Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	New Zealand Accounting Standards Board (**NZASB**)
Meeting date:	6 August 2026
Subject:	**Accounting Standards Framework review – entities that voluntarily apply Tier 2 reporting requirements**
Date:	24 July 2026
Prepared by:	Raveen Kaur
Inputs by:	Leana Van Heerden
Through:	Nimash Bhikha; Michelle Lombaard

☐ **Action Required** ☒ **For Information Purposes Only**

Purpose

1. This paper provides context for the Accounting Standards Framework (**ASF**) review, with a particular focus on the population of Tier 2 for-profit entities considered in the for-profit sector review, and entities that are not mandated to prepare GAAP-compliant financial reporting but voluntarily report under Tier 2 for-profit requirements.

Recommendations

2. We recommend the Board:

- **NOTE** that the External Reporting Board (**XRB**) has considered entities that voluntarily apply Tier 2 for-profit reporting requirements as contextual information, but has not taken those entities into consideration when assessing whether the ASF remains fit-for-purpose for mandated Tier 2 entities, for reasons outlined in this paper;
- **PROVIDE FEEDBACK** on whether this paper provides sufficient context and explanation for that treatment, including for the ASF discussion paper; and
- **PROVIDE FEEDBACK** with the proposed information to be included in the public discussion paper on this topic (outlined in blue text).

Scope of this paper

3. This paper focuses on entities that voluntarily opt in to apply Tier 2 for-profit reporting requirements and explains why they have not been considered as part of the ASF review's assessment of whether the ASF remains fit-for-purpose for mandated Tier 2 entities.
4. Unless otherwise stated, references in this paper to:

- **Tier 2** mean Tier 2 for-profit entities,
- **mandated Tier 2 entities** mean Tier 2 for-profit entities that are required to prepare generally accepted accounting practice (**GAAP**)-compliant financial statements by legislation and are allocated to Tier 2 under the ASF, and

- **voluntary Tier 2 reporters** mean entities that are not legally required to prepare GAAP-compliant financial statements but choose to apply Tier 2 for-profit reporting requirements.

Background

5. Tier 2 for-profit entities currently apply New Zealand equivalents to International Financial Reporting Standards with Reduced Disclosure Requirements (**NZ IFRS RDR**).

6. Primary legislation determine which entities are required to prepare financial statements in accordance with GAAP. The ASF does not create that reporting obligation. Rather, where an entity is required to prepare GAAP-compliant financial statements, the ASF determines the applicable reporting tier and accounting standards. This legislative basis is explained further in the ASF background paper.

7. In the for-profit sector, an entity is allocated to Tier 2 if it does not have public accountability and, in the case of for-profit public sector entities, has annual expenses of $33 million or less, and for these entities, reporting in line with NZ IFRS RDR will comply with GAAP.

8. Some entities are not legally required by legislation to prepare GAAP-compliant financial statements, but they may nevertheless choose to apply Tier 2 reporting requirements voluntarily, for example to meet governance, lender, shareholder, parent entity, contractual or commercial arrangements or other stakeholder information needs.

9. We have considered voluntary Tier 2 reporters given they can directly apply the Tier 2 standards, and some practical challenges have been heard during outreach about Tier 2 requirements, including concerns that the requirements may be too complex or not proportionate for their needs. Given the XRB's role in ensuring high quality reporting in New Zealand, there may be a public expectation that the Tier 2 framework is fit-for-purpose for all entities that apply it (either mandatorily or voluntarily).

10. We note the NZ IFRS RDR reporting framework is not specifically designed for these entities or the user needs of these entities and the entity may choose to follow another reporting framework depending upon their reporting intentions and needs of their users.

Why voluntary Tier 2 for-profit reporters are not considered in assessing whether the ASF remains fit-for-purpose

11. The ASF review's assessment of whether the framework remains fit-for-purpose is focused on mandated Tier 2 entities, as defined in paragraph 4 of this paper. The purpose of that assessment is to consider whether the Tier 2 reporting requirements remain appropriate and proportionate for that population.

12. Voluntary Tier 2 reporters are in a different position as their use of Tier 2 standards reflects a choice rather than a reporting obligation. They may also vary significantly in size, economic significance, reporting purpose and user needs. As a result, their reporting needs should not be the primary basis for determining the reporting requirements that apply to mandated Tier 2 entities. Including voluntary reporters in that assessment could make it more difficult to assess whether the Tier 2 reporting requirements are appropriately calibrated for mandated Tier 2 for-profit entities and their users.

13. Voluntary Tier 2 reporters may have alternative financial reporting options available, including preparing special purpose financial statements driven by the specific needs and demands of their users, management or tax accounts, or parent-entity reporting packs without detailed disclosures. The role of special purpose financial statements within the ASF is being considered

separately as part of the ASF review and is therefore outside the scope of this paper. Further discussion is provided in the special purpose reporting paper.

