



Financial Markets Conduct (Small Co-operatives) Exemption Notice 2016

Pursuant to section 556 of the Financial Markets Conduct Act 2013, the Financial Markets Authority, being satisfied of the matters set out in section 557 of that Act, gives the following notice.

Contents

		Page
1	Title	2
2	Commencement	2
3	Revocation	2
4	Application	2
5	Interpretation	2
6	Exemption for co-operative shares from Part 3 of Act	3
7	Conditions of exemption in clause 6	3
8	Exemptions for co-operative shares from Part 4 of Act	4
9	Exemptions for co-operative shares offered under Securities Act 1978	4
10	Condition of exemptions in clause 9	5
11	Exemption from financial reporting if individual investor investment does not exceed \$5,000	5
12	Exemption from financial reporting if revenue does not exceed \$2 million	5
13	Condition of exemption in clause 12	5
14	Effect of exemptions from Part 4 of Act	5
	Schedule 1	6
	Contents of disclosure document	
	Schedule 2	9
	Warning statements	

Notice

1 Title

This notice is the Financial Markets Conduct (Small Co-operatives) Exemption Notice 2016.

2 Commencement

This notice comes into force on 23 December 2016.

3 Revocation

This notice is revoked on the close of 22 December 2021.

4 Application

An exemption granted by this notice in relation to any provision of Part 7 of the Act applies to the following accounting periods of an issuer that relies on this notice:

- (a) an accounting period of the issuer that commenced before the exemption is granted (including an accounting period that ended before the exemption is granted) if the exemption is granted before the financial statements or group financial statements for that period would, but for the exemptions contained in this notice, be required to be delivered to the Registrar for lodgement under section 461H of the Act; and
- (b) subsequent accounting periods.

5 Interpretation

- (1) In this notice, unless the context otherwise requires,—

Act means the Financial Markets Conduct Act 2013

application, in relation to an offer of financial products by an issuer to an investor, means an application for the financial products that is made by the investor

co-operative shares means—

- (a) nominal value shares in a co-operative company that are offered only to persons who are, or immediately after the issue or sale will be, transacting shareholders of the co-operative company; or
- (b) shares in an industrial and provident society

effective date has the same meaning as in clause 16 of Schedule 4 of the Act

investor—

- (a) has the meaning set out in section 6 of the Act;
- (b) *see* also subclause (4)

Regulations means the Financial Markets Conduct Regulations 2014.

- (2) Any term or expression that is defined in the Act or the Regulations and used, but not defined, in this notice has the same meaning as in the Act or the Regulations.
- (3) Regulation 9 of the Regulations applies, with all necessary modifications, to a warning statement required under this notice and to the disclosure document referred to in clause 7.
- (4) A reference in this notice to the amount that an investor has paid or must pay for co-operative shares includes all amounts that the investor's associated persons have paid, or must pay, for the co-operative shares.

6 Exemption for co-operative shares from Part 3 of Act

- (1) Every issuer (A) is exempted from Part 3 of the Act in respect of an offer co-operative shares of which A is the issuer.
- (2) Subclause (1) is subject to subclauses (3) and (4).
- (3) The exemption in subclause (1) does not apply if either of the following applies:
 - (a) 1 or more investors in co-operative shares of A has paid more than \$5,000 for co-operative shares of A that the investor holds at the time of the offer; or
 - (b) the amount that 1 or more investors in co-operative shares of A must pay on acceptance of the offer plus the amounts that the investor has previously paid for co-operative shares of A that the investor holds at the time of the offer, is more than \$5,000.
- (4) The exemption in subclause (1) stops applying if, in respect of a subsequent offer of co-operative shares of which A is the issuer, the amount that 1 or more investors in co-operative shares of A must pay on acceptance of the offer plus the amounts that the investor has previously paid for co-operative shares of A that the investor holds at the time of the offer, is more than \$5,000.

7 Conditions of exemption in clause 6

The exemption in clause 6 is subject to the conditions that—

- (a) A must not accept an application, or issue or transfer the shares to an investor, unless,—
 - (i) before the application was made, a disclosure document for the offer was given to the investor; and
 - (ii) the disclosure document contained all the information specified in Schedule 1 in relation to the offer; and
- (b) A must ensure that the warning statement set out in Part 1 of Schedule 2 is included, in a prominent position, at the front of every document provided to the investor that contains the key terms of the offer (including the disclosure document referred to in paragraph (a)).

