

Our Ref:

EXPLANATORY MEMORANDUM

PROPOSED AMENDMENTS TO THE SECURITIES REGULATIONS 1983

The Securities Commission has undertaken a review of the provisions of the Second Schedule ("the Second Schedule") of the Securities Regulations 1983 ("the Regulations") as they relate to the disclosure of information, in financial statements contained in a prospectus for debt securities, about investments by the issuer in those of its subsidiaries which do not provide any form of guarantee in relation to the securities being offered in the prospectus (the non guaranteeing subsidiaries).

The review had its origins in Commission and High Court determinations in appeals by ANZ Banking Group (New Zealand) Limited and UDC Finance Limited, made under sections 69 and 26 of the Act, against decisions of the Registrar of Companies to refuse to register debt security prospectuses presented for registration by those two companies.

Both the Commission and the High Court (Eichelbaum CJ)¹ upheld the decisions of the Registrar. The Commission, when declining the companies' appeals, undertook to review the impact of the relevant clauses of the Second Schedule (particularly clause 24).

The Commission issued a Discussion Paper in February 1992 on the disclosure of information in debt security prospectuses relating to investments of the borrowing group in non-guaranteeing subsidiaries ("NGS").

Following a review of the submissions received in response to the Discussion Paper the Commission issued a further document, "Accounting for Investments by the Borrowing Groups in Non-Guaranteeing Subsidiaries - Statement of Proposals by the Securities Commission for Amendments to the Securities Regulations 1983", in December 1993.

The Commission received a number of submissions on the proposals in the December 1993 document. Submissions were generally supportive of them. However there were a number of useful suggestions for improvement. After careful consideration of these submissions the Commission has finalised its proposals for amendments to the Regulations.

The Commission intends to recommend that the Second Schedule be amended so that debt security prospectuses will:

- (a) require the use of a modified equity method of accounting for the measurement of the borrowing group's interests in its non-guaranteeing subsidiaries, while ensuring that the effect of the use of the equity method is separately disclosed; and
- (b) require provision of summary detail of the aggregated balance sheets and profit and loss accounts of the NGS.

Details of the Commission's proposals are set out in the attached draft Amendment to the Securities Regulations 1983. The accompanying memorandum explains the various changes.

28 February 1996

[CL24EXP.MEM]

1. (1991) 5 NZCLC 66903

DETAIL OF THE AMENDMENTS BEING PROPOSED BY THE COMMISSION

1. This attachment outlines and explains the detailed changes to the Regulations being proposed. Additions to the current Regulations are denoted by underlining.
2. The first clause provides that the amendment shall come into force on 1 September 1996. This should ensure that the new requirements will apply to debt security prospectuses relating to issuers with balance dates on or after 30 June 1996.
3. The second clause of the Amendment inserts a new definition in regulation 2 of the Regulations:

"Non-guaranteeing subsidiary' in relation to an offer of debt securities means a subsidiary of the issuer that is not a guaranteeing subsidiary in respect of the period since it became such a subsidiary"

4. The third clause of the Amendment inserts changes to Clause 7 of the Second Schedule of the Regulations "Summary of Financial Statements". These changes are intended to ensure that the profit or loss arising from the equity accounted profit or loss of the non-guaranteeing subsidiaries ("NGS") are separately disclosed in the summary of financial statements.

Clause 3(1) amends Clause 7(3)(a) of the Second Schedule:

- (a) The existing subparagraph (iv) to be revoked and substituted by:

"(iv) The net profit or loss before taking account of taxation and extraordinary items and before taking account of any profit or loss that has resulted from non-guaranteeing subsidiaries:"

- (b) The existing subparagraph (vi) to be revoked and substituted by:

"(vi) The net profit or loss before taking account of extraordinary items and before taking account of any profit or loss from non-guaranteeing subsidiaries:"

- (c) A new subparagraph (vii) to be inserted:

"(vii) The profit or loss from non-guaranteeing subsidiaries":

(d) The existing subparagraph (viii) to be revoked and substituted by:

"(viii) The net profit or loss after taking account of extraordinary items and including any net profit or loss from non-guaranteeing subsidiaries:"

Clause 3(2) amends clause 7(6) of the Second Schedule.

