



COVERSHEET

Minister	Hon Dr David Clark	Portfolio	Commerce and Consumer Affairs
Title of Cabinet paper	Adjustments to monetary amounts used for financial reporting purposes	Date to be published	16 November 2021

List of documents that have been proactively released

Date	Title	Author
September 2021	Cabinet Paper: Adjustments to monetary amounts used for financial reporting purposes	Office of the Minister of Commerce and Consumer Affairs
30 September 2021	LEG-21-MIN-0160	Cabinet Office

Information redacted

NO

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In Confidence

Office of the Minister of Commerce and Consumer Affairs

Cabinet Legislation Committee

Adjustments to monetary amounts used for financial reporting purposes

Proposals

- 1 This paper seeks approval for the Financial Reporting (Inflation Adjustments) Regulations 2021 to be made.
- 2 The regulations will increase various monetary amounts under the Financial Reporting Act 2013 (FR Act), Charities Act 2005 (Charities Act), Companies Act 1993 (Companies Act) and Friendly Societies and Credit Unions Act 1982 (FSCU Act).

Adjusting the monetary amounts

- 3 Section 48 of the FR Act requires the responsible Minister to review monetary amounts that are used for certain financial reporting purposes to take inflation into account, as measured by the Consumers Price Index (All Groups). The Minister may, in making a recommendation to the Governor-General, make any rounding adjustments that they think fit.
- 4 Each review must take place no less than eight years since the amounts were last set. The next adjustments must be made by no later than 31 March 2022. I am proposing that the adjustments be made with effect from 1 November 2021 based on the CPI as at 30 June 2021.

The purposes of the monetary amounts

- 5 The financial reporting-related monetary amounts that are to be increased have four purposes.
- 6 First, three amounts are used for determining whether certain entities are financial reporting entities or, to put it another way, are required to prepare annual financial statements in accordance with financial reporting standards issued by the External Reporting Board (**XR**B). The relevant provisions state that the following entities are financial reporting entities:
 - 6.1 A company if it and its subsidiaries have total assets exceeding \$60 million or total annual revenue exceeding \$30 million – Companies Act;
 - 6.2 An overseas company carrying on business in New Zealand if it and its subsidiaries have, in relation to its New Zealand business, total assets exceeding \$20 million or total annual revenue exceeding \$10 million – Companies Act; and

- 6.3 Certain entities specified under other legislation where the entity and its subsidiaries have total assets exceeding \$60 million or total annual revenue exceeding \$30 million.

- 7 Secondly, the adjustment mechanism in the FSCU Act relates to financial reporting by friendly societies and branches of friendly societies. The FSCU Act allows friendly societies to opt out of financial reporting on a majority vote of members. However, it also states that a friendly society or branch of a friendly society cannot opt out if its total annual expenditure is \$30 million or more.

- 8 Thirdly, the Charities Act imposes the following requirements on large and medium-sized registered charities:
 - 8.1 To have their financial statements audited if the total operating expenditure of the entity and all the entities it controls is \$1 million or more; or
 - 8.2 To have their financial statements audited or reviewed if the total operating expenditure of the entity and all the entities it controls is less than \$1 million, but \$500,000 or more.

- 9 Fourthly, two amounts are used as maxima not minima:
 - 9.1 A provision in the Charities Act permits registered charities with total operating payments of less than \$125,000 to report in accordance with the XRB's simple format cash reporting standard as an alternative to preparing in accordance with standards that require accrual reporting; and
 - 9.2 There is an equivalent provision in the FR Act for other "specified not-for-profit-entities".

Adjusted monetary amounts

- 10 The CPI increased by 11.3 percent from the starting date for the current amounts (i.e. the end of the first quarter of 2014) to the end of the second quarter of 2021. Table 1 outlines the adjustments that I am recommending as a consequence of this increase. My proposed rounding is 1.28 per cent downwards for the six largest amounts and 0.71 per cent upwards for the other amount.