8 Exemptions for co-operative shares from Part 4 of Act

- (1) Every issuer (A) is exempted from Part 4 (but not sections 215 to 217 and 220 to 226) of the Act and regulation 108 of the Regulations in respect of co-operative shares, of which A is the issuer, offered under the Act.
- (2) Subclause (1) is subject to subclauses (3) and (4).
- (3) The exemptions in subclause (1) do not apply if either of the following applies:
 - (a) 1 or more investors in co-operative shares of A has paid more than \$5,000 for co-operative shares of A that the investor holds at the time of the offer; or
 - (b) the amount that 1 or more investors in co-operative shares of A must pay on acceptance of the offer, plus the amounts that the investor has previously paid for co-operative shares of A that the investor holds at the time of the offer, is more than \$5,000.
- (4) The exemptions in subclause (1) stop applying if, in respect of a subsequent offer of co-operative shares of which A is the issuer, the amount that 1 or more investors in co-operative shares of A must pay on acceptance of the offer plus the amounts that the investor has previously paid for co-operative shares of A that the investor holds at the time of the offer, is more than \$5,000.

9 Exemptions for co-operative shares offered under Securities Act 1978

- (1) Every issuer (A) is exempted from the following provisions of the Act and the Regulations in respect of co-operative shares, of which A is the issuer, offered under the Securities Act 1978:
 - (a) subpart 4 of Part 3 of the Act;
 - (b) Part 4 of the Act, except sections 215 to 217 and 220 to 226;
 - (c) clauses 21 and 30 of Schedule 4 of the Act;
 - (d) regulation 108 of the Regulations.
- (2) Subclause (1) is subject to subclauses (3) to (5).
- (3) The exemptions in subclause (1) do not apply if 1 or more investors in co-operative shares of A has paid more than \$5,000 for co-operative shares of A that the investor held on 1 December 2016.
- (4) The exemptions in subclause (1) stop applying if, in respect of a subsequent offer of co-operative shares of which A is the issuer, the amount that 1 or more investors in co-operative shares of A must pay on acceptance of the offer plus the amounts that the investor has previously paid for co-operative shares of A that the investor holds at the time of the offer, is more than \$5,000.
- (5) If the exemptions in subclause (1) stop applying because A makes an offer of co-operative shares that falls within subclause (4), then clauses 21 and 30 of Schedule 4 of the Act apply in respect of co-operative shares, of which A is the issuer, offered under the Securities Act 1978—

- (a) as if the time by which the compliance requirements in those clauses of Schedule 4 of the Act had to be met was on commencement of the offer; and
- (b) with all other necessary modifications.

10 Condition of exemptions in clause 9

The exemptions in clause 9 are subject to the condition that A must, no later than 3 months after the effective date, send to each holder of co-operative shares (at the holder's last known address) a written notice containing, in a prominent position, the warning statement set out in Part 2 of Schedule 2.

11 Exemption from financial reporting if individual investor investment does not exceed \$5,000

- (1) Every issuer (A) is exempted from Part 7 of the Act with respect to a particular accounting period if A is an FMC reporting entity only by virtue of co-operative shares issued by A being regulated products.
- (2) The exemption in subclause (1) does not apply if 1 or more investors in co-operative shares of A has paid more than \$5,000 for co-operative shares of A that the investor holds at any one time during the accounting period.

12 Exemption from financial reporting if revenue does not exceed \$2 million

Every issuer (A) is exempted from Part 7 of the Act with respect to a particular accounting period if—

- (a) A is an FMC reporting entity only by virtue of co-operative shares issued by A being regulated products; and
- (b) the total revenue of A and its subsidiaries (if any) for that accounting period (as determined in accordance with generally accepted accounting practice) does not exceed \$2 million.

13 Condition of exemption in clause 12

The exemption in clause 12 is subject to the condition that A must ensure that the warning statement set out in Part 3 of Schedule 2 is included, in a prominent position, at the front of every document provided to the investor that contains A's financial statements or summary financial statements for that accounting period.

14 Effect of exemptions from Part 4 of Act

The exemptions in clauses 8 and 9 from Part 4 of the Act do not exempt an issuer from any civil liability, including pecuniary penalties, that may arise for contravention of the provisions of Part 4 specified in section 228 of the Act.

Schedule 1

Contents of disclosure document

cl 7

Disclosure document summary

The disclosure document must have sections, each of which is headed up, is ordered, and contains information as follows:

1 What is this?

The disclosure document must contain a statement in the following form:

This is an offer of [*name of financial products (for example, co-operative shares of ABC limited)*]. [*Name of financial products*] give you a stake in the ownership of [*name of issuer*].

You could receive a return reflecting the performance of [*name of issuer*] through [*specify mechanism for receiving returns (for example, rebates)*].

If [*name of issuer*] runs into financial difficulties and is wound up, you will be paid only after all creditors and holders of preference shares have been paid. You may lose some or all of your investment.

2 About [*name of issuing group*]

The disclosure document must contain a brief description of the issuing group's business.

