Submission

By

Business NZ

to the

Ministry of Economic Development

on

The Statutory Framework for Financial Reporting

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THE STATUTORY FRAMEWORK FOR FINANCIAL REPORTING
SUBMISSION BY BUSINESS NEW ZEALAND[1]
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1. INTRODUCTION

1.1 Business New Zealand welcomes the opportunity to comment on the Ministry of Economic Development's (MED) discussion document entitled *Statutory for Financial Reporting Discussion Document* (referred to as 'the Document'). We support MED producing a Document that aims to create a financial reporting framework that is coherent, complete and consistent, while balancing the benefits of financial reporting against the compliance costs. There is much in the Document that Business New Zealand agrees with. However, there are various issues we wish to raise, including one in particular that we strongly oppose progressing any further.

2. SUMMARY OF RECOMMENDATIONS

2.1 Business New Zealand makes the following **<u>recommendations</u>** with regard to the Document, namely that:

(a) ***If an establishment of an XRB is supported by the majority of submitters, the next step by MED is to outline costs and fee settings that are open to wide public consultation in terms of the level(s) set (p.3);***

(b) ***The thresholds of asset values, annual revenue and numbers of FTE employees remain as appropriate measures of economic significance (p.4);***

(c) ***The current two-out-of-three approach remains (p.5);***

(d) ***If the number of FTE employees is increased; it should be increased from no more than 50 to no more than 100 (p.6);***

(e) ***The maximum specific time requiring each monetary amount to be reviewed is no more than 10 years (p.7);***

(f) ***MED takes into account the main views of submitters regarding the recommendation of economically significant companies being required to produce and file audited financial reports as outlined in the Financial Reporting Act 1993 Review Part II (p.9);***

(g) ***Grandfathering provisions as outlined in paragraph 82 of the Document do not proceed (p.10);***

(h) ***The proposal for large non-issuer companies (and other entities that may be impacted, such as non-profit entities or Maori Land Trusts that meet the economic significance indicator) to file financial statements <u>does not</u> proceed (p.11);***

[1] Background information on Business New Zealand is attached in the appendix.

(i) ***The proposals for small and medium companies as outlined in part 5.4.3 of the Document proceeds (p.12);***

(j) ***Overseas-incorporated companies that are carrying on business in New Zealand that are not considered to be 'large' should have their filing requirements removed (p.12);***

(k) ***Sections 29A, 35A and 35B of the Financial Reporting Act be retained (p.13); and***

(l) ***The operating expenditure figure used to exempt private non-profit entities from preparing GPFR should increase significantly from $20,000 to at least $100,000. We would also support an increase to $250,000 as a possibility (p.14).***

2.2 While the Document covers a wide array of financial reporting framework issues, Business New Zealand wishes to comment on those areas that have the strongest potential impact on business growth. Specifically, we wish to discuss particular proposals outlined in Parts 3, 4, 5 and 9 of the Document.

3. INSTITUTIONS AND STATUTORY RESPONSIBILITIES

3.1 Part 3 of the Document raises concerns in terms of existing institutions and statutory responsibilities relating to financial reporting frameworks. Part 3.2 then proposes a consolidation of all standards-related responsibilities within the Accounting Standards Review Board (ASRB) and renaming it the External Reporting Board (XRB).

3.2 This proposal appears similar to one put forward in 2005 when MED proposed institutional arrangements relating to financial reporting be formally consolidated into a single, independent Crown entity with an active role in the standards setting process, thus becoming a reconstituted ASRB.

3.3 When this proposal was put forward in 2005, Business New Zealand had doubts regarding the formation of such a body. We stated that we did not see any major shortcomings of the current regime whereby the ASRB reviews and approves financial reporting standards, and the Financial Reporting Standards Board (FSRB), which is a board of the New Zealand Institute of Chartered Accountants (NZICA) was the dominant provider of technical advice to the ASRB. Although NZICA was both a representative body and a dominant provider of standards, we did not perceive the interests of the accounting profession being unduly favoured. Previous experience had shown the system to provide standards that did not undermine the confidence of investors, nor question the objectivity of the decisions reached.