14. Neither the mandated nor voluntary Tier 2 reporting populations can be readily identified through a central register. Nevertheless, the review focuses on mandated Tier 2 entities because the ASF review is assessing the reporting framework for entities to which the ASF allocates reporting requirements. Voluntary application reflects entity-specific circumstances based on their own choices, that vary considerably.

15. We acknowledge that voluntary Tier 2 reporters are part of New Zealand's broader economic ecosystem and that their practical reporting challenges may not be directly addressed through the ASF review. However, given primarily legislation has determined that only entities that are 'large'[1] need to prepare GAAP-compliant financial statements, we consider the ASF review should focus on reporting frameworks remain fit-for-purpose for users of mandated Tier 2 entities' financial statements. We will consider whether the XRB website or other communications could better explain the reporting options available to voluntary Tier 2 reporters and users, rather than defaulting to NZ IFRS RDR.

16. For that reason, voluntary Tier 2 reporters have been acknowledged but have not been included in the ASF review's assessment of whether the framework remains fit-for-purpose for mandated Tier 2 entities.

Extract of public discussion paper

17. We propose including the following wording within the public discussion paper to explain why voluntary Tier 2 reporters have been included for contextual purposes in the ASF review, but not as part of the assessment of whether the framework remains fit-for-purpose for mandated Tier 2 entities. Appendix 1 provides an overview of where this paper sits within the broader ASF review.

> The ASF applies where legislation requires an entity to prepare financial statements in accordance with GAAP. Some for-profit entities are not legally required to prepare GAAP-compliant financial statements as they do not meet the statutory "*large*" thresholds for GAAP reporting within Section 45 of the Financial Reporting Act 2013.
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> These Tier 2 reporters may have alternative financial reporting options available, including preparing special purpose financial statements driven by the specific needs and demands of their users. However, some of these entities may choose to apply Tier 2 for-profit reporting requirements voluntarily. Voluntary Tier 2 reporters are in a different position because their use of Tier 2 for-profit reporting requirements reflects an entity-specific reporting choice, rather than a primary legislative requirement to prepare GAAP-compliant financial statements. They may vary significantly in size, economic significance, reporting purpose and user needs. As a result, their reporting needs should not be the primary basis for determining the reporting requirements that apply to all Tier 2 entities.
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> As such, these voluntary Tier 2 reporters have been considered as contextual information in the ASF review, but they have not been considered as part of the ASF review's assessment of whether the framework remains fit-for-purpose, because that assessment focuses on entities that are mandated to report under the ASF.

[1] Section 45 of the Financial Reporting Act 2013 defines "large" by reference to asset and revenue thresholds, including more than $66 million assets or $33 million revenue for each of the two preceding accounting periods, and "large overseas company" by reference to more than $22 million assets or $11 million revenue for each of the two preceding accounting periods.

Question for the Board

Q1. Does the Board have any **FEEDBACK** on whether this paper provides sufficient context and explanation to support the treatment of voluntary Tier 2 reporters in the public ASF Discussion Paper, including the decision not to take those entities into account in the detailed Tier 2 framework options analysis?

Q2. Does the Board have any **FEEDBACK** on the proposed wording which can be included into the public discussion paper around why voluntary Tier 2 reporters have only been considered contextually and not within the framework options analysis?

Appendix 1: Overview Slides

Note:
Refer to the overview slides for this paper on the next page.

Tier 2 For-profit

Voluntary opting in

Voluntary opting in

Entities not required to apply GAAP – options and implications

Entities not required to apply GAAP – what is happening in practice

A significant number of for-profit entities are not required to prepare GAAP-compliant financial statements, but may voluntarily choose to report under Tier 2.

Why some entities voluntarily adopt Tier 2

Despite having simpler options available, some entities choose Tier 2 to:

- Access finance, meet lender expectations, or support credit assessments
- Provide credibility and comparability through an established GAAP framework
- Facilitate group reporting or consolidation
- Support governance and oversight requirements

Alternative reporting options available

Entities not mandated to apply GAAP may instead:

- Prepare special purpose financial reports (SPFR) tailored to their specific users
- Provide management accounts or lender-specific reporting
- Apply simpler reporting frameworks (including tax-based or cash-based reporting)

These options may be more proportionate to their size, complexity, and user needs

Implications for the Tier 2 framework

Some concerns about complexity and cost may reflect the experiences of voluntary adopters, rather than mandated entities. This raises the question of whether:

- The Tier 2 framework is being applied more broadly than originally intended, and
- The alternative reporting options are sufficiently understood and utilised