XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

ASF Review: Tier 2 For-Profit Reporting Framework

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For-profit sector

Overview and context

Understanding the Tier 2 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 2 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

A note for the reader

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

The route into Tier 2

Tier 2 applies to for-profit entities that must report but do not have public accountability and are not large for-profit public-sector entities.

Requirement 1

Required to report

Legislation requires GAAP-compliant financial statements; the ASF then allocates an entity to a tier. If criterion 2 and 3 of this slide are met, the entity may elect to apply Tier 2 reporting requirements.

> **Note**
> Tier 1 is the default tier allocation per XRB A1 BC8.

AND

Requirement 2

No public accountability

Meets neither limb of the XRB A1 public accountability definition.

No publicly traded instruments; does not hold assets in a fiduciary capacity as a primary business for a broad group of outsiders.

AND

Requirement 3

Not large for-profit public sector

Not a large for-profit public-sector entity required to report in Tier 1 on size grounds.

Total expenses of $33 million or less for a for-profit public-sector entity.

Allocation to Tier 2

An entity is allocated to Tier 2 if it

1 **Has <u>no</u> 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 not a large for-profit public sector entity** with total expenses ≤ $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 2

Tier 2 for-profit entities have no public accountability, are not large for-profit public sector entities, and represent a diverse population.

With no public accountability; and not large for-profit public sector

Entities that do not have, or are not deemed to have, public accountability under XRB A1.
For-profit public sector entities with **total expenses** ≤ $33m.

Entities typically in Tier 2:

- Large private companies
- Large overseas companies
- Companies with 10 or more shareholders
- Subsidiaries within wider corporate groups
- Entities with external financing or sector-specific reporting

A diverse population

Some intend to move into Tier 1; others never will

Varying reporting capability and user needs

Tier 2 Ranges from **small, closely held** businesses to large group entities.

Some are economically significant, with external users who rely on their financial statements, whilst some report for various other reasons (e.g. governance, lending, shareholder, contractual, or commercial requirements).

Report in Tier 2 of the ASF

Note: *This paper assesses the Tier 2 reporting framework, rather than which entities should be allocated to Tier 2.*

Information needs of users and preparers of Tier 2 financial statements

External users rely on Tier 2 financial statements, while preparers apply full NZ IFRS with reduced disclosures.

Users of Tier 2 GPFS

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

Users may include:

- Lenders and other creditors
- Shareholders and owners
- Parent entities (group reporting)
- Regulators
- Prospective investors and suppliers

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 2 financial statements requires applying

NZ IFRS RDR - applied by all mandated Tier 2 for-profit entities.

Reduced disclosures still require full recognition and measurement, significant judgement, robust reporting processes, technical expertise and audit support.

Context: *Tier 2 entities generally have less developed reporting infrastructure, governance and technical capability than larger entities.*

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

The current Tier 2 reporting framework

Tier 2 for-profit entities apply NZ IFRS RDR, retaining the same recognition, measurement and presentation requirements as Tier 1, with reduced disclosure requirements.

Tier 1 for-profit

Full NZ IFRS

Full recognition, measurement, presentation and disclosure requirements.

Tier 2 for-profit

NZ IFRS RDR

Reduced Disclosure Regime — same recognition and measurement, fewer disclosures.

What the reporting framework delivers

Common recognition & measurement — Retains the same accounting recognition, measurement and presentation requirements as Tier 1.

Proportionate reporting— Provides reduced disclosure requirements for entities without public accountability.

Interoperability — Supports movement between tiers, group reporting and consolidation.

How reduced disclosure requirements (RDR) work

NZ IFRS RDR retains the recognition, measurement and presentation requirements of NZ IFRS, while reducing disclosure requirements for eligible Tier 2 entities. The disclosure concessions are set by the External Reporting Board (XRB) for New Zealand's Tier 2 population.

01

Same accounting outcomes

Tier 2 entities apply the same recognition, measurement and presentation requirements as Tier 1 for:

- recognition and measurement of transactions
- presentation of the financial statements

02

Reduced disclosures

Disclosure concessions marked in NZ IFRS mean Tier 2 entities:

- provide fewer disclosures than Tier 1
- cannot state compliance with IFRS Accounting Standards when RDR disclosure concessions are applied

The framework maintains comparability with Tier 1 while reducing disclosure requirements for eligible Tier 2 entities.

International and trans-Tasman context

International practice and trans-Tasman alignment provide useful reference points for assessing the Tier 2 framework.

International practice

There is **no single international model** for reporting by for-profit entities without public accountability — approaches range from IFRS-based frameworks with reduced disclosures to separate private-company frameworks.

Trans-Tasman alignment

New Zealand's Tier 2 framework is **broadly aligned with Australia's** IFRS-based Tier 2 approach (AASB 1060 simplified disclosures), although the disclosure frameworks are not identical.

Relevance varies

International comparability is generally more important for **Tier 2 entities with overseas ownership, group reporting obligations or cross-border users**, and may be less significant for closely held entities.