3.4 We also pointed out that if there was widespread support from other submitters for the establishment of a single independent Crown entity, we outlined two caveats:

- It should not grant exemptions from financial reporting requirements; and

- Fee level(s) as part of the cost recovery for a single independent Crown entity was open to wide public consultation in terms of the level(s) set.

3.5 Along similar lines, the 2009 Document looks to consolidate all standards-related responsibilities with the ASRB and rename it the XRB. At first glance, the establishment of an XRB may help towards what MED considers to be the opaque nature of the existing regime. Moving on from our views on this in 2005, we agree that disadvantages with the current regime have become more evident, including:

- A lack of clarity in terms of the division of responsibility;

- Excessive process requirements that seem to make little sense in the context of international standards; and

- The constant workload and resources asked of NZICA on these issues that could be used in other areas.

3.6 On balance, these problems most probably mean that the status quo needs to be examined, and future alternatives outlined. However, like 2005, a standard setting via a single crown entity still raises possible problems that will need to be overcome to ensure there will be a net benefit for all concerned, given the significant change proposed.

3.7 Due to its very nature, the establishment of the XRB as a crown entity will entail much higher costs in terms of standard setting than the current set-up. Therefore, we would presume some form of cost recovery would be implemented. The regulatory creep aspect of one entity that does not have sufficient safeguards may mean cost and fee settings can quickly get out of hand. We note that these issues are not properly discussed in the Document (only touched upon in paragraph 33.5 and the related footnote), but will certainly need to be discussed widely before any attempt is made to take the idea of an XRB to the next step.

3.8 While we do not completely reject an alternative such as the XRB being developed, if the majority of submitters support the establishment of an XRB, next steps should involve wide public consultation regarding further specifics of the XRB's structure, including likely costs and fee settings.

Recommendation: That if an establishment of an XRB is supported by the majority of submitters, the next step by MED is to outline costs and fee settings that are open to wide public consultation in terms of the level(s) set.

4. FOR-PROFIT ENTITIES & ECONOMIC SIGNIFICANCE

4.1 Part 5.3.1 of the Document asks three questions in relation to the current economic significance indicator, namely whether:

- Asset values, annual revenue and numbers of employees are appropriate measures of economic significance;

- The two-out-of-three approach remains appropriate; and
- The current numbers in section 19A of the Financial Reporting Act (FRA) should be retained.

We wish to answer each of these questions as follows:

Asset values, annual revenue & numbers of FTE employees as adequate thresholds

4.2 Regarding the first question of using asset values, annual revenue and numbers of FTE employees for the economic significance test[2], Business New Zealand generally takes the view that using these three thresholds has not created any <u>significant</u> problems, certainly none that we have become aware of.

4.3 Paragraph 70 of the Document notes that Australia uses the same thresholds, and while use in Australia should not automatically mean New Zealand should follow suit, the fact that Australia still has these thresholds means on balance they are most probably meeting their objectives. Therefore, we do not see a pressing need to change the three thresholds used at this point in time.

Recommendation: That the thresholds of asset values, annual revenue and numbers of FTE employees remain as appropriate measures of economic significance.

4.4 As a side-point, we note some inconsistencies in various parts of the Document when mentioning 'full-time equivalent employees' in some instances and just 'employees' in others when discussing the employee criteria for thresholds.

4.5 For instance, there are inconsistencies when reading footnote 19 on page 34, paragraph 66 and paragraph 35. Clause 19A(1)(b)(iii) of the current legislation states 'full-time equivalent employees'. We mention this because individual submitters may incorrectly find themselves captured by changes outlined in the Document, depending on what they read. Therefore, this may have an impact on what information they include in their submission as to how such changes affect their entity. We would like MED to be consistent with this matter in future documents by using the term 'full-time equivalent employees' throughout.

Two-out-of-three approach still appropriate?

