Accounting Standards Review Board
Private Bag 92162, Auckland, New Zealand
Ph: (09) 355 8038 / Fax: (09) 355 8026

NATIONAL OFFICE
LEVEL 2, CIGNA HOUSE, 40 MERCER STREET, PO BOX 11 342, WELLINGTON, NEW ZEALAND
TELEPHONE: +64-4-474 7840, FACSIMILE: +64-4-499 8033
WEBSITE: www.nzica.com

NEW ZEALAND INSTITUTE OF CHARTERED ACCOUNTANTS

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Financial reporting changes for small businesses and charities

Thousands of small businesses and local charities will be affected by the decision of the Accounting Standards Review Board (ASRB), on the recommendation of the Financial Reporting Standards Board (FRSB), to delay the mandatory adoption of the New Zealand equivalents to international financial reporting standards (NZ IFRS) for certain small entities.

Following a 2002 decision by the ASRB, all New Zealand entities that prepare general purpose financial statements were required to adopt NZ IFRS for periods beginning 1 January 2007. Since that decision was made, there has been much debate, both internationally and in New Zealand, about the applicability of NZ IFRS to small entities, particularly small family-owned businesses and not-for-profit organisations.

“We have recently conducted an extensive consultation on small and medium-sized entity reporting,” says Joanna Perry, chair of the FRSB. “Attendees shared concerns about whether it was appropriate for current reporting requirements to apply to many small entities. There was a lot of interest in the Australian experience in financial reporting for small companies.”

The Hon Lianne Dalziel has recently advised the ASRB and FRSB that a government review of the financial reporting requirements applying to small and medium-sized companies under the Financial Reporting Act will commence in mid-2008.

“It is possible this review could remove the legislative requirement for many small companies to prepare GAAP-compliant financial reports,” says Warwick Hunt, chair of the ASRB. “If this happens, it calls into question the benefits of adopting NZ IFRS now. As a result, the ASRB has decided that mandatory adoption should be delayed for some small companies."

The Ministry of Economic Development is also considering the financial reporting regime for charities. It is not yet known what the outcome of this work will be. To allow consistency of treatment between companies and other small entities, including small charities, the postponement of mandatory adoption of NZ IFRS also applies to some other small entities not covered by the Financial Reporting Act 1993. This includes small partnerships, trusts, charities, clubs, societies and associations.

The option to delay the adoption of NZ IFRS is open to:

- companies that are not issuers, not required to file financial statements with the Registrar of Companies, and not large[1] as defined by the Financial Reporting Act 1993;
- entities that are not subject to the Financial Reporting Act 1993, not publicly accountable[2], and not large[3] as defined in the *Framework for Differential Reporting*.

If these small entities are required to prepare general purpose financial statements, they may continue to apply the existing financial reporting standards in the meantime.

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For further information contact:

Warwick E Hunt Chairman Accounting Standards Review Board mobile: 021 575 457 / 021 850 970	Denise Hodgkins Deputy Chairman Financial Reporting Standards Board Phone: (09) 303 0918

[1] Ssection 19A defines a company as large if it meets any two of the following:
- assets (including assets of subsidiaries, if any) exceed $10 million;
- turnover (including turnover of subsidiaries, if any) exceeds $20 million;
- 50 or more full-time equivalent employees (including employees of subsidiaries, if any).

[2] Under the *Framework* an entity is publicly accountable if:
- it was an issuer at any time during the current or the preceding reporting period; or
- it has the coercive power to tax, rate or levy to obtain public funds.

[3] Under the *Framework* an entity is large if it exceeds any two of the following:
- total income of $20 million;
- total assets of $10 million;
- 50 employees.