



## **SUBMISSION**

by

**EMPLOYERS AND MANUFACTURERS'  
ASSOCIATION (N) INC.**

**Submission to  
Ministry of Economic Development**

**on**

**The Statutory Framework for Financial  
Reporting Discussion Paper**

Prepared on 28 January 2010

## **1. BACKGROUND**

This submission is made by the Employers and Manufacturers Association (Northern) Inc. (EMA).

The EMA is made up of some 8500 member business units covering the New Zealand region north of Taupo. This membership includes approximately 1500 manufacturers ranging from large to SME.

Within our membership there are a significant number of companies and organisations involved in the manufacture, importation, supply, distribution and retail of most product types and the provision of services in a wide range of service sectors including governmental, contractual, tourism, IT, banking, insurance and business advisors.

As an organisation the EMA supports international best practice to be followed and compliance costs are fully addressed in any legislation.

As the leading voice of business in the upper North Island we actively participate in both the submission process and any development of regulatory proposals that may impact on our membership such as those discussed within these proposals

## **2. CONTACT**

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### **3. Submission Summary Statement**

The EMA contributed to and supports the submission made by Business New Zealand. However this submission is based on our wider coverage of industry and business.

The EMA supports light handed regulation. New structures must be operated within the budgets of existing regulators. We cannot support additional structure creation irrespective of whether this assists in harmonisation with Australia and the suggested joint authorities which may be the long term aim of these proposals.

While we strongly oppose the principle of imposing on larger or significant private entities public reporting, should that requirement proceed, then the suggestion of grandfathering must be applied as for Australia.

We believe that if this does proceed new growth companies will work to find alternates to achieving the thresholds through business separation and that this will negate any perceived gains from the requirements. Such gains are not in the interests of business generally and are arguable as gains in the areas of employees/shareholders or creditors

We support consistency in filing requirements for Overseas incorporated companies with that of any regime established for New Zealand.

If harmonisation is the ultimate target of this discussion paper, then tiers and thresholds must be equal and certainly not less than the Australian equivalents. It is erroneous to conclude that the different sizes of the countries markets should make any difference and would disadvantage New Zealand larger business against their Australian counterparts. This said the EMA supports the harmonisation of accounting standards between the two countries and establishing joint standards should assist business operating companies on both sides of the Tasman.

The suggested savings for small to medium business is questionable due to lenders requirements but never the less desirable to achieve if that is possible.

There is a need for Government funded “not for profit” entities to be seen as transparent for accounting purposes and while virtually all trade associations would be caught by the proposed thresholds, most if not all would already be filing general provision financial reporting with the Incorporated societies register. If the same criteria/tiers as for companies were to be applied most would be exempt with the exception of the major organisations such as the EMA although assuming the grandfathering exemption was also to apply even the likes of the EMA would be exempt.

We cover these issues in our specific comments to the questions raised.

## 4. Specific Comment

### Part 3 – Institutions and statutory responsibilities

- Q1** Providing this does not increase the cost of government and is implemented in a manner consistent with best practice and not just adopting the Australian model, this is supported.
- Q2** We are deeply concerned that such tiers are set to at least the same levels as Australia and not on the basis of some perception that the markets are unequal in size and therefore the tiers should also follow suit. This assumption will disadvantage New Zealand business and ignores that fact that most affected companies will have business in Australia as well and in some instances that business in Australia will be larger than the New Zealand operations. It is time to assume an equal footing to ensure that New Zealand business is not treated any worse than its Australian counterparts.

### Part 4 – Financial reporting principles and indicators

- Q3** We believe that there is no benefit in the principle of large closely held companies needing to report publically. We do not support this suggestion and believe it will disadvantage our larger privately held companies without the corresponding benefits claimed. Most shareholders in such companies do have adequate information and creditors require such information prior to lending or providing credit irrespective of company size. The value to staff is equally questionable of such information as it is more likely that they will be the first to know when issues occur and publishing such information is not likely to provide any additional protections.
- Q4** The conclusions made are assumptions without serious consideration of the realities of a competitive world. If competitors elsewhere in the world can access the public information on New Zealand companies without the equivalent access (ie a level playing field) then we are putting New Zealand companies at a competitive disadvantage. Such assumptions need to be tested with real companies before being formed into any conclusions. While it is important to have alignment of reporting to Australia we should adopt best practice and not just the Australian regulations simple because that is what they have.