Table 1: Current and revised amounts

Current amount	Revised amount (unrounded)	Revised amount (rounded)
\$60 million	\$66,771,084	\$66 million
\$30 million	\$33,385,857	\$33 million
\$20 million	\$22,257,237	\$22 million
\$10 million	\$11,128,619	\$11 million

Current amount	Revised amount (unrounded)	Revised amount (rounded)
\$1 million	\$1,112,862	\$1.1 million
\$500,000	\$556,431	\$550,000
\$125,000	\$139,108	\$140,000

Timing and the 28-day rule

11 I am proposing that the regulations would be made by the end of September and come into force on 1 November 2021.

Compliance

12 The proposals in this paper are consistent with:

- 12.1 the principles of the Treaty of Waitangi;
- 12.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
- 12.3 the principles and guidelines set out in the Privacy Act 2020; and
- 12.4 the Legislative Advisory Committee Guidelines on the Process and Content of Legislation (2018 edition).

13 There are no regulations to revoke because this is the first time that these adjustments are being made.

Regulations Review Committee

14 I do not consider there to be any grounds for the Regulations Review Committee to draw the proposed regulations to the attention of the House under Standing Order 327.

Certification by Parliamentary Counsel

15 The draft regulations have been certified by Parliamentary Counsel as being in order for submission to Cabinet.

Regulatory Impact Analysis

16 Treasury’s Regulatory Impact Analysis team has determined that the proposal to adjust the monetary amounts used for financial reporting purposes in line with increases in the Consumers Price Index, are exempt from the requirement to provide a Regulatory Impact Statement on the grounds that they have no or only minor impacts on businesses, individuals and not-for-profit entities.

Publicity

- 17 There is a statutory requirement to notify the changes in the *New Zealand Gazette*. In addition, the Ministry of Business, Innovation and Employment will:
 - 17.1 publicise the changes on its website and on www.business.govt.nz; and
 - 17.2 notify Chartered Accountants Australia and New Zealand and CPA Australia.

Consultation

- 18 The Department of Internal Affairs, Treasury, Inland Revenue Department, the Department of the Prime Minister and Cabinet and XRB have been consulted on this paper.

Proactive Release

- 19 I propose that this Cabinet paper be proactively released on the MBIE website within 30 business days, with any redactions as appropriate under the Official Information Act 1982.

Recommendations

The Minister of Commerce and Consumer Affairs recommends that the Committee:

- 1 **note** that the Financial Reporting Act 2013 requires the responsible Minister to review dollar amounts to take into account inflation, as specified in section 45 and 46 of that Act, section 42D of the Charities Act 2005, section 204(3) of the Companies Act 1993 and section 64(2) of the Friendly Societies and Credit Unions Act 1982;
- 2 **note** that the CPI increased by 11.3 percent from the first quarter of 2014 to the second quarter of 2021;
- 3 **agree** that the revised rounded amounts to be recommended to the Governor General will be:
 - 3.1 total assets exceeding \$66 million or total annual revenue exceeding \$33 million for a company and its subsidiaries for determining whether a company is a reporting entity;
 - 3.2 total assets exceeding \$22 million or total annual revenue exceeding \$11 million for an overseas company in relation to its New Zealand business for determining whether an overseas company is a reporting entity,
 - 3.3 total assets of \$66 million or total annual revenue exceeding \$33 million for certain entities specified under other legislation for determining whether an entity is a reporting entity;

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- 3.4 total annual expenditure is \$33 million or more for not permitting a friendly society or branch of a friendly society to opt out of financial reporting;
 - 3.5 total operating expenditure \$1.1 million or more for requiring a registered charity to have its financial statements audited;
 - 3.6 total operating expenditure of \$550,000 or more, but less than \$1.1 million for requiring a registered charity to have its financial statements audited or reviewed; and
 - 3.7 total operating payments of less than \$140,000 to permit a registered charity to report in accordance with the XRB's simple format cash reporting standard.
- 4 **note** that the regulations will come into force on 1 November 2021; and
 - 5 **authorise** the submission to the Executive Council of the Financial Reporting (Inflation Adjustments) Regulations 2021.

Authorised for lodgement

Hon Dr David Clark
Minister of Commerce and Consumer Affairs