Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

ASF Review: Entities that Voluntarily Apply Tier 2 Reporting Requirements

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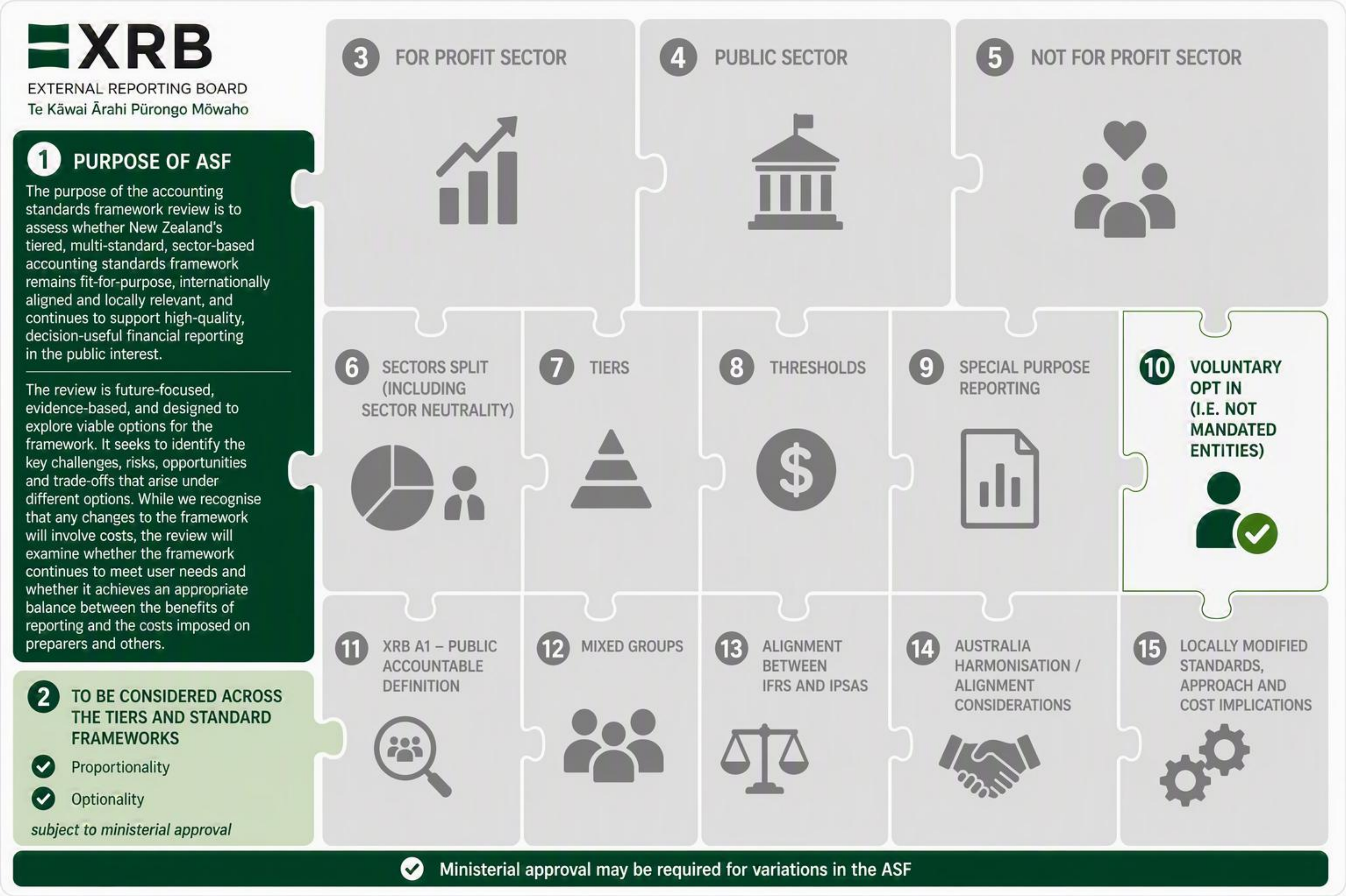
Tier 2 entities voluntarily opting in



Overview and context

Context for voluntary Tier 2 reporters — why some entities choose Tier 2, the alternative reporting options available, and the implications for the Tier 2 framework.