4.6 Regarding the second question of whether a two-out-of-three approach is best, the Document outlines concerns that the economic significance indicator only applies to companies with 25% or more overseas ownership, with a risk in this approach in relation to overseas incorporated and owned companies, particularly where revenue figures are high but other thresholds do not pass the limits. Paragraph 67 of the Document suggests that *it might be better to modify the test so that a company would only be excluded from the definition*

[2] An entity is large if it exceeds any two of the following: (i) total assets of $10m; (ii) annual revenue of $20m; and (iii) 50 FTE employees.

of large if it was below the thresholds for revenue, and one or both of the thresholds for assets or employees. Therefore, at its most stringent level, an entity would have to have under $20m in revenue, as well as ensuring it also had less than $10m in consolidated assets and no more than 50 FTE staff.

4.7 We would like to point out that as with most thresholds, there will undoubtedly be the opportunity to arrange matters in response to whatever criterion one does or does not wish to meet. The very nature of thresholds - particularly in a financial setting - means any foolproof criterion is often difficult to achieve. The amount of time and resources invested into ensuring they meet thresholds to their advantage is generally wasteful and better put towards other areas such as how to grow their business.

4.8 As an example in the current context, Business New Zealand's submission on the *part 1 of the Review of the FRA 1993* viewed revenue as a more accurate measure than assets, because asset testing can be subject to manipulation by companies. Assets can be placed in a trust and leased back to the company, meaning a company can control asset value.

4.9 Introducing such changes as outlined in 4.5 above would most probably widen the net in terms of entities caught as being 'large'. While we mention in 4.7 above that revenue is a more accurate measure than assets for instance, having a far stronger focus on revenue seems to be contradictory to the issues related to economic significance in part 4 of the Document. For instance, there is concern expressed in the Document that employees rights need to be better considered, yet the proposed change would mean the threshold of FTE employees would place less significance than before. Also, although we do not advocate simply following Australia's lead, they still use the two-out-of-three approach we currently have, and do not appear to want to change that stance in the near future.

4.10 Overall, no threshold test will be perfect. However, the main point to note is whether or not any <u>significant</u> avoidance will be undertaken that creates adverse consequences for the economy. At this point in time, we do not see any justification for changes to the current criterion due to possible risks in relation to overseas incorporated and owned companies. If instances of significant avoidance appear to be taking place in the future that has repercussions on the New Zealand economy, then suggested steps should be taken at that point in time. Until that time, we believe the status quo of the two-out-of-three approach should remain.

Recommendation: That the current two-out-of-three approach remains.

Changes to current thresholds?

4.11 Regarding the last question of whether there should be changes to the current threshold dollar values/numbers of $20m revenue, $10m assets and 50 FTE employees, we believe these are generally adequate, but we would not object to any of these thresholds being raised if supported by the majority of submitters.

4.12 Starting with FTE employees, our submission on *part 1 of the FRA 1993* in 2004 noted that the number of FTE employees should be raised from 20 to 50, which would encompass many entities still expanding their business to the point of developing new product lines and looking at possible export opportunities. Therefore, compliance costs and barriers should be minimised as much as possible. This recommendation was obviously taken up at the time.

4.13 If we were to take the number of FTE employees one step further, presently, those enterprises with less than 50 FTE employees make up 99.0% of all enterprises. In number terms this means around 4,778 businesses are above that threshold criterion. Increasing the criterion to say 100 FTE employees would mean 99.9% of enterprises below that threshold, and only 2,199 enterprises above that level. Therefore, if changes to the number of FTE employees were to be considered, we would want that to be increased from 50 to 100.

Recommendation: That if the number of FTE employees is increased; it should be increased from no more than 50 to no more than 100.

4.14 In terms of assets, we do not have any views as to the current level of adequacy given our concerns with this criterion outlined in 4.7 above. Likewise for revenue, we do not have any strong views as to what a possible revised figure should be, given there is little in the way of data to ascertain where $20m sits in terms of the proportion of companies below that threshold. However, like numbers of FTE employees, we would not object to either of these two monetary values increasing if based on sound reasoning.

Monetary thresholds and inflationary creep

4.15 Our only concern with monetary values would be inflationary creep causing those at the margins to be caught under the new rules. This is touched upon in part 9.1.2 of the Document, which proposes a specific provision requiring each monetary amount to be reviewed within a specified number of years. MED proposes a 10 year period, acknowledging the risk that if the maximum time period between changes is short then it may lead to unnecessary reviews being carried out.

