**Introduction**

**FINANCIAL REPORTING HAS UNDERGONE SIGNIFICANT CHANGE IN RECENT YEARS**

The XRB is responsible for financial reporting strategy and for standard setting in New Zealand. In this role it has commissioned research into the usefulness of the financial reports produced by for-profit entities operating in New Zealand domestic capital markets.

The research, undertaken by Massey University, surveyed New Zealand users and reviewed international user research to inform the findings. It is one of few comprehensive user-needs studies undertaken which looks at both local and international trends.

**THE AIM OF THE RESEARCH IS TO:**

1. **Understand**
   - the common information needs of users of financial reports produced by New Zealand domestic capital market for-profit entities.

2. **Determine**
   - whether these needs are the same as, or different from, the information needs of users of for-profit entities operating in international capital markets.

For more information: The full research report is available at [xrb.govt.nz](http://xrb.govt.nz)

**THE GROUPS RESEARCHED WERE:**

- **Investors**
  - Equity and debt investors and potential investors

- **Lenders**
  - Bankers and other creditors, including trade creditors and suppliers

- **Intermediaries**
  - Advisors, analysts, brokers and fund managers

- **Regulators**
  - Financial market regulators including prudential supervisors
Research results in summary

FINANCIAL REPORTING MUST CONTINUE TO EvOLVE

The changes in corporate reporting for New Zealand listed companies have been positive, but must continue to evolve.

While the types of users and their needs are diverse, they all require similar information.

Financial reports are a well-used and trusted source of information.

Financial reports have a full year shelf-life, being used throughout the year to confirm other communication.

The requirements of New Zealand report users are consistent with international users.

Future changes to New Zealand reporting requirements should be in line with international amendments.

THE CHANGES USERS ARE SEEKING INCLUDE MORE DETAILED INFORMATION ON:

1. Following international standards
   Maintain our strategies of issuing the international standards of accounting in New Zealand;

2. International influence
   Maintain our strategy of influencing the work of the international standard setting boards, to ensure their outputs are suitable for adoption and implementation in New Zealand;

3. International participation
   Continue our direct staff involvement in key international projects (eg: The International Accounting Standards Board (IASB) Disclosure Initiative project, where our team is participating, to improve the usefulness of note disclosures);

4. Drive the debate
   Facilitate and encourage the corporate reporting debate in New Zealand as regards the need to include more non-financial information, entity strategies, risks and prospects.

WHAT DOES THIS MEAN FOR THE XRB?

The entity, its strategies and risks

Prospects and forecasts

Broader context around performance

Non-financial information (integrated with financial information)

and simplified language
Key findings

FINANCIAL REPORTS ARE WELL USED BY ALL AUDIENCES

79% use corporate financial reports
They use both the financial statements and management narrative

21% rely more on information from advisors and/or analysts
Advisors and/or analysts draw much of this information directly from financial reports

FINANCIAL REPORTS ARE VALUED BY ALL AUDIENCES

31% of users see financial reports as their primary source of information, second only to advisors'/analysts' reports

FINANCIAL REPORTS 31% 35% ADVISORS'/ANALYSTS' REPORTS
Technical ability is a factor here. Non-users of financial reports tend to have less technical knowledge

ALL FINANCIAL STATEMENTS COMPONENTS ARE VALUED, AND DON'T OVERLOOK CASH FLOW

76% of respondents find all financial statement information useful – “all helps to build a picture”
- No1: Statement of financial performance and Statement of financial position
- No.2: Statement of cash flows and notes

24% find some information not useful – particularly lengthy notes
- Least useful: Statement of changes in equity

Use of financial statements is dependent on the knowledge and skill of the user. The more skilled they are, the more they will use the different components of the financial statements.
54% do not require any other information in the financial statements – particularly intermediaries (75%)

46% do want more information in the financial statements – particularly investors (73%)

Comparisons between actual and targets/budgets
Enhanced segment reporting

More detailed cash flow information
More information on credit facilities, borrowings, loans

THE MAJORITY OF USERS DO NOT REQUIRE MORE DETAILED STATEMENTS

SIMPLE, UNDERSTANDABLE AND MEASURABLE

Respondents suggested improvements in reporting:
- Greater consistency in the format/presentation of financial statements;
- Simplifying and standardising reporting and the language used;
- Improving disclosures on contingencies, guarantees, obligations and related party transactions;
- Providing 5-year summaries, key performance indicators and forecasts;
- Providing more non-financial and sustainability information;
- Improving timeliness of reporting.

“Investment in capital markets is not about what is going on now, but it is based on the best guess for the future”

FINANCIAL REPORTS ARE SATISFYING MOST USERS

Overall 52% do not need supplementary information to the financial report, particularly intermediaries, where 69% do not require more

Whereas 48% do need supplementary information to the financial report, particularly 75% of regulators and 64% of investors

WHAT SUPPLEMENTARY INFORMATION DO THEY REQUIRE

1. Information on business strategies and prospects;
2. Narratives that explain financial performance and position;
3. Information about entity’s business;
4. Summary financial information.
RESEARCH TEAM

The research was commissioned by the XRB to better understand the needs of users of Corporate Reports in New Zealand.

The team at Massey University included:

- Professor Fawzi Laswad
- Dr Warwick Stent
- Dr Nives Botica Redmayne
- Dr Lei Cai

Research period between February 2015 to October 2015

RESEARCH METHODOLOGY

- Detailed literature review of international research
- Online survey of 145 respondents, and 10 in-depth interviews

Most respondents have average self-rated knowledge and skill levels in using financial statements.

Average years of experience – 3.7 years

Respondents’ interest in domestic or international market entities:

- 76% Domestic & international market entities
- 23% Domestic market entities only
- 1% International market entities only

Users interested in domestic market entities are not significantly different from those interested in international market entities except:

- Domestic users are more likely to use financial reports for lending decisions than international users;
- Domestic users are less likely to use advisors'/analysts' reports than international users.

PROFILE OF RESPONDENTS

- Investors: 45 Surveys, 1 Interview
- Lenders: 22 Surveys, 3 Interviews
- Intermediaries: 70 Surveys, 2 Interviews
- Regulators: 8 Surveys, 4 Interviews