

The Financial Reporting Framework

New Direction! Right Direction?

Mark Hucklesby

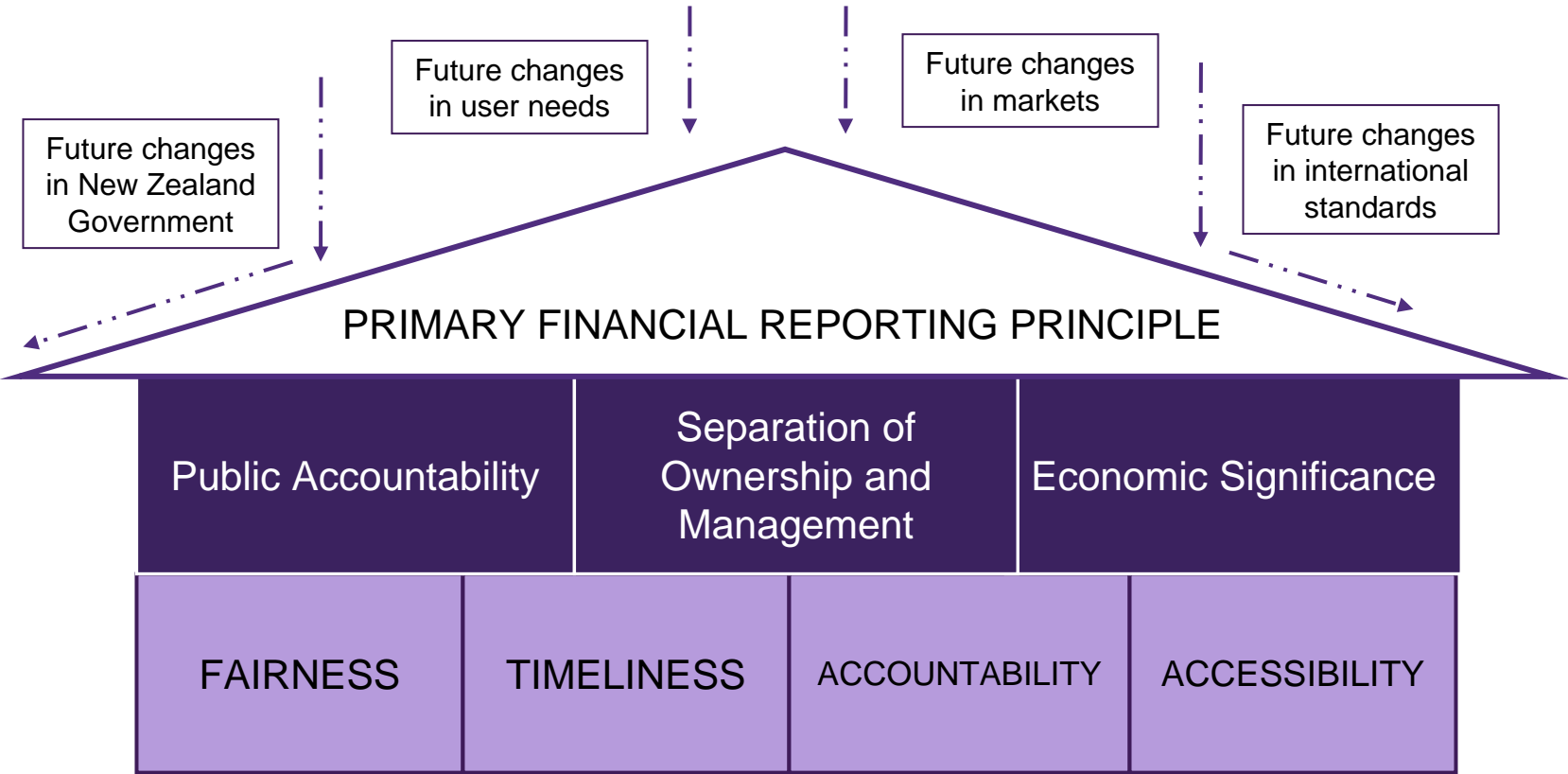
What do we have today?

