

PLEASE  
READ  
THIS

We will be closing our offices for the Christmas/New Year period at 1pm on Thursday, 23<sup>rd</sup> December 2010. We will re-open with skeleton staff on Wednesday, 5<sup>th</sup> January 2011. We wish you a safe and happy festive season.

Please note: If you would like to receive future copies of our newsletter via email, please forward your email address to newsletter@smithpartners.co.nz

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## Partner's Corner

Having reflected on our 2008 Christmas Partners corner, we note that we were hoping for the economic black clouds to have turned in 2009. This was obviously a little ambitious and 2010 has been another tough year, particularly when we have also, as a nation, had to deal with serious and devastating national disasters.

Nevertheless, we wish to again thank our clients for their continued support and services and we are definitely now approaching 2011 with confidence and hopefully an All Black win at the World Cup.

We are pleased to welcome Lesley Thomson to Smith & Partners. Lesley comes from a large Auckland firm and has many years experience in property law and also has an interest in furthering her commercial law experience.

Again we would like to thank our clients for their support and loyalty and wish you all a very safe and happy festive season.



## Directors Right to Rely on Specialist Advice

The recent 'Feltex Five' decision, *Ministry of Economic Development v Feeney and Ors*, demonstrated that directors may avoid being held personally liable in certain circumstances if they have relied on expert advice.

The decision involved the prosecution of five Feltex directors ('Directors') for failing to disclose breaches of an ANZ loan agreement and for classifying this ANZ liability as a current liability in their financial reports. While the Directors did not deny that their reports breached the Financial Reporting Act 1993 ('FRA'), they argued that they had a defence under s40 FRA, in that they took all reasonable steps to ensure that the requirements under the FRA had been met. The Directors argued that they relied on expert advice which led them to believe that their reports were compliant.

At the time the financial reports were prepared, the company was transitioning to new financial reporting standards and commissioned a team of accountants to review these standards and the company's financial reports. However, it was reported that the accountants incorrectly advised the company of the requirements under the new standards and their advice led to the breach and subsequently the prosecution of the Directors. The issue was whether the Directors could rely on this expert advice or whether they should have taken further steps to meet the requirements under s40 FRA.

The Court held it was necessary to determine whether the Directors had taken all reasonable steps in light of the protections under the Companies Act 1993 (the 'Act'). Under s138 of the Act, directors are able to rely on information and advice from a professional adviser or expert in relation to matters which the director believes on reasonable grounds to be within the person's professional or expert competence.

### This defence applies where it is evident that directors:

- acted in good faith,
- made proper inquiries where the need for inquiry is indicated by the circumstances, and
- had no knowledge that such reliance is unwarranted.

In this case it was found that a reasonable director, having read the accountants' report and having attended their meeting, would have been left with no doubt that the financial statements complied with the new standards. Therefore the Directors had no knowledge that reliance was unwarranted and were entitled to believe that the work undertaken by such a highly reputable firm was within their expertise. Furthermore, they were aware that the transition to the new standards was very complex and had put in place a comprehensive strategy to manage it.

Therefore it was held that the Directors took all reasonable and proper steps to ensure the requirements of the FRA were complied with and there was no evidence of an intention to mislead. Each of the Directors was found not guilty.



## 90 Day Trial Periods - Employers Beware!!

The Government's proposed changes to the Employment Relations Act 2000 ('ERA') include extending the 90 day trial period to all employers, rather than just those with fewer than 20 employees. The main benefit of a trial period is that it allows an employer to dismiss an employee within the 90 day trial period without fear of a claim from the employee of unjustified dismissal.

The Department of Labour has recently conducted an evaluation of trial periods and found that approximately 40% of employers stated that they would not have hired their last employee without the trial period and 74% of people hired on a trial period have retained their positions. It therefore appears to have been a win-win for both employees and employers.

The first decision on the interpretation of provisions, *Smith v Stokes Valley Pharmacy (2009) Limited*, demonstrates that an employer must comply strictly with the provisions of the legislation.

In this case Heather Smith was working in the Stokes Valley Pharmacy when it was sold. Heather was offered a job with the new employer and on 1 October 2009 commenced work for them. On 2 October 2009, she signed a new employment agreement that contained a 90 day trial period. The new employer quickly became dissatisfied with Heather's performance, and in reliance on the trial period provisions, terminated her employment in December 2009.