This clause provides a definition of the profit or loss of NGS, and also provides that use of the equity method is limited to accounting for NGS (i.e. it excludes accounting for associated bodies corporate). The existing subclause (6) to be revoked and replaced by the following subclauses:

"(6) For the purposes of this clause, profit and loss in relation to non-guaranteeing subsidiaries means the issuer's share of the aggregate retained profits or losses of its non-guaranteeing subsidiaries derived using the equity method of accounting".

"(6A) Except as provided in subclause (6) of this clause, the statements referred to in this clause shall not include any amounts derived by using the equity method of accounting".

Clause 3(3) This is a consequential change.

5. The fourth clause of the Amendment amends Clause 17 of the Second Schedule "Capital and Reserves" to provide for the inclusion of the group's share of any post-acquisition reserves or retained earnings of the NGS in its financial statements, while also ensuring those amounts are separately disclosed.

Clause 17(c):

Paragraph (c) to be revoked and substituted by:

"(c) A description of movements in shareholders' funds since the commencement of the most recently completed accounting period of the group showing separately -

(i) changes arising from any revaluation of assets;

(ii) contributions from shareholders;

(iii) changes arising from the issuer's interest in the reserves and retained earnings of non-guaranteeing subsidiaries as

determined in accordance with the equity method of accounting:

(iv) *other material changes*

6. The fifth clause of the Amendment amends Clause 24 of the Second Schedule "Investments" to require the use of the equity method of accounting to record the carrying value of the borrowing group's investment in its NGS, and to insert and define the term "adjusted cost value" to represent this value.

Clause 24

This clause to be revoked and substituted by:

"24 Investments - (1) Each balance sheet required by clause 16 of this Schedule, or notes to that balance sheet which are set out in the registered prospectus, shall state -

"(a) The aggregate amount of investments; and

"(b) In addition (as separate items), the amounts included within that aggregate amount in respect of:

"(i) The total of investments in non-guaranteeing subsidiaries determined on the basis of the adjusted cost value (within the meaning of subclause (2) of this clause) or market value (if ascertainable), whichever is the lesser:

"(ii) The total of investments in related bodies corporate (other than non-guaranteeing subsidiaries) at cost (less amounts written off) or market value (if ascertainable), whichever is the lesser:

"(iii) The total of investments in associated bodies corporate at cost (less amounts written off) or market value (if ascertainable), whichever is the lesser:

"(iv) Where material, the total of securities issued by the Crown or a local authority; and, where this amount is not market value, the total market value:

"(v) Where material, the total of investments in other bodies corporate listed on a trading exchange and, where this amount is not market value, the total

market value.

"(2) For the purposes of subclause (1) of this clause, "adjusted cost value" in relation to a non-guaranteeing subsidiary, means the consideration (less amounts written off) paid for the subsidiary together with the group's share of accumulated profits or losses and of changes in the reserves of the subsidiary since the date it became a subsidiary."

7. The sixth clause of the Amendment amends Clause 28 of the Second Schedule "Contents of Profit and Loss Account". The general purpose of the amendments to this clause is to provide for the separate inclusion and disclosure in the Profit and Loss Account of any profits or losses arising from applying the equity method of accounting to profits or losses arising from the group's investments in NGS.

(a) Clause 6(1)(a) amends Clause 28(b) of the Second Schedule:

Subparagraph (b)(i) to be revoked and substituted by:

"(i) Non-guaranteeing Subsidiaries in the form of dividends received or receivable:"

(b) Clause 6(1)(b) amends Clause 28(k):

Paragraph (k) to be revoked and substituted by:

"(k) The net profit or loss before taxation and, before the profit or loss of non-guaranteeing subsidiaries":

(c) Clause 6(1)(c) amends Clause 28(m):

Paragraph (m) to be revoked and substituted by:

"(m) The net profit or loss after taking account of taxation and before taking account of the matters specified in paragraphs (n) and (na) of this clause.

