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Technical Accounting Alert

New Zealand Financial Reporting Bill 2012

Introduction

The purpose of this Alert is to provide details of the New Zealand Financial Reporting Bill 2012 and the likely effect on Australian companies with operations in New Zealand.

Overview

The Financial Reporting Bill 2012 was introduced into New Zealand Parliament on 31 July 2012. The Bill reflects the Government's proposed changes to the statutory financial reporting framework concerning which entities are required to prepare General Purpose Financial Reports (GPFR), along with related audit and filing requirements.

Effective timing of changes

The Bill must be enacted by 1 April 2015 at the latest. The starting date for the proposed changes would be as soon as possible after the legislation has been enacted. We understand that this is likely to be just before 30 June 2013, such that the changes would be effective for 30 June 2013 year ends for for-profit entities.

What proposals will have an effect on a Australian Company operating branches and/or Companies registered in New Zealand as an Overseas Company

- the bill now brings some consistency with Australia's reporting requirements for companies, but there will still be differences with Public Benefit Entities (i.e. public sector and not-for-profit entities)
- large companies and large overseas companies with a New Zealand branch will still require an audit and filing of their financial statements with the New Zealand Companies Office
- emphasis will move towards reporting and auditing of group financial statements, similar to Australia. Financial statements for a parent company do not need to be prepared if group financial statements are prepared
- a reduced timeframe for completing financial statements from five (5) months after balance date to three (3) months
- only licensed auditors which have fulfilled the requirements of the Auditor Regulation Act 2011 and regulations issued by the Financial Markets Authority in New Zealand will be able to audit listed entities (i.e. issuers).

Preparation of financial statements

The requirement to prepare GPFR will apply to:

a issuers and other "publicly accountable" entities (e.g. banks and insurers)
b every large company
c every large overseas company that carries on business in New Zealand (ie has a New Zealand branch)
d every other company with ten (10) or more shareholders (unless the shareholders of the company opt out of compliance by means of a resolution passed by a 95% majority)
e every other company with fewer than ten (10) shareholders if shareholders of the company holding at least 5% of the voting shares require the company to comply; and
f large partnerships, including large limited partnerships.

Audit of financial statements

The requirement to ensure the financial statements are audited will apply to:

g issuers and other "publicly accountable" entities (e.g. banks and insurers)
h every large company with 25% or more overseas ownership (be it by a body corporate or person)
i every other large company (unless the shareholders of the company opt out by means of a resolution passed by a 95% majority)
j every large overseas company that carries on business in New Zealand (i.e. has a New Zealand Branch)
k every other company with ten (10) or more shareholders (unless the shareholders of the company opt out by means of a resolution passed by a 95% majority)
l every other company with fewer than ten (10) shareholders, if shareholders of the company holding at least 5% of the voting shares require the company to have an audit
m large partnerships, including large limited partnerships (unless the partners opt out of an audit by means of a resolution passed by partners with at least 95% of the firm's capital).

The meaning of large

"Large" is defined as either:

a total assets of the entity and its subsidiaries (if any) exceed $60 million; or
b total revenue of the entity and its subsidiaries (if any) exceeds $30 million

in each of the two (2) preceding accounting periods.

New Zealand branches of large overseas companies

The Australian financial statements of a large overseas company that carries on business in New Zealand will be recognised as complying with generally accepted accounting practice such that a copy can be filed with the New Zealand Companies Office and a separate set of company financial statements will not be required. However, separate audited financial statements for the New Zealand branch will still be required.

The proposed framework in the bill for-profit entities

Class of Entity	GPFR requirements (set by the XRB[1])	Audit	Filing requirements
Tier One			
Publicly accountable entities	IFRS converged with FRS-44[2]	Yes	Yes (Companies Office)
Large for-profit public sector entities	IFRS converged with FRS-44[2]	Yes	Yes (Companies Office)
Tier Two			
Large for-profit entities	IFRS with RDR[3] (but may opt up)	Yes (but may opt out)	No
Non-large for-profit entities with ten (10) or more shareholders / owners	IFRS with RDR[3] (but may opt up)	Yes (but may opt out)	No
Non-large for-profit public sector entities	IFRS with RDR[3] (but may opt up)	Yes	Yes (Companies Office)
No requirement to prepare General Purpose Financial Reports (GPFR) (Special Purpose Financial Reporting (SPFR) guidelines for tax and financing purposes to be developed by the NZICA)			
Non-large for-profit entities with less than ten (10) shareholders / owners	SPFR (can opt into framework, but currently no audit and no filing requirements as soon as the Bill has been passed)		

Further information

For further information on any of the information included in this TA Alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au.

[1] The External Reporting Board (XRB) is an independent Crown Entity responsible for the development and issuing of accounting and auditing and assurance standards in New Zealand.

[2] New Zealand Financial Reporting Standard 44 "New Zealand Additional Disclosures" (FRS-44).

[3] Reduced Disclosure Requirements (RDR) provides for a significant reduction in required GPFR disclosure requirements, however no recognition and measurement concessions are provided. This differs from the current differential reporting framework which does provide some recognition and measurement concessions, such as the option to account for income taxes on a taxes payable method as opposed to the NZ IFRS requirement to account for deferred tax.