Example

ABC limited is a co-operative company providing fruit packaging and cool storage services to fruit growers in XYZ region.

3 Purpose of this offer

The disclosure document must contain a brief description of the purpose of the offer (including what the money raised under the offer is to be used for).

4 Key terms of the offer

- (1) The disclosure document must contain the key terms of the offer briefly summarised in a table, including—
 - (a) a brief description of the co-operative shares being offered (for example, *This is an offer of co-operative shares in ABC Limited*); and
 - (b) the fixed price of, or other fixed consideration for, the co-operative shares (if any) or the (fixed or indicative) range within which that price or consideration may be fixed (if any); and
 - (c) the intended dates on which the offer opens and closes; and
 - (d) the number or amount of the co-operative shares being offered and the percentage of the total co-operative shares of the same class on issue that

that number or amount will represent immediately after the issue or sale;
and

- (e) if a holder of the co-operative shares will or may be liable to make further payments or to pay fees or charges relating to those securities, a brief description of the nature of the liability, fees, or charges.
- (2) Subclause (3) applies if either or both of the following apply:
- (a) the co-operative shares will not be issued or transferred unless applications for a minimum number of those securities are received (*see* section 77(1)(a) of the Act) (the **minimum number**):
 - (b) there is a maximum number of co-operative share securities being offered (the **maximum number**).
- (3) The information under subclause (1)(d) must be disclosed on the basis of the minimum number or the maximum number (or both), as the case may be.
- (4) Subclause (1)(d) does not apply to a continuous issue disclosure document.
- (5) In subclause (4), **continuous issue disclosure document** means a disclosure document that relates to co-operative shares that the issuer, in the ordinary course of its business, continuously offers.

5 How you can get your money out

- (1) The disclosure document must include whichever of the following statements best applies:
- (a) [*Name of issuer*] does not intend to quote these [*name of financial products*] on a licensed market in New Zealand but they will be able to be traded on the [*describe established market for trading*]. This means you may be able to sell them on [*name of established market*] if there are interested buyers. You may get less than you invested. The price will depend on the demand for the [*name of financial products*].
 - (b) [*Name of issuer*] does not intend to quote these [*name of financial products*] on a market licensed in New Zealand, and there is no other established market for trading them. This means that you may not be able to sell your [*name of financial products*].
 - (c) These [*name of financial products*] cannot be sold or transferred.
- (2) The disclosure document must contain a description of the ability to redeem the co-operative shares (if any).

6 Key drivers of returns

The disclosure document must give a brief summary of what the issuer considers to be—

- (a) the current and future aspects of the issuing group's business that have, or may have, the most impact on the financial performance of the business; and

(b) the key strategies and plans for those aspects of the business.

7 Key risks affecting this investment

(1) The disclosure document must include a statement in the following form:

[Name of issuer] considers that the most significant risk factors that could affect the returns received from holding these [name of financial products] are [brief summary of the most significant risk factors that the issuer considers may affect the returns].

This summary does not cover all the risks of investing in *[name of financial products]*.

(2) The brief summary under subclause (1) must include particulars that make it clear why each circumstance is of particular significance in relation to the particular issuer or the particular co-operative shares (as compared to other issuers or co-operative shares).

8 [Name of issuing group's] financial information

The disclosure document must include a statement in the following form:

Under the terms of the Financial Markets Conduct (Small Co-operatives) Exemption Notice 2016, on which this offer relies, no financial information regarding *[name of issuer]* is required to be provided.

Schedule 2

Warning statements

cls 7(b), 10, 13

Part 1

Under the Financial Markets Conduct Act 2013, co-operative companies and industrial and provident societies making an offer of co-operative shares have to give information about themselves and the shares to investors. They also have to provide shareholders with ongoing financial information about the shares and the company. In most cases, this information must meet legal requirements under that Act for financial reporting and the auditing of financial statements. This is to help investors make informed decisions.

In this case, these rules do not apply because there is an exemption where the total amount to be invested by individual investors in co-operative shares of a co-operative company or industrial and provident society is \$5,000 or less (including any shares already held). This exemption recognises that, for the shareholders, these co-operative shares are more like a membership than an investment.

As a result, you may not be given all the information usually required.

Part 2

You hold [*description of co-operative shares*] in [*name of issuer*]

Under the Financial Markets Conduct Act 2013, co-operative companies and industrial and provident societies that have issued co-operative shares usually have to make available ongoing financial information about themselves and the co-operative shares to investors. This is to help investors make informed decisions. In most cases, this information must meet legal requirements under that Act for financial reporting and the auditing of financial statements.