(d) Clause 6(1)(d) inserts a new Clause (na):

"(na) The profit or loss of non-guaranteeing subsidiaries:"

- (e) Clause 6(1)(e) revokes Clause 28(o):

Paragraph (o) to be substituted by:

"(o) The net profit or loss after taking account of taxation and the matters specified in paragraphs (n) and (na) of this clause".

- (f) Clause 6(2) inserts a new subclause 28(2):

"28(2) For the purposes of this clause, profit and loss in relation to non-guaranteeing subsidiaries means the issuer's share of the aggregate retained profits or losses of its non-guaranteeing subsidiaries derived using the equity method of accounting".

8. The seventh clause of the Amendment maintains the prohibition on the use of equity accounting for all purposes other than insofar as the financial statements in prospectuses relate to investments in or income derived from or the share of reserves or retained profits of the NGS. In particular this clause maintains the prohibition on use of equity accounting for investments in associated bodies corporate. It revokes Clause 32 of the Second Schedule "Equity Method of Accounting" and substitutes it with:

"32 The balance sheets, profit and loss accounts, notes, and statements referred to in clauses 16 to 31 of this Schedule shall not, except to the extent that they relate to the amount of investments in, or the amount of profits or losses derived from, or the share of the reserves of or retained earnings of, non-guaranteeing subsidiaries, include any amounts derived by using the equity method of accounting."

9. The seventh clause of the Amendment also inserts new Clauses 32A and 32B and the heading "*Financial Information Relating to Non-Guaranteeing Subsidiaries*" in the Second Schedule.

Clause 32A:

This is a new clause to be included in the Second Schedule to qualify the application of the succeeding clause 32B to situations where an issuer has active non-guaranteeing subsidiaries. The clause says:

"32A Application of clause 32B - Clause 32B of this Schedule shall apply only if, before the specified date, a non-guaranteeing subsidiary has commenced business and -

"(a) Has acquired an asset: or

"(b) Has incurred a debt."

Clause 32B

A new clause 32B to be added to the Second Schedule comprising several subclauses:

Clause 32B(1): The purpose of this subclause is to specify the level of detail required to be disclosed by issuers of debt securities about the size and composition of assets of their NGS.

"(1) A statement setting out, with respect to non-guaranteeing subsidiaries of the group, for the same accounting periods for which balance sheets have been included in the prospectus as required by clauses 16 and 30 of this Schedule, the aggregate of:

(a) Capital and reserves:

(b) Capital and reserves attributed to equity securities that are not held by members of the group:

(c) Term liabilities:

(d) Current liabilities:

(e) Total liabilities and capital:

(f) Fixed assets:

(g) Investments:

(h) Current Assets:

(i) Intangible and other assets:

(j) Total Assets."

Clause 32B(2) The purpose of this subclause is to specify the level of detail which has to be disclosed by issuers of debt securities about the level and composition of the earnings of the group's NGS.

"(2) A statement setting out, with respect to non-guaranteeing subsidiaries of the group, for the same accounting periods for which profit and loss accounts have been included in the prospectus as required by clauses 27 and 30 of this Schedule, the aggregate of:

- (a) Sales or other gross operating revenue;
- (b) Net profit or loss before taxation;
- (c) The amounts provided for, or credited by way of, taxation;
- (d) Net profits or losses after taking account of taxation and before extraordinary items;
- (e) The amounts of extraordinary items;
- (f) The net profits or losses after taxation and extraordinary items;
- (g) Minority interests in the net profits or losses;
- (h) The amounts of dividends paid and payable."

Clause 32B(3) The purpose of this requirement is to provide that the level of financial exposure by the borrowing group to the NGS is separately disclosed, as is the exposure by the NGS to the borrowing group.

"(3) A statement setting out, with respect to the non-guaranteeing subsidiaries of the group, for the same balance dates for which audited financial statements and any interim financial statements have been included in the prospectus:

- (a) the combined aggregate amount owed by those subsidiaries to the group, distinguishing between current liabilities and term liabilities;
- (b) the combined aggregate amount owed to those subsidiaries by members of the group, distinguishing between current assets and other assets.

