Financial Reporting Bill 2012

Date of Introduction: 31 July 2012
Portfolio: Commerce
Select Committee: As at 27 September, 1st Reading not held.
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by John McSorley BA LL.B, Barrister Legislative Analyst
P: (04) 817-9626 (Ext. 9626)

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Although every effort has been made to ensure accuracy, it should not be taken as a complete or authoritative guide to the Bill. Other sources should be consulted to determine the subsequent official status of the Bill.

Purpose

The aim of this Bill is to repeal and replace the Financial Reporting Act 1993 (the 1993 Act) and, in particular, to:

- “continue the External Reporting Board and define its functions and powers”;
- “provide for the issue of financial reporting standards and auditing and assurance standards”; and
- “provide for auditor qualifications and other standard provisions relating to financial reporting duties under other enactments” (Part 1, Clause 3, the “purpose” clause).

Background

Benefits of the Bill

A media release accompanying the introduction of this Bill states that it “overhauls financial reporting rules and cuts compliance costs for small and medium-sized companies”.

Hon. Mr Foss, the Minister of Commerce, said that “these smaller companies shouldn’t necessarily have to produce the same complex financial statements that are required from large companies.” The media release also states that the Bill “simplifies compliance obligations for charities, and includes a
new power which allows the External Reporting Board to issue accounting standards for registered charities"

Mr Foss said that “this power will provide clarity for charities that are required to file financial statement” and that it would “remove uncertainty, improve the quality of reporting and increase comparability between charities”.

Notable features of the Bill are:

- the removal of a requirement for “non-large”, “non-issuer” companies to prepare general-purpose financial reports;
- giving power to the External Reporting Board to issue financial reporting standards for a range of entities, including registered charities;
- the placing of the substantive reporting requirements in their relevant Acts under the following principles:
  - “all substantive reporting requirements and the related offence provisions will be included in sector, industry, and entity-specific Acts”;
  - core financial reporting principles and definitions that are intended to apply to all reporting entities (for example, the meaning of generally accepted accounting practice) or to some classes of reporting entities (for example, the meaning of large) are consolidated in this Bill which repeals and replaces the 1993 Act. “This will include retaining or modifying some existing 1993 Act principles and definitions, adding new ones, and transferring standard provisions relating to auditing from the Companies Act 1993 to the new Financial Reporting Act. There will be cross-references to those principles and definitions in sector, industry, and entity-specific legislation.”

Supplementary Order Paper No 93

Supplementary Order Paper No 93 (released by the Minister on 31 July 2012) “aligns breaches of financial reporting requirements for financial markets participants with the liability regime in the Financial Markets Conduct Bill”. The Financial Markets Conduct Bill 2011, reported from the Commerce Select Committee on 7 September 2012, is described in Bills Digest No 1963.

SOP No 93 proposes particular reporting provisions in relation to issuers and other financial market participants to be inserted into the Financial Markets Conduct Bill.

Regulatory impact statements


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1 Hon Craig Foss, Media release, “Bill to cut financial reporting burden introduced”, 31 July 2012.
3 Ibid.
4 Hon Craig Foss, media release, “Bill to cut financial reporting burden introduced”, 31 July 2012.
Main Provisions

The Bill applies to reporting entities

The Bill largely applies to any “reporting entity”. A reporting entity is an entity whose financial statements or group financial statements are required by any enactment to comply, or be prepared in accordance, with generally accepted accounting principles (i.e. GAAP standards) or non-GAAP standards\(^5\). The term “non-GAAP standard” means a financial reporting standard that is stated in the standard to be a non-GAAP standard (Part 1 Clause 5(1), definitions of “reporting entity” and “non-GAAP standard”; Clause 8).

External Reporting Board

The Bill continues the existence of the External Reporting Board which is an independent Crown entity. The functions of the Board are:

- to prepare and issue financial reporting standards and auditing and assurance standards;
- to issue authoritative notices, which provide for matters not covered by standards for the purposes of the definition of GAAP (a new function);
- to develop and implement strategies for the issue of standards; and
- to liaise with international or national organisations that perform functions that correspond with, or are similar to, those conferred on the Board (Part 2, Clauses 10-11).

Financial reporting standards and auditing and assurance standards

The Bill includes detailed provisions relating to the issue of financial reporting standards and assurance standards (Part 2, Subpart 2, Clauses 14-32).

Standard provisions relating to auditor qualifications and access to information

The Bill provides for the qualifications of auditors for the purposes of various enactments. The obligations of entities to provide information to auditors are set out and the rights of auditors to obtain information are described (Part 2, Subpart 3, Clauses 33-38).

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\(^5\) In general terms, GAAP means generally accepted accounting principles which are “the set of standards and conventions that guide accountants in the preparation of financial statements. “Certified public accountants”, in expressing opinions on financial statements, must indicate whether the statements are prepared in accordance with generally accepted accounting principles. GAAP may also include certain practices that are widely followed or commonly advocated in the accounting literature”: Ralph Estes, “Dictionary of Accounting”, the MIT Press, Cambridge, Massachusetts, 1981, p. 58.
Amendments to other Acts

Amends many other Acts in relation to the particular financial reporting requirements of entities subject to each Act (Part 4, Subparts 1-11, Clauses 61-162; Schedule 1 and Schedule 2).