XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

ASF Review: Tier 1 For-Profit Reporting Framework

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Overview and context

Understanding the Tier 1 for-profit reporting framework — and the scope of this review.

01 The XRB is conducting a **comprehensive review** of the Accounting Standards Framework (**ASF**)

02 This review focuses on the **Tier 1 for-profit reporting framework** within the ASF

03 It compares the current framework **with selected alternative** reporting framework options

04 **It assesses** whether the current framework remains fit for purpose

For-profit sector

A note for the reader

This paper assesses the current Tier 1 for-profit reporting framework (NZ IFRS) as part of the ASF review and should be read alongside the For-profit sector overarching considerations paper which provides the overlapping contextual information for the for-profit entities across both Tier 1 and Tier 2.

Public accountability: the route into Tier 1

The definition has two limbs drawn from the IASB, with a NZ-specific deeming provision overlay tied to legislation.

Limb 1

Publicly Traded Instruments

Debt or equity instruments are traded on a recognised public market.

Listed companies or entities with publicly traded debt securities.

OR

Limb 2

Fiduciary Capacity

Assets held in a fiduciary capacity for a broad group of outsiders as a primary business.

e.g., banks, insurers, credit unions.

OR

NZ Deeming Overlay

FMCA — HLPA Designation

Entities designated under the FMCA as Higher Level of Public Accountability (HLPA) are deemed to have public accountability.

Note
FMC reporting entity status alone does not qualify — only those with the HLPA designation.

Allocation to Tier 1

An entity is allocated to Tier 1 if it

1

Has public accountability

XRB A1.9 — an entity is deemed to have public accountability in New Zealand if:

a) It is an FMC reporting entity or class of FMC reporting entities considered to have a "higher level of public accountability" than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013; or

b) It is an FMC reporting entity or class of FMC reporting entities considered to have a "higher level of public accountability" by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013.

OR

2

Is a large for-profit public sector entity with total expenses greater than $33 million.

XRB A1.6 — Definitions

Public benefit entities (PBEs) are reporting entities whose primary objective is to provide goods or services for community or social benefit, where any equity is provided to support that objective rather than for a financial return to equity holders.

For-profit entities are reporting entities that are not public benefit entities.

For-profit public sector entities are for-profit entities that are public entities as defined in the Public Audit Act 2001 (Section 5), which includes seven types of entity including the Crown, offices of Parliament and parliamentary agencies.

Entities that report in Tier 1

Tier 1 for-profit entities are those with public accountability or large for-profit public sector entities.

With public accountability

Entities that have, or are deemed to have, public accountability under XRB A1.

Entities typically in Tier 1:

- Listed issuers (~180 equity, ~144 debt on NZX)
- Registered banks (~27)
- Licensed insurers (~84)
- Other entities that have public accountability
- Managed investment schemes (deemed to have public accountability)

Large for-profit public sector

For-profit public sector entities with **total expenses** exceeding $33m

These entities report in Tier 1 because they meet the XRB A1 criteria for large for-profit public sector entities, rather than because they have public accountability.

- This category captures only a small number of entities.

Report in Tier 1 of the ASF

Note: *This paper assesses the Tier 1 reporting framework, rather than which entities should be allocated to Tier 1.*

Information needs of users and preparers of Tier 1 financial statements

External users rely on Tier 1 financial statements, while preparers apply full NZ IFRS to produce them.

Users of Tier 1 GPFS

Primary users are generally external to the entity and rely on general purpose financial statements (GPFS).

Primary users include:

- Investors, analysts and lenders
- Regulators
- Depositors and policyholders
- Scheme members
- Other external stakeholders

Decision-useful information
GPFS provide a common, independently prepared source of financial information that supports informed decision-making by users who cannot obtain information directly from the entity.

Preparers

Preparing Tier 1 financial statements requires

Full NZ IFRS - applied by all Tier 1 for-profit entities.

Applying full reporting requirements requires significant judgement, robust reporting processes, technical expertise and audit support.

Context: *Tier 1 entities generally have more developed reporting infrastructure, governance and technical capability than smaller entities.*

Balancing user and preparer needs
The framework should meet users' information needs while remaining practical and operable for preparers applying full NZ IFRS.