Clause 32B(4) This provides for a statement to be included in the prospectus to provide a reconciliation of the summary information about the capital and reserves of the NGS required to be disclosed by subclause (1) of this clause with the carrying amount of those investments as determined by the application of the modified equity method of accounting prescribed in clause 24(1)(b)(i).

"(4) A statement reconciling -

"(a) The combined aggregate amount of the capital and reserves of the non-guaranteeing subsidiaries referred to in paragraph (a) of subclause (1) of this clause, less the amounts attributed to equity securities that are not held by members of the group referred to in paragraph (b) of subclause (1) of this clause; with

(b) The amount of investments in non-guaranteeing subsidiaries referred to in clause 24(1)(b)(i) of this Schedule and disclosed in the audited consolidated balance sheet and any consolidated interim balance sheet included in the prospectus -

accompanied by a brief explanation of the reasons for any material difference between the respective amounts.

Clause 32B(5). This statement is included to explain to prospective investors the significance of the information being included in the prospectus which relates to the group's NGS.

"(5) A statement, in conjunction with the information disclosed pursuant to subclauses (1) to (4) of this clause, to the effect that the information with respect to the non-guaranteeing subsidiaries of the issuer is included in the prospectus to provide prospective investors with an indication of the composition and significance of the business activities carried on by, and the profits or losses contributed by, those companies which are subsidiaries of the issuer but which do not guarantee the repayment of the securities being offered or the payment of interest."

10. The eighth clause of the Amendment amends Clause 36 of the Second Schedule "Auditor's Report". It requires the auditor to comment on whether the information disclosed in the prospectus about the NGS has been taken from audited financial statements, and whether it has been correctly taken. The paragraph does not require the information relating to NGS to be audited.

Clause 36(1)(b):

This paragraph to be amended by omitting the expression "and 12" and substituting the expression "12, 32B(1), 32B(2) and 32B(3)".

11. The ninth clause provides that the amendment shall not apply to any prospectus registered before the close of 31 August 1996 or to any advertisement that relates to any debt securities offered to the public for subscription by means of any such prospectus. This allows for time for issuers to adjust to the new requirements introduced in this amendment.

Securities Commission
12th Floor, Reserve Bank Building
2 The Terrace
WELLINGTON.
28 February 1996

THE SECURITIES REGULATIONS 1983, AMENDMENT NO. []

Governor-General

ORDER IN COUNCIL

At Wellington this day of 1996

Present:

IN COUNCIL

PURSUANT to section 70 (1) of the Securities Act 1978, Her Excellency the Governor-General, acting by and with the advice and consent of the Executive Council, and in accordance with the recommendation of the Securities Commission, hereby makes the following regulations.

ANALYSIS

REGULATIONS

1. Title and commencement—(1) These regulations may be cited as the Securities Regulations 1983, Amendment No. [], and shall be read together with

and deemed part of the Securities Regulations 1983¹ (hereinafter referred to as the principal regulations).

(2) These regulations shall come into force on the 1st day of September 1996.

2. Interpretation—Regulation 2 (1) of the principal regulations is hereby amended by inserting, after the definition of the term “monetary assets”, the following definition:

“ ‘Non-guaranteeing subsidiary’, in relation to an offer of debt securities, means a subsidiary of the issuer that is not a guaranteeing subsidiary in respect of the period since it became such a subsidiary”.

3. Amendments to clause 7 of Second Schedule—(1) Clause 7 (3) (a) of the Second Schedule to the principal regulations is hereby amended—

(a) By revoking subparagraph (iv), and substituting the following subparagraph:

“(iv) The net profit or loss before taking account of taxation and extraordinary items and before taking account of any profit or loss from non-guaranteeing subsidiaries”:

(b) By revoking subparagraph (vi), and substituting the following subparagraph:

“(vi) The net profit or loss before taking account of extraordinary items and before taking account of any profit or loss from non-guaranteeing subsidiaries”:

(c) By inserting, after subparagraph (vii), the following subparagraph:

“(viiia) The profit or loss from non-guaranteeing subsidiaries”:

(d) By revoking subparagraph (viii), and substituting the following subparagraph:

“(viii) The net profit or loss after taking account of extraordinary items and including any profit or loss from non-guaranteeing subsidiaries”.