Financial Reporting Act 1993



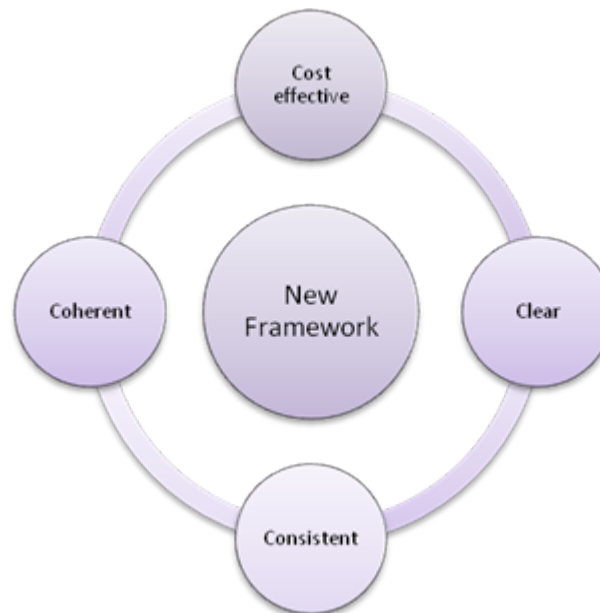
New Zealand legislation

The need for a "future-proof" structure



What do the proposals set out to achieve?

“The main objective of the review is to produce a financial reporting system that works **efficiently** and **effectively** for all categories of entities in NZ”