The current Tier 1 reporting framework

Tier 1 entities apply full NZ IFRS. Tier 2 applies the same recognition and measurement requirements, with reduced disclosures.

Tier 1 for-profit

Full NZ IFRS

Full recognition, measurement, presentation and disclosure requirements.

Tier 2 for-profit

NZ IFRS RDR

Same recognition and measurement requirements as Tier 1, with reduced disclosures.

What the reporting framework delivers

Comprehensive reporting — appropriate for entities with public accountability, scale and regulatory significance

International comparability — enables trans-Tasman alignment and global comparability.

Decision-useful information — enables informed investment, lending and stewardship decisions by external users

International and trans-Tasman context

International practice and trans-Tasman alignment provide useful reference points assessing the Tier 1 framework.

International practice

IFRS-based frameworks are **widely used** for listed and publicly accountable entities across NZ's top trading partners and G20 jurisdictions.

Trans-Tasman alignment

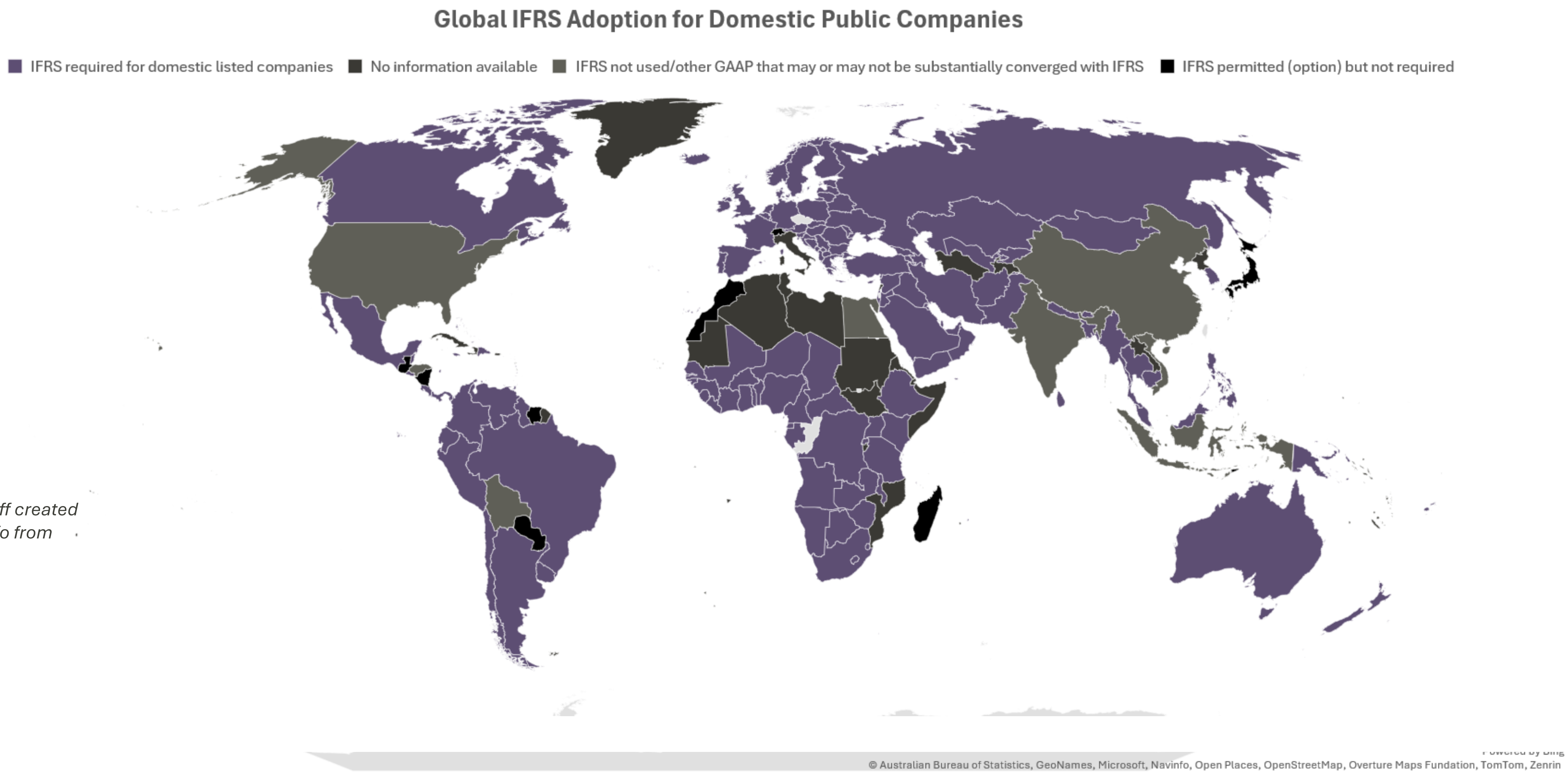
New Zealand's Tier 1 framework is **currently aligned with Australia's** IFRS-based framework. Harmonisation with Australia was a key factor in setting the for-profit tier framework.