(2) Clause 7 of the Second Schedule to the principal regulations is hereby

¹ S.R. 1983/121

Amendment No. 1: S.R. 1988/95

Amendment No. 2: S.R. 1995/285

amended by revoking subclause (6), and substituting the following subclauses:

“(6) For the purposes of this clause, profit or loss in relation to non-guaranteeing subsidiaries means the issuer’s share of the aggregate retained profits or losses of its non-guaranteeing subsidiaries derived using the equity method of accounting.

“(6A) Except as provided in subclause (6) of this clause, the statements referred to in this clause shall not include any amounts derived using the equity method of accounting.”

(3) Clause 7 (7) of the Second Schedule to the principal regulations is hereby amended by omitting the expression “(6)”, and substituting the expression “(6A)”.

4. Amendment to clause 17 of Second Schedule—Clause 17 of the Second Schedule to the principal regulations is hereby amended by revoking paragraph (c) (as substituted by section 3 of the Company Law Reform (Transitional Provisions) Act 1994), and substituting the following paragraph:

“(c) A description of movements in shareholders’ funds since the commencement of the most recently completed accounting period of the group showing separately—

“(i) Changes arising from any revaluation of assets:

“(ii) Contributions from shareholders:

“(iii) Changes arising from the issuer’s interest in the reserves and retained earnings of non-guaranteeing subsidiaries as determined in accordance with the equity method of accounting:

“(iv) Other material changes.”

5. New clause 24 of Second Schedule substituted—The Second Schedule to the principal regulations is hereby amended by revoking clause 24, and substituting the following clause:

“24. **Investments**—(1) Each balance sheet required by clause 16 of this Schedule, or notes to that balance sheet which are set out in the registered prospectus, shall state—

“(a) The aggregate amount of investments; and

“(b) In addition (as separate items), the amounts included within that aggregate amount in respect of:

“(i) The total of investments in non-guaranteeing subsidiaries determined on the basis of the adjusted cost value (within the meaning of subclause (2) of this clause) or market value (if ascertainable), whichever is the lesser:

“(ii) The total of investments in related bodies corporate (other than non-guaranteeing subsidiaries) at cost (less amounts written off) or market value (if ascertainable), whichever is the lesser:

“(iii) The total of investments in associated bodies corporate at cost (less amounts written off) or market value (if ascertainable), whichever is the lesser:

“(iv) Where material, the total of securities issued by the Crown or a local authority; and, where this amount is not market value, the total market value:

“(v) Where material, the total of investments in other bodies corporate listed on a trading exchange and, where this amount is not market value, the total market value.

“(2) For the purposes of subclause (1) of this clause, ‘adjusted cost value’, in relation to a non-guaranteeing subsidiary, means the consideration (less amounts written off) paid for the subsidiary together with the group’s share of accumulated profits or losses and of changes in the reserves of the subsidiary since the date it became a subsidiary.”

6. Amendments to clause 28 of Second Schedule—(1) Clause 28 of the Second Schedule to the principal regulations (as substituted by section 3 of the Company Law Reform (Transitional Provisions) Act 1994) is hereby amended—

(a) By revoking subparagraph (i) of paragraph (b), and substituting the following subparagraph:

“(i) Non-guaranteeing subsidiaries in the form of dividends received or receivable.”:

(b) By revoking paragraph (k), and substituting the following paragraph:

“(k) The net profit or loss before taxation and before the profit or loss of non-guaranteeing subsidiaries.”:

(c) By revoking paragraph (m), and substituting the following paragraph:

“(m) The net profit or loss after taking account of taxation and before taking account of the matters specified in paragraphs (n) and (na) of this clause.”:

(d) By inserting, after paragraph (n), the following paragraph:

“(na) The profit or loss of non-guaranteeing subsidiaries.”:

(e) By revoking paragraph (o), and substituting the following paragraph:

“(o) The net profit or loss after taking account of taxation and the matters specified in paragraphs (n) and (na) of this clause.”.