These rules do not apply in relation to these co-operative shares because there is an exemption where the total amount invested by individual investors in co-operative shares of a co-operative company or industrial and provident society is \$5,000 or less. This exemption recognises that, for the shareholders, these co-operative shares are more like a membership than an investment.

As a result, you may not be given all the financial information usually required.

Part 3

Under the Financial Markets Conduct Act 2013, co-operative companies and industrial and provident societies that have issued co-operative shares usually have to make available ongoing financial information about themselves and the shares to investors. This is to help investors make informed decisions. In most cases, this information must meet legal requirements under that Act for financial reporting and the auditing of financial statements.

These rules do not apply to [*name of issuer*] for [*relevant accounting period*] because there is an exemption for issuers of co-operative shares where the issuer's annual revenue is \$2 million or less.

As a result, the information provided in this document may not contain all the financial information usually required to be provided to shareholders for [*relevant accounting period*].

Dated at Auckland this 21st day of December 2016.

Nick Kynoch,
General Counsel.

Statement of reasons

This notice comes into force on 23 December 2016 and is revoked on the close of 22 December 2021.

This notice exempts issuers of co-operative shares (including shares in an industrial and provident society, both redeemable and non-redeemable) from—

- disclosure requirements under Part 3 and governance requirements under Part 4 of the Financial Markets Conduct Act 2013 (the **Act**) in respect of any co-operative shares where the aggregate per shareholder capital investment in the co-operative shares of that issuer is \$5,000 or less:
- ongoing disclosure and governance requirements under Parts 3 and 4 of the Act and certain transitional provisions under Schedule 4 of the Act (including provisions specifically applicable to redeemable shares in an industrial and provident society) in respect of any co-operative shares where the co-operative shares were offered under the Securities Act 1978 and the aggregate per shareholder capital investment in co-operative shares of that issuer is \$5,000 or less:
- financial reporting and auditing requirements under Part 7 of the Act in relation to an accounting period where the aggregate per shareholder capital investment in the co-operative shares of that issuer held at any one time during that period is \$5,000 or less:
- financial reporting and auditing requirements under Part 7 of the Act in relation to an accounting period where the revenue of the issuer (plus the revenue of any wholly owned subsidiaries) is \$2 million or less for that accounting period.

The Financial Markets Authority (the **FMA**), after satisfying itself as to the matters set out in section 557 of the Act, considers it appropriate to grant the exemptions because—

- the exemptions apply only to co-operative shares and issuers of co-operative shares. As holders of co-operative shares, members obtain goods, services, or rights from the company or industrial and provident society that has issued those shares. Those shareholders will generally have significant knowledge regarding the issuer because the issuer's principal business is the provision of those goods, services, or rights to its members; and
- in cases where an issuer's total investment per shareholder is \$5,000 or less, the financial risk to shareholders is low. Like a membership, shareholders obtain transacting benefits during the lifetime of their investment that are not in the nature of usual equity returns and are irrespective of any profits made by the issuer. The exemptions enable those issuers to provide information to investors in a cost-effective way that is appropriate to the nature of its business and the type and level of investment made by its transacting shareholders, while still maintaining appropriate investor protections; and
- in cases where an issuer's revenue (plus the revenue of any wholly-owned subsidiaries) for a particular accounting period is \$2 million or less, the financial risk to shareholders is more limited and the costs of complying with Part 7 of the Act are disproportionately high. There is a risk that those compliance costs might affect such an issuer's delivery of key partner benefits to its transacting shareholders. The limited benefit those investors would receive if the issuer was required to comply with the financial reporting and auditing requirements in Part 7 of the Act for that accounting period is outweighed by those costs and that risk; and
- those co-operative companies and industrial and provident societies remain subject to the financial reporting and auditing requirements of the Companies Act 1993 and the Industrial and Provident Societies Act 1908, respectively, which require them to prepare financial statements in accordance with generally accepted accounting principles and have those statements audited unless shareholders agree otherwise. In this way, those entitled continue to be subject to financial reporting and auditing requirements that are more cost-effective to issuers and are appropriate to the nature of the business and the amount of revenue obtained during the relevant financial reporting period; and
- for these reasons, the FMA is satisfied that the exemptions are desirable in order to promote the purposes of the Act, specifically avoiding unnecessary compliance costs while continuing to ensure the provision of timely, accurate, and understandable financial information to assist decision making by members; and
- the FMA is also satisfied that the exemptions are not broader than reasonably necessary to address the matters that gave rise to them, given that the exemptions are limited to issuers of co-operative shares that have—
 - an aggregate per shareholder capital investment of \$5,000 or less; or
 - revenue for the relevant financial reporting period of \$2 million or less.

**Financial Markets Conduct (Small Co-operatives)
Exemption Notice 2016**

2016/310

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Wellington, New Zealand:

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