1. **Why voluntary reporters are considered**
   Voluntary Tier 2 reporters are considered as context in the ASF review.

2. **The two Tier 2 populations: mandated vs voluntary**
   Entities required to use Tier 2 differ from those that choose it.

3. **Why the assessment focuses on mandated Tier 2 entities**
   The fit-for-purpose review centres on mandated entities.

4. **Implications for the Tier 2 framework**
   Voluntary adoption has implications for the framework.

Voluntary Tier 2 reporters in the ASF review

Voluntary Tier 2 reporters are considered as context for the ASF review, where the fit-for-purpose assessment focuses on entities mandated to apply Tier 2 reporting requirements.

Fit-for-purpose assessment

The review tests whether the framework still works for the entities required to report under it.

Legislation creates obligations

The ASF does not create reporting obligations — legislation does. The framework applies where legislation requires GAAP-compliant financial statements.

Entities in scope

The entities in scope are for-profit Tier 2 entities that apply NZ IFRS RDR voluntarily — not because legislation requires it.

Treated as contextual only

They inform that context but are not part of the assessment itself.

The two tier 2 populations

There is an important distinction between entities that must use Tier 2 and those that choose to — and the ASF review is built around that distinction.

Mandated Tier 2 Entities

- **Required by legislation** to prepare GAAP-compliant financial statements
- Allocated to Tier 2 under the Accounting Standards Framework
- No public accountability
- For-profit public sector entities: annual expenses **≤ $33M**

Voluntary Tier 2 Reporters

- **Not legally required** to prepare GAAP-compliant statements
- Do not meet the "large" thresholds under Section 45 of the Financial Reporting Act 2013:
  >$66M assets
  OR >$33M total revenue
  each of the two preceding periods
- **Choose** to apply Tier 2 requirements for their own reasons:
  - Governance
  - Lending
  - Shareholder requirements
  - Contractual requirements
  - Commercial arrangements

No central register identifies the full Tier 2 population — neither the mandated nor the voluntary population can be quantified exactly.

Why the assessment focuses on mandated entities

Two features set voluntary reporters apart from the mandated entities.

a

Their use of Tier 2 is a **choice**, not an obligation.

b

They also vary significantly across key dimensions:

- Size and economic significance
- Reporting purpose
- User needs

c

This is why the assessment centres on **mandated Tier 2 entities** — voluntary reporters differ too widely to be its subject.

d

Alternative reporting options are available to them:

- Special purpose financial statements
- Management or tax accounts
- Parent-entity reporting packs

i XRB will consider whether its website and communications could better explain reporting options available to voluntary Tier 2 reporters.

Implications for the Tier 2 framework

> *Practical concerns about complexity and cost may reflect the experience of voluntary adopters rather than the mandated entities the framework is designed for — raising two questions.*

Applied more broadly than intended?

Voluntary adoption raises questions whether the Tier 2 framework is being used **more widely than it was originally designed for**.

Are the alternatives well understood?

It also prompts whether the **alternative reporting options** available to these entities are sufficiently understood and used in practice.

Have your say

Scan the QR code to provide feedback on this topic and help inform the development of the Discussion Paper.

Entities voluntarily opting in to use XRB Reporting Standards

We welcome your feedback as we develop our thinking on the future of New Zealand's Accounting Standards Framework. These videos outline some of the key issues and considerations we are currently exploring. We are keen to hear whether our analysis is complete, whether there are other challenges or opportunities we should consider, and whether there are perspectives we may have overlooked.

You can provide feedback at any stage by scanning the relevant QR code and completing the short survey for the Voluntary Opt In (Non-mandated entities). Your input will help inform the development of the Discussion Paper.