Heather commenced proceedings against her employer and, despite the existence of the trial period, the Employment Court found that Heather could make a claim for unjustified dismissal.

Under s67A of the ERA, trial periods can only apply to a person who has not previously been employed by the employer. When Heather signed her employment agreement on 2 October she had already commenced work, even if it was only for a day, and therefore she was no longer a 'new employee'. The employer argued that Heather had by her conduct accepted the terms and conditions of the draft employment agreement as it was provided to her on 29 September 2009. The Court rejected this argument and held that the Agreement required execution by signature and until it was signed the Agreement remained a draft that could potentially be amended. The result was that the trial period was void and Heather could claim unjustified dismissal, the very action the employer thought they were protecting themselves from.

This decision also discussed the requirement of good faith in relation to trial periods. It was found that an employer is not obliged to notify an employee, who is employed under a trial period, of the employer's intention to dismiss them. Once dismissed, if an employee requests an explanation for the dismissal, good faith requires that they must be given one.

It was also found that if an employer seeks to rely on a trial period, the employment agreement must be terminated lawfully and in accordance with s67B (1) of the ERA, which requires notice to be given. While there is nothing in the ERA determining the length or form of this notice, in this case Heather's contract required 4 weeks notice. Therefore, the court found that the two weeks notice period that was given was deficient and subsequently the agreement was not lawfully terminated.

This decision highlights that employers who wish to rely on a trial period must comply strictly with the provisions of the ERA.

### Government Response to Canterbury Earthquake



Parliament moved quickly to pass the Canterbury Earthquake Response and Recovery Act 2010 ('the Act'), which received Royal Assent on 14 September 2010 just 10 days after the earthquake struck. The Act will remain in force until 1 April 2012.

The Act grants the Government wide powers to make Orders in Council ('Orders') to relax or suspend provisions in any enactment that:

- may divert resources away from the effort to respond to the earthquake, or
- may not be reasonably capable of being complied with as a result of the earthquake.

The Orders may be used to temporarily override almost any law and are likely to be used to authorise such matters as the destruction of buildings, regulate drainage and sanitation, and modify or extend town planning provisions. Unlike previous earthquake legislation, the Act does not specifically state what financial assistance the Government will provide and it does not create a right to compensation. Instead it establishes a Recovery Commission that will provide advice to the relevant Minister on Orders in Council and the prioritisation of resources and how funds should be allocated.

## Company Rules to be Tightened



Last year an Auckland registered company, SP Trading Ltd, was linked to the sale of arms from North Korea to Iran. When investigations commenced, the Director of SP Trading Ltd, Lu Zhang, was unable to be found. The Companies Office records showed the sole shareholder of SP Trading Ltd to be

Vicam (Auckland) Ltd, whose shareholder was GT Group Ltd. The registered office of all three companies was the same Queen Street address.

This case raised concerns that New Zealand's reputation as one of the best countries in which to conduct business may also have opened it up for abuse.

Currently there are no requirements to provide proof of identity or to verify a company's address when completing company registration. However, there is concern that increasing compliance requirements will affect our ability to do business and increase costs for honest business people. There is a fine balance between ensuring that it is easy to do business and protecting ourselves from risk.

On 9 September 2010 the Commerce Minister, Hon. Simon Power, announced that the Government will tighten up the requirements around company directors and the registration process in an effort to prevent overseas interests using New Zealand registered companies to undertake criminal activity.

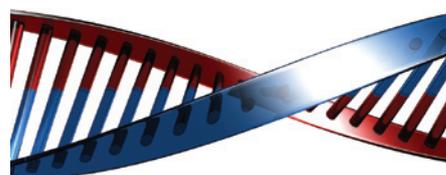
**A Bill is expected to be introduced into Parliament next year that will include the following key changes:**

- All New Zealand companies will be required to have either one New Zealand resident director or a local agent, who will be responsible for ensuring that accurate information is given to the Registrar of Companies ('the Registrar').
- The resident director or local agent will be held liable if any of the above information is found to be misleading.
- The powers of the Registrar will be increased to provide a greater ability to take action where there is any doubt about the accuracy of information. This includes having the ability to make note or 'flag' on the register any company that is under investigation.
- The Registrar will be able to remove a company from the register or prohibit a director from acting for up to five years if it is found that they have breached companies related legislation or if they have been misleading in any way.