4.16 Inflationary effects can often be lumpy, so it is possible that there could be little inflationary pressure within one five year period, and yet significant pressure in another. Also, if there is strong economic growth over a certain period, the rising tide for all businesses in terms of growth in revenue, assets and/or FTE employees may mean that some again find themselves breaching the thresholds, even though their position relative to other businesses hardly changes.

4.17 Therefore, Business New Zealand recommends that a period of <u>no more</u> than 10 years is stipulated in terms of monetary threshold changes, so that reviews can take place before the 10 year period is completed.

Recommendation: That the maximum specific time requiring each monetary amount to be reviewed is no more than 10 years.

5. APPLYING THE ECONOMIC SIGNIFICANCE INDICATOR TO FOR-PROFIT ENTITIES

5.1 Business New Zealand agrees that all companies and indeed all types of entities should keep proper accounting records. There is a certain level of compliance that needs to take place to ensure all businesses know their financial situation, and therefore plan accordingly. Paragraphs 61 and 62 outline the fundamental differences between the reporting requirements for the two broad categories of entities. Paragraph 63 then states that issuers of securities are publicly accountable because they invite the public to invest directly, and therefore should continue to be required to prepare and file assured GPFR. Again, Business New Zealand agrees. While the document then states that one could argue that public accountability by companies to creditors exists because the liability of the owners is limited, MED believes for cost-benefit reasons the creditors interest are more appropriately considered from an economic significance perspective.

5.2 As discussed above, part 4 of the Document outlined economic significance as one of its major indicators that should apply regarding whether or not an entity should have financial reporting obligations. As paragraph 50 states, *the idea underpinning economic significance as an indicator is the economic or social impact that a large entity is likely to have on the national or a regional economy if its fails*. Paragraph 51 then mentions some examples of those impacted, including suppliers, customers and employees.

5.3 Without doubt, large companies that fail often have some level of impact on the regional or national economy, including those groups mentioned in the Document. However, we believe MED also need to be mindful of the fact that the idea expressed in 5.2 above does not apply in every circumstance. For instance, the closure of a small entity in a rural community could equally cause significant problems for a wide number of residents in the outlying areas, particularly if the alternative options involve significant travelling distances. Also, there are often problem definitions around the issue of the economically significant entity and the meaning of the levels of consolidated assets and revenue, particularly when subsidiaries come into the equation. It is often the position of the 'group' that provides the most useful information, despite each subsidiary being a separate entity.

5.4 In addition, as we will discuss below, previous investigations into the issue of economic significance being used as a prime justification for large <u>privately held</u> companies to publicly file financial reports are simply not warranted, as the disadvantages clearly out-weigh the advantages.

Previous investigations into extending financial reporting obligation rules

5.5 While Business New Zealand agrees with many of the proposals in the Document, we are disappointed to find yet another attempt by MED to effectively force large privately held companies to publicly file their annual financial statements (as well as including partnerships in this instance), covered in part 5 of the Document.

5.6 Not only are we disappointed, but we are also perplexed as to why MED has chosen to float this idea again. MED only has to go back to 2005 when Business New Zealand and a large number of other submitters (including our regional associations, affiliated industry groups and individual members) strongly opposed moves by the Ministry to require economically significant privately held companies to produce and file audited financial reports as part II of the *Review of the Financial Reporting Act (FRA) 1993*. At that time, Business New Zealand spent considerable time looking into this issue. Our work included a submission on the discussion document, a letter to the Minister of Commerce, as well as pointing out and contributing to significant work carried out by independent economic and advisory agencies showing almost <u>no public benefit</u>, in addition to an illusion of greater harmonisation with other countries at the time.

5.7 Nowhere in the current Document does it mention prior attempts to introduce such changes and the weight of arguments put forward by submitters against it. This is very surprising given the considerable attention it received in 2005. The 2009 Document asks for possible advantages and disadvantages. While we believe there is nothing inherently wrong in re-visiting past decisions to ensure they remain worthwhile, we do not understand why MED has chosen to effectively ignore the considerable number of submissions and key arguments that were put against the recommendation only four years ago.