Reporting frameworks across New Zealand's trading partners

Countries	Framework for private / non-publicly accountable entities
China	Chinese Accounting Standards for Business Enterprises (ASBE) — substantially converged with IFRS, but not a NZ-style Tier 2 reduced-disclosure framework.
Australia	AAS with simplified disclosures (AASB 1060) for eligible Tier 2 entities — closest trans-Tasman comparator: same recognition and measurement, reduced disclosures.
United States of America	US GAAP, with private-company accounting alternatives where applicable — not a comprehensive Tier 2 reduced-disclosure regime.
Singapore	Singapore FRS, with a separate small-entity standard (SFRS for SE) based on IFRS for SMEs.
Japan	Primarily Japanese GAAP for non-listed entities, with IFRS permitted in limited circumstances.
South Korea	A separate domestic framework (Korean GAAP) for non-listed entities.
United Kingdom	UK GAAP (FRS 102), with a reduced-disclosure option (FRS 101) limited to qualifying group entities.
Germany	German Commercial Code requirements for many individual and non-listed entity financial statements.
Thailand	A separate framework (TFRS for Non-Publicly Accountable Entities) for eligible entities.
Malaysia	Malaysian Private Entities Reporting Standard (MPERS), based on IFRS for SMEs.

Source: Stats NZ; XRB analysis (Tier 2 paper, Appendix 1).

Across these jurisdictions — there is no single international model for entities without public accountability; approaches range from IFRS with reduced disclosures to separate private-company frameworks.

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

A common global framework

Using a common global framework supports:

- consistent recognition and measurement across jurisdictions
- promotes comparability where financial statements are used internationally.

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

Accordingly, Tier 2 entities applying NZ IFRS RDR do not state compliance with IFRS because they apply reduced disclosure requirements

Practical challenges with the current Tier 2 framework

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

01
Ongoing implementation & maintenance

Tier 2 entities must monitor and implement ongoing NZ IFRS changes, many of which are developed primarily for publicly accountable entities.

02
Recognition and measurement complexity

Tier 2 entities apply the same recognition and measurement requirements as Tier 1, which may be more complex than necessary for some entities without public accountability.

03
Diversity of the Tier 2 population

The Tier 2 population is diverse, making it difficult to determine whether a single recognition, measurement and disclosure model remains proportionate for all eligible entities.

04
Limited domestic flexibility

Alignment with Tier 1 recognition and measurement limits New Zealand's ability to simplify or tailor requirements for Tier 2 entities.

Reporting framework options considered

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

The paper considers the current Tier 2 framework alongside three alternative reporting framework options.

OPTION A	**IFRS RDR**	The current Tier 2 framework: the same IFRS recognition and measurement requirements as Tier 1, with reduced disclosure requirements (IFRS RDR).
OPTION B	**IFRS 19**	An IFRS Accounting Standard providing reduced disclosures for eligible subsidiaries, while retaining full IFRS recognition and measurement requirements.
OPTION C	**IFRS for SMEs**	A standalone international standard for eligible entities without public accountability, with simplified recognition, measurement and disclosure requirements..
OPTION D	**Locally Modified Standards**	An established international framework used as a base, with targeted modifications for the New Zealand reporting context.

***Note:** US GAAP was not assessed as an option for Tier 2 as it reflects a significant departure from the current IFRS-based framework.*

Framework-level analysis criteria

Each viable option was assessed against eight 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

The Tier 2 for-profit key criteria are consistent to that of Tier 1 except for the addition of:

Key criteria: Move between tiers
This means: Interoperability with Tier 1 (accounting and workforce).

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 in Tier 2

The paper also considers whether Tier 2 entities should be able to choose between more than one reporting framework.

01

The question

Whether Tier 2 should permit more than one reporting framework, rather than a single consistent framework.

02

Potential benefit

May provide flexibility for some entities—particularly those with overseas ownership or group reporting requirements.

03

Trade-offs

- May reduce comparability and affect user understanding.
- Increases audit, regulatory, systems, capability and regulatory requirements.

04

Treatment in the paper

- Considered as an ASF design feature rather than a standalone reporting framework option.
- If adopted, it would require clearly defined eligibility criteria to preserve framework coherence and comparability.

Framework-level analysis – summary of assessment

Each viable option was assessed against eight key criteria.

