

18 January 2013

Chair
Commerce Select Committee
Parliament Buildings
WELLINGTON

Dear Chair

Re: Financial Reporting Bill

I am writing with regard to one aspect of the Financial Reporting Bill (referred to as 'the Bill') that BusinessNZ believes will create significant concerns and costs for many businesses. Specifically, we disagree with the intention to reduce the financial statement preparation deadline for issuers and companies.

Background

The Bill proposes to reduce the preparation time for issuers and companies to complete their financial statements at the end of the financial year from five months (plus another 20 working days for those who must file audited financial statements) to three months (plus another 20 working days for those who must file audited financial statements).

Original justification for the change

Looking at the papers released before the Bill was introduced, the decision to reduce the reporting time by two months was primarily because the International Monetary Fund (IMF) had previously expressed concerns about the current five month timeframe, given unlisted issuers are not subject to continuous disclosure obligations. Therefore, users are largely or fully reliant on General Purpose Financial Reporting (GPFR). In the IMF's view, the current timeframe was not sufficient to adequately meet the information needs of users.

We note that the Bill's Regulatory Impact Statement (RIS) identified the main cost as being the greater pressure on preparers and auditors. However, these costs were deemed to be of lesser concern than the perceived benefits of reducing timeframes for users of financial statements.

BusinessNZ disagrees with the decision to reduce the time available for the preparation and filing of financial statements, for three main reasons:

1. Comparing the public with the private sector

First, BusinessNZ is perplexed as to why the decision was made to reduce the reporting time by two months. The IMF proposed a filing time limit of four months, which would have reduced the current 5 months plus 20 days timeline to 4 months plus 20. The associated Cabinet Paper states that the option of reducing the time by one, instead of two months, was considered, but consistency between the public and private sector was the overriding factor.

Because of existing time pressures in the public sector, the Government has reasoned that private sector entities should be able to match public sector performance. At best this view is short sighted. At worst, it sets a dangerous precedent, indicating a view within Government that there is little to separate the resources and day-to-day operations of the private and public sector.

With respect, BusinessNZ strongly disagrees with the Government's rationale that the private sector can simply match public sector performance. At a practical level, the resources available to many agencies within the public sector are greater than those available to many private sector enterprises. A shortened preparation time period may mean various businesses do not have the internal staff resources to adequately meet this new requirement. Instead, they may have to use external service providers, which would obviously come at a cost (and no doubt put further pressure on external providers to have their work completed within the new timeframes).

At a broader level, we are concerned that an attitude of what is best for the public sector should also be best for the private sector is the core reasoning behind the two, rather than a one month change. This is not to say that there should always be separate rules for the private and public sector. However, regulatory requirements need to be both nimble and pragmatic enough to recognise that what would be a sensible and optimal regulatory requirement for one sector, may not be so for another.

2. Comparison with overseas

As was pointed out in the associated Cabinet Paper, some countries use varying time frames. Our closest economic neighbour (Australia) currently uses three months for entities that issue enhanced disclosure securities and registered schemes, while it is four months for all other entities that must lodge audited financial statements in Australia. By contrast, it is six months for public companies in England and Wales.

We do not believe the Government has taken full consideration of the flow-on effects between New Zealand and Australia of the shortened timeframe. As an example, some members have informed us that for those businesses with subsidiary entities on the other side of the Tasman, the move from five to three months would compress the same workload for those completing accounts in both Australia and New Zealand (both internally and for auditors), and would mean Australian counterparts that have

previously assisted with the capture and consolidation of entities that are not operating in New Zealand systems would not be able to assist.

Apart from specific process issues, we are also concerned that the proposed New Zealand changes could mean that, on balance, requirements would be more onerous on this side of the Tasman, which could put us at a disadvantage in terms of where a business is headquartered, given more favourable conditions across the Tasman.

Last, apart from indicating that there is no true international setting of time frames, we would also like to point out that a simple comparison of financial statement deadlines between countries masks other important differences that also need to be taken into consideration. New Zealand, unlike other jurisdictions (e.g. the UK), has a strong concentration of year ends at either 31 March or 30 June, driven by legislation. By comparison, companies in the UK can elect their year end and therefore spread the workload for auditors more evenly. Companies can choose a time that suits their industry, resource availability and/or the tax legislation applicable when the company was set up.

3. Broader policy principles

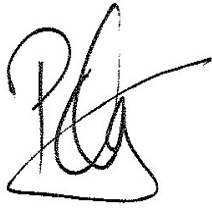
Examining the issue from a first policy principles viewpoint, BusinessNZ questions the need for change in the absence of any defined problem. While the IMF has expressed concern and concluded that five months is excessive for reporting purposes, we struggle to see exactly where the five month time period has in any way led to users not having their needs met in terms of the information they seek. Blindly following the recommendations of offshore bodies without sufficiently examining the issue through the lens of New Zealand competitiveness and compliance costs will inevitably cost, rather than benefit, the country.

Also, while we understand the trade-off between quality and timeliness of financial statements, we would argue that the stronger factor to consider is the quality of the financial statements, not the minimising of timeframes. Overall, we seriously doubt whether the decrease of two months will make any significant difference for users, rather it will create significant problems for those who have to comply.

Therefore, BusinessNZ recommends that for those required to file audited financial statements, the preparation and filing deadline for issuers and companies reverts back to 5 months plus another 20 working days.

Thank you for the opportunity to comment.

Kind regards,

A handwritten signature in black ink, appearing to be 'Phil O'Reilly', with a stylized, flowing script.

Phil O'Reilly
Chief Executive
BusinessNZ