the current opt-out regime.* The current requirement for PFI contains an opt-out (Clause 39 of Schedule 3 of FMC Regulations 2014). This approach would retain the requirement and opt-out, and amend the threshold or standard for the opt-out.
	NZSA is not supportive of retaining the current PFI settings. While well-intentioned, NZSA believes PFI (with the opt-out setting) has formed a material barrier for companies looking to list on public markets and has therefore contributed to a reduction in investment choices for New Zealand investors. There is a potential argument for retaining current settings, while reducing the scope of PFI. In practice, we believe this will not reduce workload for issuers. In terms of reducing threshold or standard requirements, NZSA would not wish to see changes to the requirements of the FMCA when it comes to misleading or deceiving investors. While a change to providing 'forecast ranges' may alleviate this concern, NZSA contends this would offer more value in the context of an 'opt-in' regime.
2	*Option 2: Adopt an opt-in regime.* This approach would remove the general requirement to have PFI, and may prescribe considerations and situations when PFI should be included.
	This approach is favoured by NZSA, for the reasons set out in Question 12.
3	*Option 3: Remove the requirement to be GAAP-compliant.* This approach would remove or amend the circumstances for when the PFI needs to be GAAP-compliant.
	While NZSA prefers disclosure of underlying operational metrics to provide supporting transparency for any PFI outcomes, we are not supportive of non-GAAP measures. This would introduce scope for issuers to introduce metrics so specific to their own interests as to invalidate effective comparison with other opportunities.
4	Are there other options or approaches we should consider? What are the pros/cons of them?
	NZSA believes Option 2 is a valid outcome, supporting the findings of the Capital Markets 2029 Taskforce. We have no wish to 're-litigate' this as a preferred option.

Feedback form

Targeted Consultation: Prospective Financial Information

Please submit this feedback form electronically in both PDF and MS Word formats and email it to us at consultation@fma.govt.nz with 'Prospective Financial Information: NZSA' in the subject line. Thank you.
Submissions close on 24 May 2024.

Date: Number of pages:

Name of submitter: Oliver Mander

Company or entity: NZ Shareholders' Association

Organisation type: Incorporated Society

Contact name (if different):

Contact email and phone: 021 190-5343

Please note: Feedback received is subject to the Official Information Act 1982. We may make submissions available on our website, compile a summary of submissions, or draw attention to individual submissions in internal or external reports. If you want us to withhold any commercially sensitive or proprietary information in your submission, please clearly state this and note the specific section. We will consider your request in line with our obligations under the Official Information Act.

Thank you for your feedback – we appreciate your time and input.