5.8 We would also like to point out that the then Minister of Commerce in 2005 decided to publicly throw out the recommendation even before decisions were made with the rest of the reform package. The Minister at that time correctly stated that such additional disclosure would not benefit users because:

- Banks and other major lenders could demand whatever financial information they needed to decide a loan application;
- GPFR were not used to any significant extent by potential creditors or credit agencies; and
- Employee interests were protected by the Employment Relations Act.

All these explanations are accurate and are just as valid today.

Other disadvantages with the proposed changes

5.9 In addition to the points raised by the Minister in 5.7 above, there would be other significant disadvantages that would most likely occur, namely:

- Private companies would lose their financial privacy right, but would not gain the capital-raising benefits of public ownership;

- Owners of the businesses lose privacy over what is effectively their personal finances – a privacy accorded to all other individuals, including managers and owners of publicly-held businesses;

- Commercial rivals, particularly publicly owned rivals, would see information that assists them in competing with private companies (i.e. deciphering business operations and pricing structures); and

- Questions regarding how the definition of an economically significant entity and the meaning of the levels of consolidated assets and revenue would properly apply in a group situation for particular subsidiaries that are not considered economically significant.

5.10 In short, we believe all the disadvantages outlined by submitters and the conclusions reached by the Minister in 2005 equally apply with the current review. Therefore, we recommend that MED takes into account the main views of submitters on this issue in response to Part II of the FRA 1993.

Recommendation: That MED takes into account the main views of submitters regarding the recommendation of economically significant companies being required to produce and file audited financial reports as outlined in the Financial Reporting Act 1993 Review Part II.

Alignment with Australia

5.11 The Document discusses trans-Tasman alignment as a possible reason to introduce the proposals, with part 10 of the Document discussing the possibility of a single economic market between New Zealand and Australia in terms of financial reporting. Business New Zealand has long held the view that any policy alignment between New Zealand and Australia should only occur if there is a net economic benefit to New Zealand. In this instance, we do not see any way in which the proposals would bring a net economic benefit to New Zealand, especially when previous independent research was undertaken in 2005 that showed a net cost on this side of the Tasman.

Grandfathering from public reporting requirements

5.12 A key recommendation as part of the proposed trans-Tasman alignment, and a way in which MED believes there will be an ease in the transition of proposals outlined above, is contained in paragraph 82 of the Document. It states that *in 1995 the Australian Parliament introduced a requirement for new proprietary companies that were large to lodge GPFR with ASIC. However, propriety companies that were incorporated prior to 1995 (that were either large at the time or subsequently became large) do not have to lodge.* Essentially, this grandfathers existing companies from the public reporting requirements. The Document also notes that currently over 70% of large proprietary companies are now required to lodge GPFR with ASIC. Lastly, it points out that *large proprietary companies that now file financial statements make up a small proportion, just 0.3% in total, of the 1.6 million registered companies in Australia.*

5.13 Firstly, the last statement by MED in 5.12 above is essentially meaningless in terms of the context of the issue at hand. Likewise the statement made in paragraph 73 which points out *the key point is that only a very small proportion of non-issuer companies and other for-profit entities would have financial reporting obligations for economic significance reasons*. From Business New Zealand's point of view, it would not matter if the effect on privately held companies represented almost all companies or literally a handful - it is what is being forced on the fundamentals of a company structure that is most relevant.

5.14 Secondly, the fact that over 70% of large proprietary companies are now required to lodge GPFR with ASIC of Australia since it was introduced in 1995 is evidence of simply delaying the inevitable for most large private entities. While there may be some initial comfort of sheltering from the filing requirements, this can erode quickly. In particular, industries which have a relatively high turnover of owners will undoubtedly be hardest hit in triggering the new requirements.

5.15 Also, it does not seem sensible from our point of view to introduce a law that essentially splits such enterprises into two groups solely based on when they came into being. Thresholds relating to size such as revenue, assets and FTE employees are legitimate in terms of compartmentalising entities. Having two companies that are almost identical in every respect but age that triggers different filing rules seems nonsensical, and we cannot think of a similar situation in New Zealand where regulation across the whole business community is treated in such a manner.

5.16 Lastly, while one could argue that introducing grandfathering rights to existing companies means they may not be affected, this completely misses the point regarding future newly established privately held companies that do not wish their financial statements to be made public.

