



NEW ZEALAND CHAMBERS OF COMMERCE AND INDUSTRY
SUBMISSION TO THE MINISTRY OF ECONOMIC DEVELOPMENT ON THE
REVIEW OF THE FINANCIAL REPORTING ACT 1993 PART II

Introduction

- 1 New Zealand Chambers of Commerce and Industry is an umbrella organisation serving the interests of 30 Chambers of Commerce nationwide. These, in turn, represent over 20,000 businesses – most of the small to medium enterprises that are the backbone of business in New Zealand.
- 2 The Chambers exist to promote, support, and encourage sustainable, profitable businesses. Business is the key wealth creator in our economy. Sustainable, profitable businesses provide economic growth and ensure that additional resources are available to support our communities and create jobs for New Zealanders.
- 3 For businesses to achieve this, they themselves require an environment that is supportive, and a culture that encourages, rewards, and celebrates success in all its forms.

Policies for Sustainable Business Growth

- 4 To achieve sustainable growth, Government policy must be actively pro-business. The Government cannot run the business sector, but it can support it and remove barriers to its success.
- 5 New Zealand Chambers recognise that sustainability involves economic, social and environmental dimensions.
 - *Government recognition of business as our economy's wealth creator.* Provides predictability in government policy and creates the foundation for successful government/business partnerships.

- *Acknowledgement of the compelling link between sustainable, profitable business, economic growth and the well-being of our community and the individuals within it.* Gears policy towards greater reliance on positive business and economic growth, and decreased reliance on welfare.
- *The lowest possible tax base.* Encourages investment and encourages people to see New Zealand as a great place to work.
- *A low inflation environment.* Brings predictability to the business environment, enhances the cost competitiveness.
- *An emphasis on commercial research and development fostered and encouraged by the government.* Allows the development of leading edge technologies, provides new opportunities and contributes to the effective differentiation of products and services.
- *Leverage of the natural capital of our country through the use of information technology, biotechnology and production technology, and the active promotion of a positive enterprise culture.* Maximises business opportunities nationally and globally.
- *A high skill base and flexible labour market.* Enhances capabilities and maximises output.
- *Minimal compliance costs.* Allows business to focus on core activity and assists international competitiveness.
- *A flexible immigration policy.* Increases our skill base.
- *A supportive infrastructure.* Allows the cost-effective production and distribution of products and services.
- *An open economy.* Removes distortion and reduces costs.
- *A low tariff, low subsidy operating environment.* Facilitates market activity.
- *Positive government/business partnerships.* Gives strength and focus to mutually-agreed outcomes.
- *Strong international strategic alliances: government-to-government and business-to-business.* Increases market access, enables easier identification of market demand and provides technology-sharing opportunities.

REVIEW OF THE FINANCIAL REPORTING ACT 1993 PART II

In keeping with our policy position on minimising compliance costs the **New Zealand Chambers of Commerce and Industry has concerns about the reporting and disclosure proposals around non-issuer companies** contained in Chapter IX of the Part II Discussion Document released by the Ministry of Economic Development.

It is our view that the public benefits claimed for the filing of financial reports by non-issuer companies are likely to be outweighed by the costs associated with the preparation of these statements. Moreover we believe that many of the benefits suggested as flowing from the proposed changes are already available through common law and statute.

To test member views the Wellington Regional Chamber of Commerce surveyed its members on their reaction to some of the proposals made with regard to non-issuer companies. **In response 83% of respondents opposed any legislative changes which would require greater public disclosure of non-issuer company accounts than is required at present.** Concern at increased compliance costs was the main reason given for this opposition. The New Zealand Chambers of Commerce believe that the results from the Wellington survey are likely to be shared nationwide. Concern in the Canterbury region is so strong that the Canterbury Employers' Chamber of Commerce felt obliged to make a separate submission to the Ministry of Economic Development on this issue and to submit this ahead of that from the New Zealand Chambers of Commerce. Concerns have also been expressed by a number of members of the Auckland Chamber of Commerce and Industry and the Otago Chamber of Commerce and Industry.

Privacy issues and issues relating to competition also featured as significant concerns in the Wellington Regional Chamber of Commerce survey, and in feedback received by the Auckland, Otago and Canterbury Chambers.

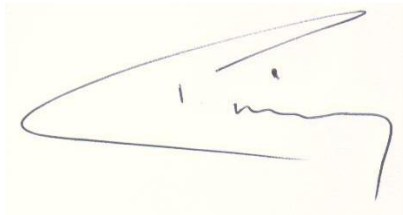
The New Zealand Chambers of Commerce and Industry **would prefer no changes** to The Financial Reporting Act 1993 as they relate to non-issuer companies. However, **should any changes be made to existing requirements the New Zealand Chambers of Commerce and Industry's preferred regime is the alternate approach suggested for all companies, whereby the shareholders of a company would be able to derogate from the full requirements of financial reporting by shareholder agreement. The shareholders should have the power to determine the degree of reporting, whether or not to have accounts audited, and whether to file accounts in the public domain.**

In our view the derogation provisions should be available to all non-issuer companies regardless of their size. In the Wellington Regional Chamber of Commerce survey **63% opposed the imposition of mandatory reporting requirements on large companies** (the survey used the criteria suggested in the MED discussion document for determining a large company). It should be

noted that most of those surveyed in Wellington would not have met any of the criteria suggested for determining whether a company was a large company. It was not a survey of large companies.

The New Zealand Chambers of Commerce and Industry notes that the Ministry of Economic Development is proposing a requirement of unanimity for shareholders decisions to opt out of producing, auditing and filing financial reports, but is seeking views on other possibilities. **Our preference would be to have decisions made on opting out of financial reporting decisions on the basis of majority of shares held.** Of the options suggested in the discussion document the **majority of 75% would appear to both meet our preference** and provide sufficient protection required for minority shareholders. We note also the protections already afforded minority shareholders in existing legislation.

The New Zealand Chambers of Commerce and Industry are grateful for having been given the opportunity to make a submission on this important issue. We would be more than happy to meet with the Ministry of Economic Development and/or appropriate Ministers to discuss the positions outlined in this submission.

A handwritten signature in blue ink on a light yellow background. The signature is stylized and appears to read 'C. Finny'.

Charles Finny
New Zealand Chambers of Commerce & Industry