Tier 2 Option	Move between tiers	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs
A. IFRS RDR	🟢	🟠	🟠	🟢	🟠	🟢	🟢	🟠
B. IFRS 19	🟢	🟠	🔴	🟢	🔴	🟠	🟠	🟠
C. IFRS for SMEs	🔴	🟠	🟢	🟠	🟠	🔴	🔴	🟢
D. Locally Modified Standards	🔴	🟠	🟢	🔴	🟢	🔴	🟡	🟡
E. US GAAP	🔴	🟠	🔴	🟠	🔴	🔴	🔴	🟠

🟢 Strong fit / low concern

🟠 Mixed fit / medium trade-off concerns

🔴 Significant trade-off concerns

Tier 2 Option	Recommendation	Key drivers of the assessment		
A. IFRS RDR	Option to be included DP	1. Internationally credible	2. Interoperability with Tier 1	3. Copyright agreements limits simplification
B. IFRS 19	Option to be included DP	1. Restricted eligibility	2. Internationally credible and interoperability with Tier 1	3. Copyright agreements limits simplification
C. IFRS for SMEs	Option to be included DP	1. Simplified recognition and measurement	2. Disruption of current ecosystem	3. Reduced ongoing costs
D. Locally modified	Option to be included DP	1. Simplification possible	2. Loss of international credibility	3. High transition and maintenance costs
E. US GAAP	Not recommended	1. Only used primarily in one jurisdiction	2. High transition costs	3. Loss of Aus harmonisation

Summary of the options assessment

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

IFRS RDR

Continuity with the current framework. Preserves interoperability with Tier 1 and trans-Tasman comparability, with disclosures calibrated to Tier 2 users.

KEY DRIVERS

- Internationally credible
- Interoperability with Tier 1
- Copyright agreements limit simplification

IFRS 19

Reduces disclosures for eligible subsidiaries of IFRS groups, but its scope is limited and would not cover all Tier 2 entities.

KEY DRIVERS

- Internationally credible; interoperable with Tier 1
- Restricted eligibility
- Copyright agreements limit simplification

IFRS for SMEs

Offers proportionate requirements, but departs from NZ IFRS recognition and measurement, reducing comparability with Tier 1.

KEY DRIVERS

- Simplified recognition and measurement
- Reduced ongoing costs
- Disruption to the current ecosystem

Locally modified

Allows domestic flexibility, but adds comparability, maintenance and standard-setting trade-offs over time.

KEY DRIVERS

- Simplification possible
- Loss of international credibility
- High transition and maintenance costs

How the options depart from the current Tier 2 framework

The options represent different degrees of departure from the current Tier 2 reporting framework.

A IFRS RDR

Current framework

No departure

Full IFRS recognition and measurement with reduced disclosures set by the XRB. The benchmark against which the other options are assessed.

B IFRS 19

International disclosure relief

Retains full IFRS recognition and measurement with internationally developed reduced disclosures for eligible subsidiaries.

C IFRS for SMEs

Separate simplified framework

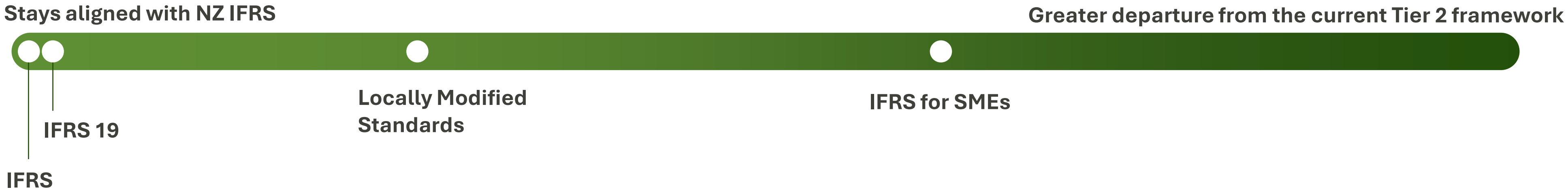
A stand-alone IASB standard with simplified recognition, measurement and disclosure. Departs from NZ IFRS.

D Locally modified

Targeted Departure

Based on NZ IFRS, with targeted New Zealand modifications to recognition, measurement or disclosure requirements.

Degree of departure from the current Tier 2 framework



Overall assessment

The assessment considers how each option could provide a basis for Tier 2 reporting, with different benefits and trade-offs.

Retaining IFRS RDR

Provides continuity, interoperability with Tier 1 and a familiar reporting ecosystem.

Key points:

- ✓ Continuity with the current framework
- ✓ Interoperable with Tier 1 (same recognition and measurement)
- ✓ International and trans-Tasman comparability
- ✓ Disclosure concessions tailored by the XRB for New Zealand Tier 2 entities.
- ✓ Trade-off: retains full IFRS recognition and measurement, resulting in ongoing maintenance and implementation effort.

Alternative frameworks

Considered for Tier 2 reporting

IFRS 19

Internationally developed disclosure relief for eligible subsidiaries but limited as a broader Tier 2 framework because of its narrow scope.

IFRS for SMEs

More scope for proportionality, but trade-offs for comparability, group reporting, interoperability with Tier 1 and ASF coherence.

Locally modified

Greater domestic flexibility, but significant impacts on comparability, maintenance, transition costs and the reporting ecosystem.

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Have your say

We welcome your feedback as we develop our thinking on the future of New Zealand's Accounting Standards Framework.

Let us know if our analysis is complete and whether there are additional challenges, opportunities, or perspectives we should consider.

Your input will help inform the development of the Discussion Paper.

Scan the QR code

Provide feedback on this topic and help inform the development of the Discussion Paper.

Tier 2 For-Profit Reporting Frameworks Feedback Survey