5.17 Because of these numerous disadvantages, Business New Zealand recommends that grandfathering provisions as outlined in paragraph 82 of the Document do not proceed.

Recommendation: That grandfathering provisions as outlined in paragraph 82 of the Document do not proceed.

5.18 Notwithstanding our views above, if for some inexplicable and highly improbable reason the proposal for large non-issuer companies to file financial statements proceeds, then some type of grandfathering provisions should be included.

Other points to note – economic recession no excuse

5.19 In addition to the points raised above, Business New Zealand would like to point out that we completely disagree with any attempts by either MED or submitters to use the recent global recession as justification for private firms to 'open their books' to the public. It would be an extremely long bow to draw for anyone to state that the global recession was primarily (or even partly) due to large privately held companies not publicly filing their financial reports. Indeed, one could argue that despite significant companies publicly listed with supposed greater levels of transparency, events still unfolded to cause significant damage to economies world wide.

Summary

5.20 In summary, taking into account previous disadvantages raised, the weight of submissions against an almost identical proposal in 2005, inherent problems with grandfathering and introducing changes that will undoubtedly bear costs on New Zealand businesses, Business New Zealand is <u>strongly opposed</u> to the proposals for large non-issuer companies (and other entities that may be impacted that meet the economic significance indicator) to file financial statements.

Recommendation: That the proposal for large non-issuer companies (and other entities that may be impacted, such as non-profit entities or Maori Land Trusts that meet the economic significance indicator) to file financial statements <u>does not</u> proceed.

6. PREPARATION BY SMALL & MEDIUM SIZED COMPANIES

6.1 Part 5.4.2 of the Document outlines proposed changes that will affect the reporting requirements for small and medium sized companies. In particular, paragraph 91 states that *our preliminary view is that New Zealand should remove the requirements imposed on medium and small companies to prepare financial reports*. However, they also state that they anticipate many small and medium companies would still prepare special purpose annual financial statements of one sort or another, and that special purpose reporting would still involve the preparation of accrual-based financial reports to a minimum standard. Business New Zealand supports these proposals as a good compromise between removing the impositions of GPFR on small-medium sized enterprises (SMEs), as well as ensuring there is still scope for some financial reporting to take place.

6.2 Paragraphs 92-94 then go on to discuss the compliance cost savings for such companies, as well as estimates regarding the specific savings both small and medium companies could make at both a micro and macro level. We note that the total saving from a New Zealand Inc perspective could be between $75m and $300m a year, but such amounts are included with some hesitancy.

6.3 Business New Zealand agrees that extrapolating estimates of compliance cost savings to all entities (not to mention the dynamic implications) is very difficult. The results of the Business New Zealand – KPMG Compliance Cost Survey that has been running since 2001 show that when the 2008 survey results were extrapolated out to take into account New Zealand's entire business demographics, the total compliance cost for firms with less than 20 staff was around $2.2 billion, and for firms with 20 or more employees it was $1 billion. Obviously, a proportion of that time was spent on compliance that was beneficial, so even if 50% of that were "useful costs", that still leaves close to $1.6 billion in the economy that does not go towards increasing economic growth. Therefore, while some may argue that even $75m might seem to be a high amount, we are not surprised with this figure, nor the possibility of it reaching $300m when the total cost of any compliance regime is examined.

6.4 In addition, such costs do not take into account what we call the opportunity costs of compliance (i.e. time spent on compliance matters as opposed to spending time growing their business) or the psychic costs of compliance (i.e. time spent on compliance matters rather than leisure activities such as playing with your children on a Sunday afternoon). Therefore, there are many dynamic impacts at play to also consider.

6.5 Overall, we believe the changes to SMEs as outlined in the Document certainly present the opportunity for significant compliance costs savings for the New Zealand economy. Therefore, we support the proposals outlined in the Document.

Recommendation: That the proposals for small and medium companies as outlined in part 5.4.3 of the Discussion Document proceeds.

