

Q and A for financial reporting changes for companies

What are the proposed changes to the financial reporting requirements for New Zealand companies?

Small and medium-sized companies will no longer be required to prepare general purpose financial reports; instead they will be able to special purpose financial reports.

The New Zealand Institute of Chartered Accountants (NZICA) will develop the revised requirements. NZICA will work with Inland Revenue and other users – for example, funding providers – to develop the guidelines.

The Inland Revenue Department (IRD) will be determining the minimum information that is required for the special purpose financial reporting for tax purposes, and what format these reports will take. These minimum requirements will be based on the revised requirements as developed by NZICA.

Who will be affected by the changes to reporting requirements for companies?

Companies who do not meet the definition of large (annual revenue of more than \$30 million, or assets of more than \$60 million) will be able to prepare special purpose financial reports. This will result in a reduced reporting burden for a large number of New Zealand companies.

The default position for small and medium-sized companies with 10 or more shareholders will be to prepare general purpose financial reports. However, these companies will be able to opt-out of these reporting obligations if 95 per cent of voting shares support the motion.

Small and medium-sized companies with less than 10 shareholders will only have to prepare general purpose financial reports if shareholders representing 5 per cent or more of voting shares require it.

The reduced reporting obligations will reduce compliance costs for both small and medium-sized companies. This is because there will be a reduction in the number of disclosures they will need to make.

Who will not be able to use the new simplified reporting requirements?

Issuers and large companies will still be required to prepare general purpose financial reports. The XRB is proposing a two-tier system with a set of reduced disclosure requirements for entities in the second tier.

The proposals are detailed in a position paper and two consultation papers that will be posted on the XRB website shortly: www.xrb.govt.nz.

When are affected companies expected to use the new reporting requirements?

The starting date for these changes will be as soon as possible after the legislation is enacted and minimum standards have been set by Inland Revenue.

A Bill outlining these changes will be introduced into Parliament in the first quarter of 2012, with a view to being enacted in 2013.

Will overseas companies be affected?

At present, most overseas companies that carry on business in New Zealand are required to file financial reports with the Registrar of Companies.

Under the proposed changes, this will only be required if the company is large (i.e. revenue of \$30 million or more or assets of \$60 million or more).