It is anticipated that these changes will make it easier to deal with compliance issues around company registration and to remedy issues surrounding the authenticity of directors and shareholders of companies. Individuals will be able to check the Companies Office records if they have any concerns surrounding a company with which they are doing business. Mr Power states that this will shore up the integrity of New Zealand's company registration process against increasing criminal activity from overseas. Most importantly, it will ensure that New Zealand upholds its reputation as one of the best places in the world to do business.

## DNA Collection

From 6 September 2010 the Criminal Investigation (Bodily Samples) Amendment Act 2009 extended police powers, giving them the authority to take DNA samples from individuals who are arrested. Previously samples could only be taken with the individual's consent, or where there was a court order, or police-issued compulsion notice, or the person had already been convicted of an offence.



**These new powers are being implemented in two stages:**

- 1) From 6 September 2010 the police can take DNA samples from individuals who have committed indictable offences, such as those punishable by more than 7 years imprisonment.
- 2) At a date yet to be set, these powers will then be extended to include individuals accused of any imprisonable offence.

Justice Minister Hon. Simon Power believes the key benefit will be the ability to solve "cold cases" and identify some of the 8,000 unidentified DNA samples. It is predicted that stage 1 will result in 4,000 more samples a year and 2,800 links to the crime scene database.

On the flipside, safeguards have been put in place. The police have developed guidelines, individuals will be penalised for misusing DNA, and if someone is not convicted their DNA will be destroyed rather than stored.



## Alcohol Law Reform Package

There has been a reported increase in the consumption of alcohol since the liberalisation of the liquor laws in 1989, which made alcohol more affordable and more widely available. On 23 August 2010 the Minister of Justice, Hon. Simon Power, announced a new Alcohol Law Reform package. This new package is based on the Law Commission's report "Alcohol in our Lives: Curbing the Harm" (NZLC R114, Wellington 2010) a follow up on the initial report "Alcohol in our lives" (NZLC IP15, Wellington, 2009), and incorporates 126 of their recommendations.

The Law Commission's reports revealed that 54% of people under 25 and 25% of adults consume large quantities (6 plus standard drinks for males and 4 plus standard drinks for females) of alcohol when they drink, and that the number of liquor licences has doubled in the past two decades. However, it identified the main concerns for society are those aged 14-19 who are drinking at an earlier age and consuming larger quantities of alcohol than previous surveys have shown for this age group.

The problem with this heavy drinking culture is the risk that it poses and harm that it causes both to the individual and to society. Alcohol contributes to 1,000 deaths per year and is a factor in 31% of all police-recorded offences, 34% of family violence incidents, and 49.5% of all homicides. The aim of the reform package is to change this drinking culture and reduce the harm it causes by restricting both access to alcohol and the advertisement of alcohol.

### The reforms will provide the following:

- A split purchase age, 18 years for on-licenses and 20 years for off-licenses.
- Restricting RTDs to 5 per cent alcohol content and limiting RTDs to containers holding no more than 1.5 standard drinks.
- That it is an offence to supply alcohol to a person under the age of 18 years without their parent's or guardian's consent, and there is also a requirement that alcohol is supplied responsibly.
- That the Minister of Justice may ban alcohol products that are particularly appealing to minors or dangerous to health.
- It is an offence to advertise alcohol in a way that appeals to minors.
- Communities are to have a greater say on the concentration, location, and opening hours of alcohol outlets through the use of local alcohol policies.
- For a restriction of maximum opening hours for off-licenses to 7am – 11pm and for on-licenses, club licenses and special licenses to 8am – 4am.
- Clarity to the law that dairies and convenience stores are not "off-licenses" (and therefore cannot sell alcohol), together with increasing penalties for a range of licence breaches.
- An extension of liquor bans to include places that the public has legitimate access to, for example car parks and schoolgrounds.
- Strengthening the offence of promoting excessive consumption of alcohol by having it apply to any business selling or promoting alcohol and providing examples of unacceptable promotions such as giving away free alcohol.
- Improved public education and treatment services.

It is anticipated that these reforms will provide a balance between restricting the use of alcohol and not inconveniencing those who drink responsibly. However, as has been reported in the media, by trying to satisfy everyone the changes may not go far enough to make a significant difference.

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