Overseas-incorporated companies carrying on business in New Zealand that are not issuers

6.6 Paragraph 76 discusses the fact that *currently, an overseas-incorporated company carrying on business in New Zealand must file its financial statements, and where relevant, consolidated financial statements.* Paragraph 77 then goes on to say that *the economic significance indicator would suggest that the current filing obligations on overseas-incorporated companies are excessive… and GPFR should only be required to be filed if the New Zealand business of the overseas company is large.* Business New Zealand agrees. We see no reason why such entities should be treated any differently, particularly when such filing obligations would be excessive for many. We also agree that other concerns, such as money laundering and terrorist financing, are best handled via other legislation.

6.7 Therefore, Business New Zealand recommends that overseas-incorporated companies that are carrying on business in New Zealand that are not considered to be 'large' should have their filing requirements removed.

Recommendation: That overseas-incorporated companies that are carrying on business in New Zealand that are not considered to be 'large' should have their filing requirements removed.

7. THE EXEMPTION POWERS IN THE FINANCIAL REPORTING ACT

7.1 Part 9.1.3 of the Document discusses the current exemption-related provisions in the Financial Reporting Act (FRA), namely sections 29A, 35A and 35B. While MED's preliminary view is to keep sections 35A and 35B, it believs 29A (describes a power for the ASRB to exempt classes of entities from reporting standards) should be repealed given it has not been enacted since it came into force three years ago. Furthermore, MED believe it does not seem to fit with the changes proposed in relation to the XRB.

7.2 Business New Zealand believes that along with sections 35A and 35B, section 29A should be retained. At a practical level, any immediate decision to repeal section 29A based on the establishment of the XRB is premature, as this reasoning depends on the final make-up of the XRB once interested parties have been consulted. Following on from this point, while we understand that the section has proven to be problematic because of the considerable processes entities had to go through to gain the exemption, there may still be unforeseen circumstances where the section would be utilised, especially given new reporting standards.

7.3 Therefore, Business New Zealand recommends that along with sections 35A and 35B, section 29A should also be retained.

Recommendation: That sections 29A, 35A and 35B of the Financial Reporting Act be retained.

8. NON-PROFIT ENTITIES AND PUBLIC ACCOUNTABILITY

8.1 While Business New Zealand has concentrated most of its submission on issues relating to the for-profit sector, we also wish to outline our views in regards to parts 7.2-7.5 of the Document.

8.2 We agree that there is some public accountability present in regards to non-profit entities, especially when there are matters involving the acceptance of donations. However, any proposed changes need to ensure they do not damage the voluntary nature of such entities, and place unnecessary compliance costs on entities that would struggle to meet such costs.

8.3 Part 7.3 of the Document notes that in terms of defining the size of a non-profit entity, operating expenditure is most probably the best option available. We agree, especially in light of the example of other criteria such as assets not working via a building used as a place of worship.

8.4 Part 7.5 of the Document goes on to outline that the ASRB propose only Simple Format Reporting should take place for small non-profit entities. Paragraph 126 then mentions MED believes very small entities should not be required to prepare GPFR. The key question then comes down to what is classified as a small non-profit entity, with the Document stating that such an exemption for private non-profit entities should include those with less than $20,000 of operating expenditure in a financial year. Business New Zealand believes this figure is too low, as this would most likely capture many non-profit entities that would struggle to meet the costs implied with the additional reporting requirements. Also, there does not seem to be any strong justification for choosing $20,000 as a threshold figure.

8.5 We note that footnote 30 states that Statistics New Zealand data indicate that only 4,000 of the 97,000 non-profit institutions have $100,000 or more of operating expenditure. At $100,000, we view the 4,000 as a large number of entities that would not be exempted. At $20,000, the number and proportion would undoubtedly be much higher. Therefore, if the context of economic significance is to be used, we believe a significantly higher threshold should be used of at least $100,000, but preferably higher, with $250,000 as a possibility.

Recommendation: That the operating expenditure figure used to exempt private non-profit entities from preparing GPFR should increase significantly from $20,000 to at least $100,000. We would also support an increase to $250,000 as a possibility.

APPENDIX

9. About Business New Zealand

9.1 Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 45-member Major Companies Group (MCG), which comprises New Zaland's largest companies, as well as its 75-member Affiliated Industries Group (AIG) that comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

9.2 In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

9.3 Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.