### Part 5 – Application of the indicators to for-profit entities

- Q5** The tests using some extrapolation of the Australian tests using size of market is highly erroneous and ignores the real world of business. We believe that if these tests are used they will ultimately disadvantage New Zealand business irrespective of our opposition to closely held private filing. We must adopt as a minimum the same threshold tests as Australia and arguable if we considered ourselves to be truly operating in a world market we would apply thresholds to the highest level applied by any of the countries applying this type of accounting and filing requirements.
- Q6** There should not be any more onerous requirements than for local companies operating businesses here so this appears sensible and consistent with the aim of harmonisation however we should not be placing any less restrictions than those

that apply for New Zealand business operating in Australia or in the harmonisation process we should ensure that the Australians adopt the same requirements for New Zealand. Anything less places New Zealand Trans-Tasman businesses at a disadvantage!

- Q7** The statement made under Q6 applies
- Q8** This is consistent with the existing Companies Act 1993 and should set as a minimum requirement the framework for differential reporting and the exempt status under the Financial Reporting Act 1993.
- Q9** We agree with this suggestion.
- Q10** Other reporting requirements such as those for banks and lenders will drive this, so the proposals will have limited value, although are not opposed.
- Q11** We support the grandfathering proposal, as that is firstly consistent with Australian companies and does not disadvantage existing business, but we also believe that alternatives to filing financial information may be more appropriate for new business once they have established a track record and that this would then not disadvantage them in the long term in a highly competitive world market. Suggestions of 5 years filing before such a switch have been made by other submitters and we support that as an option.
- Q12** We see no advantages and support any comment made by Business New Zealand on this.

#### **Part 6 - The application of the indicators to the public sector entities**

- Q13** We agree this is necessary.
- Q14** In general they should be however it is important that public sector entities are entirely transparent due to the involvement of public money as their principle funding.

#### **Part 7 – The application of the indicators to private non-profit entities**

- Q15** While we fail to see the need for this reporting however average turnover is more appropriate to expenditure to demonstrate activity. Even a small trade association in some years may expend a large amount, but in other years this would not be so. We believe this should be averaged over 3 years and on just as a trigger threshold. We also believe that such low thresholds will damage many organisations' ability to attract volunteers and impose additional costs for smaller organisations in particular. We believe that this figure should be at least \$200,000 if expenditure is used and \$400,000 if turnover is used, as at that level it is possible to employ full time staff to undertake administration.
- Q16** Our comments under Q15 are applicable.
- Q17** As gaming is audited by the Internal Affairs there is good reason to not require this for those particular societies.

**Q18** The conclusions ignore the diversity of organisations and the fundamental differences between charities and not for profit organisations such as Trade Associations. Such conclusions encourage such entities to not become registered as incorporated societies and therefore avoid the potential costs.

## **Part 8 – The application of the indicators to Maori asset governance entities**

**Q19 to Q23** We offer no comment on these questions.

### **Part 9.1 – Consequential Issues**

**Q24** We are concerned that putting these standards into law would make obtaining such assurance standards from Auditors more costly as they strive to ensure they minimise their risks and that would impose on business and not for profit entities alike, more cost in real dollar terms and in time input in providing the necessary information to satisfy that minimisation desire. We therefore cannot support that suggestion.

**Q25** This needs to be clear as to what is meant by this in terms of individuals/companies or directors of the company. An action by individual may not infer support by the company unless it could be proven that there was a systemic activity being undertaken and linkable to both the company and its directors.

**Q26** We support this.

**Q27** This is essential and if aligned to Australia this should be a no brainer, providing they move at the same time.

**Q28** This appears acceptable.

**Q29** Filed reporting will always be after the fact and only current accounting can provide an accurate test of insolvency using the two tiered system.

### **Part 9.2 - Other Issues**

**Q30** There is no difference to the existing requirements under the Financial Reporting Act 1993 and therefore no savings in this regard.

**Q31** No

**Q32** This is agreed as desirable.

**Q33** We do not support any reduction in the reporting time and believe that the IMF timeframe imposes onerous requirements if companies or organisations are to meet that 4 month requirement and would increase audit costs.

**Q34** Revealing such packages is good for shareholder information and certainly in publically listed companies and public entities this is a matter of transparency that should apply. In privately held firms or not for profit entities (other than charities or those accepting core public funding to operate) this does not provide any great

value. It is also fair to say that the public perception of what a fair remuneration package is may differ from the reality of the market for the skills of the individual.

### **Part 11 - New Zealand – Australia Single Economic Market**

**Q35** We support the principles of a single economic market, however we are also of the belief that New Zealand should not just adopt the Australian regulations and that any single economic market settings should be best regulatory practice. Our experience with Australian regulators has been “our way or the highway” and this type of establishment of regulation under a single economic market is not acceptable to business.

### **MED’s Proposals for each class of entity (Appendix)**

**Q36** We have covered off most of the issues in terms of tier/tests or thresholds in previous questions.

### **General Question**

**Q37** We have raised all points within the question responses and in our summary.