Overview of the discussion documents

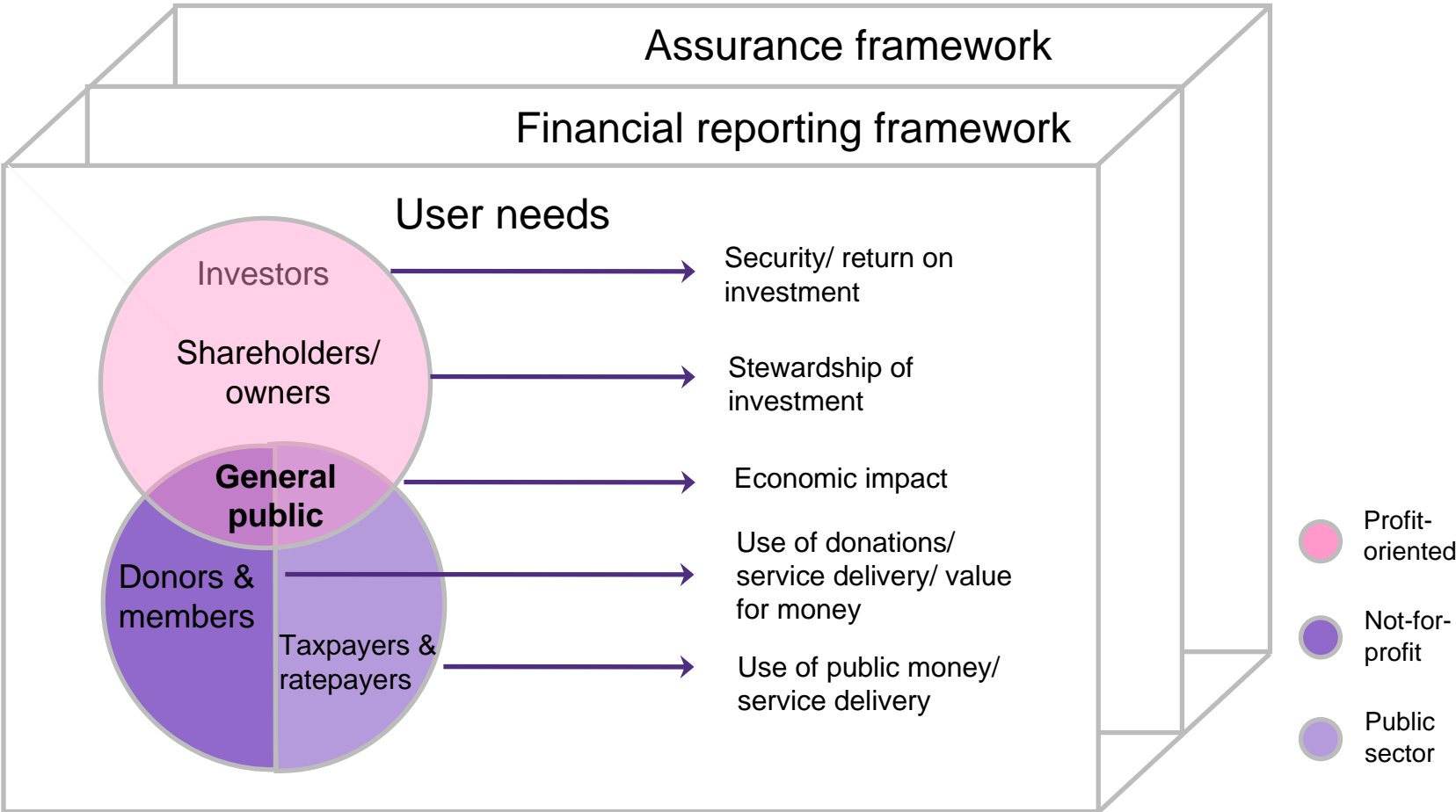
The MED Proposals

- 81 pages
- 25,310 words
- 37 questions for respondents
- 10 parts, covering the objectives of the review, problem definition, statutory responsibilities, financial reporting principles and their application to the different sectors identified, and other issues noted

The ASRB Proposals

- 66 pages
- 26,235 words
- 19 questions for respondents
- 6 chapters, covering the general framework for the application of accounting and assurance standards and the application of this framework to the different sectors, as well as related issues and comments

The user-needs principle



Sector specific and tier-based approach

INDICATORS

Public
accountability

Owner/
management
separation

Economic
significance

Sectoral Specific Basis

For-profit	Public benefit	
	Public sector	Not-for-profit
Tier 1	Tier 1	Tier 1
Tier 2	Tier 2	Tier 2
	Tier 3	Tier 3

Primary concerns?

- The “black hole” that exists from not having a third tier for approx. 500,000 profit-oriented entities
- What fills company reporting in that space and who should be responsible for developing it?
 - Not convinced the Australian, “special purpose financial reporting” solution is the best way to go
 - Free form
 - Positive reference to a framework (everything except for)
 - Cherry picking (taken these standards from the framework)

Financial reporting

- Companies are by definition risk-taking enterprises; there needs to be accountability for the privilege
 - To file or not to file; that is the question?
- The number of accounting “rule books” that will need to be put in place
 - Seven variations currently being proposed!

Assurance

Constructive and useful developments:

- Acceptance of the important role of “review”, but do directors clearly understand what is involved?
- Opt-in and opt-out provisions
- Auditor registration

What’s missing?

- The lack of consideration of agreed upon procedures when considering the “accountability” requirements of smaller entities

The way forward for small companies ...

- For Tier 2 companies: IFRS for SMEs
 - Rather than an “Australasian” Differential Reporting solution on the grounds of:
 - reduced disclosure
 - reduced maintenance
 - international comparability
 - a lack of resources, and
 - a robust methodology to support the ongoing development of differential reporting

The way forward for small companies ...

- For “Tier 3” companies:
 - Develop a cut down version of IFRS for SMEs to satisfy tax reporting (ie IR 4 and IR 10) needs
 - Link this basis of reporting to the Government’s Standard Business Reporting (SBR) initiative for efficient and effective filing with Government
 - Encourage comparability and benchmarking
 - Facilitate higher quality review

Closing remarks

- Both Discussion Papers are good, but there are some gaps
- It's clear “old” NZ GAAP with its Financial Reporting Standards and NZ IFRS as it currently stands needs to be replaced
- New Zealand needs to have internationally recognised processes to develop financial reporting standards and assurance standards
- Future-proof and responsive

What should you do next?

- Read
- Discuss
- Consider
- Respond



Any questions
or comments?



Contact details

AUCKLAND OFFICE

Level 4, Grant Thornton House, 152 Fanshawe Street,
PO Box 1961, Auckland 1140, NEW ZEALAND

Telephone +649 308 2570

Facsimile +649 309 4892

WELLINGTON OFFICE

Level 13, AXA Centre, 80 The Terrace
PO Box 10712, Wellington 6143, NEW ZEALAND

Telephone +644 474 8500

Facsimile +644 474 8509

CHRISTCHURCH OFFICE

Level 9, Anthony Harper Building, 47 Cathedral Square,
PO Box 2099, Christchurch 8140, NEW ZEALAND

Telephone +643 379 9580

Facsimile +643 366 3720