(2) Clause 28 of the principal notice (as so substituted) is hereby further amended by adding, as subclause (2), the following subclause:

“(2) For the purposes of this clause, profit or loss in relation to non-guaranteeing subsidiaries means the issuer’s share of the aggregate retained profits or losses of its non-guaranteeing subsidiaries derived using the equity method of accounting.”

7. New clauses substituted in Second Schedule—The Second Schedule to the principal regulations is hereby amended by revoking clause 32, and substituting the following clauses:

“32. **Equity method of accounting**—The balance sheets, profit and loss statements, notes, and statements referred to in clauses 16 to 31 of this Schedule shall not, except to the extent that they relate to the amount of investments in, or the amount of profits or losses derived from, or the share of the reserves or retained earnings of, non-guaranteeing subsidiaries, include any amounts derived by using the equity method of accounting.

“Financial Information Relating to Non-Guaranteeing Subsidiaries

“32A. **Application of clause 32B**—Clause 32B of this Schedule shall apply only if, before the specified date, a non-guaranteeing subsidiary has commenced business

and—

“(a) Has acquired an asset; or

“(b) Has incurred a debt.

“32B. Financial information relating to non-guaranteeing subsidiaries—(1)

A statement setting out, with respect to non-guaranteeing subsidiaries of the group, for the same accounting periods for which balance sheets have been included in the prospectus as required by clauses 16 and 30 of this Schedule, the aggregate of—

“(a) Capital and reserves:

“(b) Capital and reserves attributable to equity securities that are not held by members of the group:

“(c) Term liabilities:

“(d) Current liabilities:

“(e) Total liabilities and capital:

“(f) Fixed assets:

“(g) Investments:

“(h) Current assets:

“(i) Intangible and other assets:

“(j) Total assets.

“(2) A statement setting out, with respect to non-guaranteeing subsidiaries of the group, for the same accounting periods for which profit and loss statements have been included in the prospectus as required by clauses 27 and 30 of this Schedule, the aggregate of:

“(a) Sales and other gross operating revenue:

“(b) Net profit or loss before taxation:

“(c) The amount provided for, or credited by way of, taxation:

“(d) The net profit or loss after taking account of taxation and before extraordinary items:

“(e) The amount of extraordinary items:

“(f) The net profit or loss after taxation and extraordinary items:

“(g) Minority interests in the net profits or losses:

“(h) The amounts of dividends paid or payable.

“(3) A statement setting out, with respect to the non-guaranteeing subsidiaries of the group, for the same balance dates for which audited financial statements and any interim financial statements have been included in the prospectus:

“(a) The combined aggregate amount owed by those subsidiaries to the group, distinguishing between current liabilities and term liabilities:

“(b) The combined aggregate amount owed to those subsidiaries by members of the group, distinguishing between current assets and other assets.

“(4) A statement reconciling—

“(a) The combined aggregate amount of the capital and reserves of the non-guaranteeing subsidiaries referred to in paragraph (a) of subclause (1) of this clause, less the amounts attributed to equity securities that are not held by members of the group referred to in paragraph (b) of subclause (1) of this clause, with

“(b) The amount of investments in non-guaranteeing subsidiaries referred to in clause 24 (1) (b) (i) of this Schedule and disclosed in the audited consolidated balance sheet and any consolidated interim balance sheet included in the prospectus,—

accompanied by a brief explanation of the reasons for any material differences between the respective amounts.

“(5) A statement in conjunction with the information disclosed pursuant to subclauses (1) to (4) of this clause to the effect that the information with respect to the non-guaranteeing subsidiaries of the issuer is included in the prospectus to provide prospective investors with an indication of the composition and significance of the business activities carried on by, and the profits or losses contributed by, those companies that are subsidiaries of the issuer but that do not guarantee the repayment of the securities being offered or the payment of interest.”