Dual-listed entities

Entities **listed on both the ASX and NZX** operate in a trans-Tasman market context. Dual-listed entities span **multiple sectors**, not a single group of issuers.

Current framework's international reporting context

Around 161 of the world's ~195 jurisdictions require IFRS for domestic public companies.



Source: XRB staff created the map with info from IASB website.

Reporting requirements for New Zealand's top 10 trading partners

Countries	Requirements for domestic public companies
China	China's national standards which are substantially converged with IFRS. (> 30 % of the total market cap = IFRS-compliant financial statements. China has committed to adopt IFRS).
Australia	IFRS
United States of America	US GAAP
Singapore	Singapore Financial Reporting Standards which are aligned with IFRS
Japan	IFRS, Japanese GAAP and US GAAP permitted (>40% of the total market cap = IFRS compliant financial statements).
South Korea	IFRS
United Kingdom	IFRS
Germany	IFRS
Thailand	IFRS
Malaysia	IFRS

Source: Stats NZ and IASB website.

Out of the top 10 trading partners — 7 require IFRS, 1 is substantially converged, 1 permits IFRS and only 1 has a different framework (US GAAP, considered as an alternative option below).

A key consideration of the current framework

Using an IFRS-based framework requires entities stating compliance with IFRS to adopt the full suite of IFRS Accounting Standards.

01

International comparability

Using a common global framework supports:

- consistent recognition and measurement
- comparability across jurisdictions

02

No partial adoption

To support global comparability:

- partial adoption of recognition and measurement requirements is not permitted
- entities cannot state compliance with IFRS unless all IFRS Accounting Standards are adopted

The current New Zealand framework reflects this principle. Entities stating compliance with IFRS adopt the full suite of IFRS Accounting Standards.

Practical challenges with the current Tier 1 framework

Practical implementation challenges provide context for assessing whether the current framework remains fit for purpose.

01
Ongoing implementation effort
Monitoring and applying new and amended NZ IFRS requirements

02
Technical judgement
Principles-based standards require significant professional judgement from preparers, auditors and regulators.

03
Disclosure quality
Keeping disclosures entity-specific, material and understandable rather than lengthy or generic

04
Limited domestic flexibility
Maintaining IFRS convergence limits New Zealand's ability to tailor or simplify requirements while retaining IFRS compliance.

Reporting framework options considered

The paper considers the current Tier 1 framework alongside two alternative reporting framework options.

Note
Inclusion as an option does not imply it is the preferred option.

OPTION
A

OPTION A
IFRS

The current reporting framework for Tier 1 for-profit entities – based on IFRS Accounting Standards issued by the International Accounting Standards Board (**IASB**), with full recognition, measurement, presentation and disclosure requirements.

OPTION
B

OPTION B
US GAAP

The reporting framework applied by public companies in the United States, issued by the Financial Accounting Standards Board (FASB).

OPTION
C

OPTION C
Locally Modified Standards

An established international framework used as a base, with targeted modifications for the New Zealand reporting context.

Framework-level analysis criteria

Each viable option was assessed against seven key criteria.

Process followed

1

Staff prepared the analysis of the alternative frameworks options that were considered viable to this tier.

2

Each framework option was evaluated by considering its benefits and trade-offs and assessing it against a set key criteria (outlined below).

3

Staff also prepared a separate paper considering public accountability and the impacts of locally modified standards in more detail.