8. Amendment to clause 36 of Second Schedule—Clause 36 (1) (g) of the Second Schedule to the principal regulations (as substituted by section 3 of the Company Law Reform (Transitional Provisions) Act 1994) is hereby amended by

omitting the expression "and 12", and substituting the expression "12, 32B (1), 32B (2), and 32B (3)".

9. **Application to existing prospectuses**—Nothing in these regulations applies to a registered prospectus registered before the close of the 31st day of August 1996 or to any advertisement that relates to any debt securities offered to the public for subscription by means of any such prospectus.

Clerk of the Executive Council.

EXPLANATORY NOTE

This note is not part of the regulations, but is intended to indicate their general effect.

These regulations, which come into force on 1 September 1996, make a number of related amendments to the Second Schedule to the Securities Regulations 1983. The Second Schedule prescribes the information that must be included in a registered prospectus containing offers of debt securities. The amendments relate to the inclusion of financial information relating to non-guaranteeing subsidiaries.

Regulation 2 inserts into regulation 2 of the principal regulations a definition of the term "non-guaranteeing subsidiary" in relation to issuers of debt securities.

Regulation 3 amends clause 7 of the Second Schedule. Clause 7 sets out the information that must be contained in the summary financial statement relating to the borrowing group. At present, financial information derived by using the equity

method of accounting cannot be included. The effect of the amendments is to require equity accounted profits or losses of non-guaranteeing subsidiaries to be shown in the summary financial statement. No other financial information derived by using the equity method of accounting (for example, in respect of investments in associated bodies) may be included.

Regulation 4 amends clause 17 (c) of the Second Schedule. Clause 17 (c) requires the prospectus to contain a description of movements in shareholders' funds that shows separately changes arising from any revaluation of assets, contributions from shareholders, and other material changes. The amendment will require changes arising from any interest of the group in the reserves and retained earnings of non-guaranteeing subsidiaries to be separately disclosed as well.

Regulation 5 substitutes a new *clause 24* for the existing clause 24 of the Second Schedule. Clause 24 relates to investments of the borrowing group. At present, clause 24 requires the registered prospectus to show separately the amount of investments in subsidiaries that are not members of the borrowing group at cost (less amounts written off) or market value, whichever is the lesser. The new clause will require investments in non-guaranteeing subsidiaries to be shown at the lesser of their adjusted cost value or market value. The adjusted cost value, in relation to a subsidiary, is the value of the subsidiary determined on the basis of cost of acquisition (less amounts written off), plus the group's share of retained post-acquisition profits or losses and the group's share of post-acquisition changes in reserves.

Regulation 6 amends clause 28 of the Second Schedule. Clause 28 sets out the matters that must be included in the profit and loss statement. The effect of the amendments is to require equity accounted profits or losses of non-guaranteeing subsidiaries to be included and separately identified.

Regulation 7 revokes clause 32 and substitutes new *clauses 32 to 32B*.

The present clause 32 does not allow the use of the equity method of accounting in relation to financial statements included in a registered prospectus. The new *clause 32* will, effectively, now only prevent the use of the equity method of accounting to account for investments in associated bodies.

The new *clauses 32A and 32B* prescribe information relating to non-guaranteeing subsidiaries that must be included in a registered prospectus.

Regulation 8 amends clause 36 (1) (g) of the Second Schedule. At present, clause 36 (1) (g) requires the auditor's report to state whether the amounts stated pursuant to clauses 7 (2), 7 (3), 8 (2), 8 (3), and 12 of the Second Schedule have been taken from audited financial statements and whether they have been correctly taken. Clause 36 (1) (g) is amended to include a reference to amounts stated pursuant to the new clause 32B.

Regulation 9 provides that the amendments do not apply to any prospectus that is registered before the regulations come into force or to any advertisement that relates to debt securities offered in any such prospectus.