Framework-level key criteria used to evaluate each option

Key criteria	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs
This means:	Technical fitness; coherent suite capable of handling complex transactions developed with user needs in mind (preparer and user focus)	Simplification options (addressing preparers' concern about complexity)	Internationally aligned Internationally recognised and comparable - including Australia	Ability to make local modifications and/or influence internationally to enable local relevance	Ecosystem and workforce considerations (the market)	Cost of change (transition costs for preparer and ecosystem)	Ongoing costs including maintenance the standards (i.e. how often are changes expected) (preparer focus)

Optionality and framework coherence

The paper also considers whether Tier 1 for-profit entities should be permitted to use more than one reporting framework.

01

The question

Whether Tier 1 should permit more than one reporting framework, rather than a single consistent framework.

02

Potential benefit

Greater flexibility and potential cost savings for some entities able to report under a framework.

03

Trade-offs

- May reduce comparability and affect global user understanding.
- Increases audit, regulatory and capability requirements across the reporting ecosystem.

04

Outcome

- A single reporting framework for publicly accountable entities supports comparability, capital markets and trans-Tasman alignment.
- Accordingly, optionality is not proposed as a separate reporting framework option.

Framework-level analysis – summary of assessment

Each viable option was assessed against seven key criteria.

Tier 1 Options	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs
A. IFRS	🟢	🔴	🟢	🟠	🟢	🟢	🟠
B. US GAAP	🟠	🔴	🟠	🔴	🔴	🔴	🟠
C. Locally Modified Standards	🟠	🟢	🔴	🟢	🔴	🔴	🟠

🟢 Strong fit / low concern
🟠 Mixed fit / medium trade-off concerns
🔴 Significant trade-off concerns

Tier 1 Option	Recommendation	Key drivers of the assessment		
A. IFRS	Recommended	1. Internationally credible	2. Harmonised with Aus	3. Copyright agreements limits simplification
B. US GAAP	Not recommended	1. Only used primarily in one jurisdiction	2. High transition costs	3. Loss of Aus harmonisation
C. Locally Modified Standards	Not recommended	1. Simplification possible	2. Loss of international credibility	3. High transition and maintenance costs

Summary of the options assessment

Each option was assessed against the framework-level criteria used across the ASF review.

IFRS

An internationally recognised framework already embedded in New Zealand's reporting ecosystem. It supports trans-Tasman comparability and a comprehensive Tier 1 reporting framework. Copyright arrangements, however, limit the scope to simplify it locally.

US GAAP

A well-established non-IFRS comparator, though used primarily in a single jurisdiction. Adopting it would be a significant departure from the current IFRS-based framework, requiring substantial transition, capability and regulatory change, and would end trans-Tasman harmonisation with Australia and international comparability.

Locally modified standards

Could enable some simplification and greater domestic flexibility, but with trade-offs. It would reduce international credibility and trans-Tasman comparability, and increase maintenance, transition and standard-setting demands.

How the options depart from the current Tier 1 framework

The options represent different degrees of departure from the current IFRS-based framework.

A IFRS

Current framework

No departure — full IFRS, as currently applied.

Serves as the benchmark against which the other options are assessed.

B US GAAP

Major departure — a well established non-IFRS framework.

Sits at the far end of the scale as the greatest departure from the current framework.

C Locally modified standards

Targeted departure — based on IFRS with targeted New Zealand modifications.

Note Extent of modification could vary; it would not be developed from a blank page.

Degree of departure from the current Tier 1 framework

Stays aligned with NZ IFRS

Greater departure from the current Tier 1 framework

IFRS — No departure

Locally modified — Targeted departure

US GAAP — Major departure

Overall assessment

The assessment finds each option could support Tier 1 reporting, with different benefits and trade-offs.

Retaining IFRS

Provides continuity, comparability and ecosystem support.

Key points:

- ✓ Continuity with current framework
- ✓ Maintains trans-Tasman alignment
- ✓ Supported by existing ecosystem
- ✓ Converged with IFRS; internationally recognised
- ✓ Trade-off: less domestic flexibility

Alternative frameworks

Both involve significant change

US GAAP

US GAAP would reduce comparability with IFRS-based jurisdictions, including Australia.

Locally modified

Greater flexibility, but significant standard-setting, capability and licensing implications. It would also reduce international comparability.

Have your say

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

Tier 1 For-Profit Reporting Frameworks Feedback Survey

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 Tier 1 for-profit reporting framework review. Your input will help inform the development of the Discussion Paper.